

White House

Rough Estimates of
Treasury Working Balance
for 4 months ending November 30th,
without any new cash financing

August 31	\$ 1,644M
September 30	1,500
October 31	1,000
November 30	700

Contemplated financing operations within
period ending December 31st
and probable dates of each operation

Refunding of Dec. 15 note maturity (Sept. 15th)	\$ 737M
R. F. C. Cash offering (Oct. 15th)	500
U. S. H. A. " " (Nov. 1st)	200
F. F. M. C. " " (Nov. 15th)	100
Treasury " " (Dec. 15th)	1,000
Possible refunding in December of <u>March 15th maturities:</u>	

Bonds to be called	\$ 545	
Notes maturing	<u>677</u>	1,222

Beginning in January deficit will run at an
average of about \$600M a month.

September 6, 1940

ELECTION YEAR FINANCING

September 15, 1934

	(In millions)
2 year 1-1/2% note in exchange for maturing notes	\$ 514
4 year 2-1/2% note in exchange for Fourth Libertys	596
10-12 year 3-1/4% bond in exchange for Fourth Libertys	457

September 15, 1936

20-23 year 2-3/4% bonds for cash	470
20-23 year 2-3/4% bonds in exchange for maturing notes	512

September 15, 1938

12-14 year 2-1/2% bonds for cash	462
12-14 year 2-1/2% bonds in exchange for maturing notes	405
5 year 1-1/8% notes for cash	342
5 year 1-1/8% notes in exchange for maturing notes	19

September 6, 1940

C O P Y

BRITISH EMBASSY,
WASHINGTON, D.C.

With the compliments of

Mr. R. J. Stepford.

Merle Cochran, Esq.,
United States Treasury Dept.,
Washington, D.C.

British Embassy,
Washington, D.C.
Sept. 24, 1946

dm

C O P Y

I am informed from London that the Liverpool office of the Exportadora Peruana S.A., finding themselves unable to make remittances in payment of debts due in Denmark, endeavoured to procure a license to return to Lima the dollars originally remitted from there for that purpose. London have information which shows that the Peruvian company's intention was to remit the dollars so received direct to Denmark.

(Initialed) R. J. S.

British Embassy,
Washington, D.C.
Sept. 6th, 1940.

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M.I.D., W.D.
Tentative Lessons
Bulletin No. 41
September 6, 1940

TENTATIVE LESSONS FROM THE RECENT
ACTIVE CAMPAIGN IN EUROPE

NOTICE

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

FURTHER NOTES ON BASIC TRAINING IN THE
BRITISH ARMY

SOURCES

The information in this bulletin is from official American sources. Reports were made early in July, 1940.

CONTENTS

- I. EYEWITNESS REPORT ON HIGHLIGHTS OF BRITISH BASIC TRAINING PROGRAM.
- II. GENERAL NOTE ON INFANTRY TRAINING OF WARTIME CONSCRIPTS.
- III. DOUBLING THE TERRITORIAL ARMY.

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I. EYEWITNESS REPORT ON HIGHLIGHTS OF BRITISH BASIC TRAINING PROGRAM.

An official American military observer in Great Britain cables the following information concerning the existing basic training program in that country as of September 3, 1940. It will be noted that this program concentrates on preparing men to fight in the shortest possible time. Recruit training centers are an essential element of this program.

According to the cable: "British training centers are producing fully trained and hardened replacements in 16 weeks - men immediately capable of hard field service. * * * * In connection with induction of National Guard, the following principles must apply if satisfactory combat results are to be obtained in minimum of time.

- A. "Apply a rigid physical standard rejecting officers and men not one hundred percent physically fit.
- B. "Refuse induction married men and men holding important positions in key industries.
- C. "Establish training centers for all arms for handling recruits necessary for raising National Guard to required strength.

"British Driven by desperate necessity are working at high pressure to turn out competent trained fighting men and are getting results which I would not believe possible if I had not seen them. Cooks, kitchens and barracks police and fatigue details come from civilians or Service Corps, in which women are largely used to release men. 52 to 54 hours per week are put in on actual training including a minimum of four hours per week of night operations. Nothing - weather, air raids, or holidays other than Sunday - is allowed to interfere with training. These people are making a fighting army and there is no monkey business about it."

II. GENERAL NOTE ON INFANTRY TRAINING OF WARTIME CONSCRIPTS.

The following information was obtained through conversation with two high British Army officials, both of whom have recently been attached to training division of the War Office.

The officers were asked this question: "In view of recent operations in Belgium and France, do you now consider it necessary or desirable to change the requirement of 16 weeks' basic training at training centers for recruits in infantry and machine gun units?"

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As a matter of fact, this method of increasing the British Army resulted entirely from a political decision, made without advice from the general staff. Even the announcement was made without the prior knowledge of the Chief of Staff and Director General of the Territorial Army. However, it was so ordered, and the army did the best it could.

In a recent conversation, responsible officers of the training division of the War Office, said it had been a tragic mistake. The results were:

A. A delay of months in the final training of the 13 original divisions. They had to provide for their duplicates before preparing themselves for immediate active service.

B. After the duplicate divisions were finally cut loose from their parent divisions, they, in turn, were unable to get down to serious training for an unnecessarily long time. There were insufficient numbers of their own junior officers and N.C.O.'s trained to the extent that they could train others.

C. Neither original nor duplicate divisions had more than half enough equipment for training; that which was available had been divided between them.

D. The men of the duplicate divisions had received so little basic individual training while with their parent divisions that they had to be started all over.

E. Original divisions were handicapped in their progress almost equally with duplicate divisions.

The British officers stated that a going organization should not be expected to organize and train a new organization, especially in time of emergency. It will badly delay and handicap the training of both.

It is a waste of time they added, to bring together men without prior basic training, inexperienced N.C.O.'s, and young, newly appointed junior officers for tactical training in newly organized units. A combination of these three groups is fatal to successful training, and a combination of any two of them is almost as bad.

Tactical organization and training should not be attempted until full basic training has been given under experienced officers and N.C.O.'s, new N.C.O.'s have been developed, and junior officers have been tested and weeded out.

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M.I.D., W.D.
 Tentative Lessons
 Bulletin No. 42
 September 6, 1940.

TENTATIVE LESSONS FROM THE RECENT
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GERMAN INFANTRY BATTALION IN THE ATTACK

SOURCES

Information in this bulletin is based upon reports of official American observers after a demonstration by a battalion of the Infantry School Regiment at Doberitz in January, 1940. The regiment is used for the instruction of infantry officers, and the observers believed the demonstration to be reliable and authentic.

CONTENTS

- I. NARRATION
- II. DISCUSSION
- III. CONCLUSIONS

A sketch is attached.

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I. NARRATION

See sketch herewith.

An enemy had established a defensive position around the hill marked "E" on the sketch. The 2d Battalion of the Infantry School Regiment, making the principal effort of the regiment, was given the mission of capturing the hill. The 5th and 6th Companies attacked abreast with the 7th Company in reserve. (Presence of reserve company was simulated.) The 6th Company, on the left, was ordered to make the principal effort for the battalion. The 8th Company, the battalion heavy weapons company, was in general support.

The operation was conducted in two phases. The first phase consisted of a fire demonstration with the infantry supporting weapons only using service ammunition; the second phase was the infantry attack, with the supporting weapons firing practice ammunition. For the first phase, the observers were stationed at point "X" on the attached sketch; and for the second phase the party moved over to point "Y" in order to observe the attack better. There were about four inches of soft snow on the ground and the temperature was approximately 5° below zero Centigrade. The dark colors of the uniforms and the equipment made it possible to observe details quite well.

The German soldiers lay patiently in the snow in their initial positions before and during the first phase of the demonstration. Many of them wore no gloves to protect their hands. They were exposed to the weather with but little movement for more than an hour. This apparently had no effect on their performance later.

The following table indicates the fire power used to support the battalion for the attack:

<u>TYPE</u>	<u>ORGANIZATION</u>	<u>AMOUNT AVAILABLE</u>	<u>TARGET ASSIGNED</u>	<u>CONTROL</u>
Light Art'y. Div. Art'y.		None (Presence Simulated)	Objective Proper	Direct Support
150mm. How.	1 Plat. from Reg't'l. Heavy Weapons Co.	2 Guns	Knoll at "F"	Gen'l Support. Under Control Reg't'l. Com'd'r.
75mm. How.	2 Plats. from Reg't'l. Heavy Weapons Co.	4 Guns	Entrenchments along Line: "G-H"	Direct Support.

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<u>TYPE</u>	<u>ORGANIZATION</u>	<u>AMOUNT AVAILABLE</u>	<u>TARGET ASSIGNED</u>	<u>CONTROL</u>
(continued)				
81.4mm. Trench Mortars	1 Plat. of 3 Sections from Bn. Heavy Weapons Co.	6 Mortars	Entrenchments along Line: "I-K"	Direct Support
7.9mm. Heavy Machine Gun	3 Plats. from Bn. Heavy Weapons Co.	12 Guns	Enemy's Forward Position.	Direct Support
7.9mm. Light Machine Guns	4 in Each Rifle Plat.	16 Guns used. 8 More Available in Res. Plat. of Assault Co's.	As assigned by Plat. Com'd'r.	Plat. Com'd'r.
50 mm. Light Mortars	1 in Each Rifle Plat.	6 Mortars	As Assigned by Plat. and Co. Com'd'rs.	Plat. Com'd'r.

Approximate positions of cannon are indicated on sketch. The 81.4mm. mortars were located in woods in vicinity of letter "B" and on reverse slope of hill "A". The 12 heavy machine guns were in position on the rear part of the flat top of the hill at "A" for direct fire and in the woods near "B" for indirect fire. The light machine guns were always well forward on the firing line. Only the 16 in the four assault platoons were used. The light mortars were with each platoon.

In the tactical situation that was presented, the battalion had advanced to the hill at "A", and had paused briefly. The second phase of the demonstration illustrated the continuation of the attack in order to capture the objective after a reorganization had been completed.

The two assault companies were organized with two platoons forward and abreast with the third platoon in reserve.

The actions of the 6th Company will be described in detail. The operations of the 5th Company were identical.

At a colored smoke signal, all weapons opened fire on assigned objectives. This fire was continued for about five minutes when elements of two and four men each in the left (6th) company

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advanced by rushes in the same manner as taught in our own service. The four light machine guns in each assault platoon were advanced consecutively after the new firing line had been established and were always placed well forward. The advance was quite rapid. Some men and at least one of the four light machine guns in each platoon were in motion at all times. The firing line advanced to within fifty meters of the first objective, where the light machine guns held their position and smothered the objective with fire. The riflemen advanced by short rushes in twos to within about 25 yards of the objective. At a given command and signal, the light machine guns ceased fire, the riflemen quickly arose and threw hand grenades onto the objective, fell flat on the ground until the hand grenades exploded, and then charged the objective on the run with fixed bayonets. After a supposedly quick capture, the riflemen, without any delay, formed a new firing line, the light machine guns came forward and the attack was resumed to capture the next intermediate objective.

The recall was sounded when the 6th Company arrived at the second line of objectives, along the line "G-H" on the sketch.

Umpires wearing white armbands moved behind the firing line and inflicted penalties against the attacking force. Men were caused to fall out of the operation as casualties. The penalties were not severe.

The operations of both assault platoons of the 6th Company were identical in nature. The 3d platoon in reserve followed in rushes at a distance of about 120 meters behind the assault platoons. The attack of the company was made across flat, open terrain.

The positions of the commanders of the assault platoons were ten yards in rear of the firing line in each case. Their main concern seemed to be to keep pushing the light machine guns forward as quickly as possible. The leader of the reserve platoon was in front of his platoon about ten yards where he could easily communicate with the company commander. The company commander was stationed usually about 80 meters behind the advanced elements.

Signals to start the attack were given by smoke. The apparatus was a smoke-pot about the size of a rectangular one-gallon paint can. It was detonated by a fuze. It shot a column of easily recognized colored smoke vertically into the air about 40 meters. This column retained its color and enlarged as it drifted away. Lavender, green, and white colors were used. Green was used to start the attack and white was used to lift the fire of the supporting weapons just before the final assault.

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The 6th Company had advanced about 250 meters, almost half-way to the objective, before the 5th Company started to advance. The 5th Company seemed to move much quicker than the 6th Company and both arrived at their second line of intermediate objectives at about the same time. The personnel of the 5th Company were uniformly distributed over their front and took no special advantage of the cover afforded by the woods on the right flank of their zone of action.

The fire of the supporting weapons was spread over all the objectives as they were assigned. When signals to lift fire were given, the fire was shifted from the object being assaulted to the next intermediate objective so that as the riflemen approached nearer to their final objective, they had more and more of the combined fire power of all of the supporting weapons. The shift in targets after the signals were given was only a matter of seconds.

It was noticed that the light mortars assigned to the platoons (three in each rifle company, one to each platoon) stayed back in one of the earliest fire positions. It was explained that they normally advance with their platoons and go into position directly behind it, but because the terrain was open and visibility was so good, they remained behind in order to keep a continuous flow of projectiles on the first objective.

Between phases, observers were given an opportunity to view at close range an exhibit of infantry weapons used in the demonstration. It was particularly noticeable that no antitank weapons were displayed or used. (Note: The antitank company of twelve 37 mm. guns is under regimental control. G-2)

II. DISCUSSION

The purpose of the demonstration was to show the fire power which is normally available and organically assigned to support an infantry battalion in the attack when the battalion is making the principal effort for the regiment.

The demonstration conducted as it was by trained troops, was well done. The performance was especially noteworthy in view of the unpleasant weather conditions. The situation was quite normal and standard methods were employed throughout.

Some important changes in organization were verified during the demonstration. Each of the three platoons in each company now has four light machine guns instead of only three, and the

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company commander no longer has two heavy machine guns organically under his control. The battalion heavy weapons company has three platoons of four heavy machine guns each instead of only two as previously. The purpose of these changes was to get more fire power farther to the front and to place weapons of similar characteristics under one control. It is believed that this is one of the lessons learned in the Polish Campaign.

The absence of all antitank weapons in the demonstration may indicate that antitank shoulder weapons are now being used in each rifle company. These antitank weapons in the lower units in the Polish Army are said to have had tremendous effect against German mechanized vehicles.

The outstanding feature of the demonstration was the tremendous amount of fire power available to the lower unit commanders. In cases where the advance is so rapid that the supporting artillery has not had sufficient time to get into a new position and establish liaison, or where it is necessary for the artillery to be diverted to purely artillery missions, there is still sufficient supporting fire available to the regimental and lower unit commanders to accomplish their missions under normal conditions.

Weapons of different characteristics are so designed and assigned as to cover effectively all the objectives with simultaneous fire, to give to each commander something with which he can influence the action after his unit has been committed, and still not to detract from the mobility of the units as a whole. Every commander from the regiment to the platoon usually has both flat and curved trajectory weapons under his control.

One of the most difficult problems in the attack is that of providing the very close coordination required between the infantry-artillery teams in the smaller units. It was observed that, to a large extent, the necessity for this coordination in the German Army has been eliminated. The artillery fire was concentrated on the final objective and the fire of the infantry supporting weapons provided the close support to assist the infantry in its advance. These supporting weapons were firing on objectives when the advanced elements of the infantry were only 50 meters distant. This would not be possible with light artillery fire. The distances involved in this demonstration were very short and visual communication was used quite effectively.

Incidentally, it was noted that the fire of all the supporting weapons was quite accurate. Adjustment was achieved

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after very few rounds had been fired in each case. The unbroken surface of the snow indicated that the weapons were not adjusted prior to the demonstration.

One basic difference from our tactics was noted in the actions of the squad in the attack. The main concern of the German Army infantry squad in this demonstration was to get the light machine guns forward, to get the fire power advanced. This held true until the skirmishers reached the assault position. In other words, the advance was executed by small teams, groups of riflemen built around machine guns. In our service, with our men equipped with the Garand rifle, the fire power goes forward individually and automatically, and the necessity of the rifleman's being bound to a fire power weapon is eliminated. From observation, it is believed that that is a distinct asset in our favor.

The great importance of training ammunition for supporting weapons was demonstrated in this attack. The projectiles, including hand grenades, had reduced charges, but the effect was quite realistic and the ballistic characteristics were not changed. There was very little difference in the sound or appearance of the explosion of the service and practice ammunition. It is quite easy to understand why the inexperienced German soldier does so well when he is first exposed to enemy fire; to all practical purposes, he has already been under fire. The results which are derived from the use of practice ammunition are believed to outweigh the disadvantages of less safety in training and will probably serve actually to save more lives on the battlefield. The increase in the initial fighting efficiency of the soldier is apparent.

III. CONCLUSIONS

- A. Practice ammunition should be used in our army.
- B. Special supporting weapons should be available to all infantry unit commanders, down to and including the platoon.
- C. Our system of uniformly distributing the fire power and movement in the lowest infantry element is better than the German method as discussed herein.

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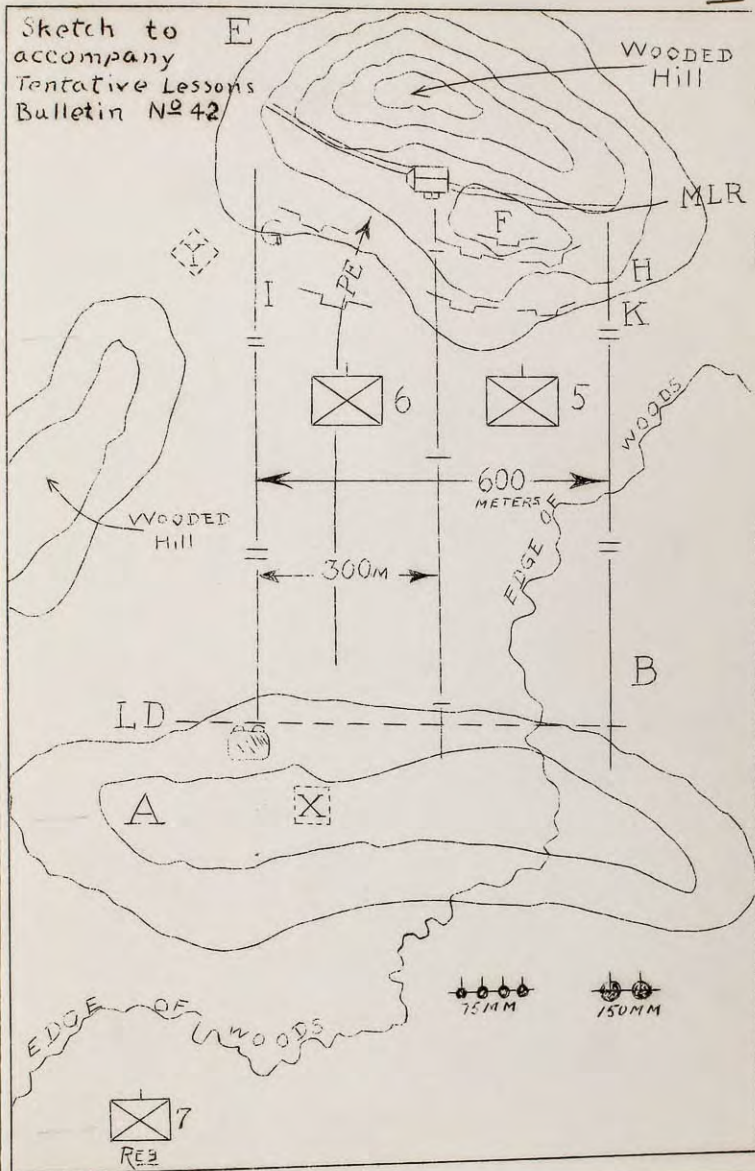
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Sketch to
accompany
Tentative Lessons
Bulletin No 42



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M.I.D., W.D.
 Special Bulletin No. 14.
 September 6, 1940

CAPTURED GERMAN REGULATIONS ON RECOGNITION
 AND COMMUNICATION BETWEEN GROUND AND AIR

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SOURCE

The German documents reprinted here were captured by Allied troops in May, 1940. It is believed that they regulated the matter of mutual recognition signals between ground and air for the entire German Army.

CONTENTS

- I. REGULATION FOR THE IDENTIFICATION SERVICE BETWEEN TROOP UNITS OF THE ARMY AND FLYING FORMATIONS OF THE AIR ARM.
- II. REGULATIONS FOR THE SIGNAL COMMUNICATION SERVICE BETWEEN TROOP UNITS OF THE ARMY AND FLYING FORMATIONS OF THE AIR ARM.
- III. MEANING OF LUMINOUS SIGNALS.

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I. REGULATIONS FOR THE IDENTIFICATION SERVICE BETWEEN TROOP
UNITS OF THE ARMY AND FLYING FORMATIONS OF THE AIR ARM.

The Commander-in-Chief of the Army
General Staff of Army / Training Detachment (Ia)^{1.}
No. 450/403

Headquarters German Army, March 8, 1940.

The prerequisite for close and successful cooperation between troop units of the army and flying formations of the air arm is quick and unimpeachable recognition between these units and formations. Superiority of the German air arm over that of the enemy makes it possible for the army to identify itself as German by clearly visible identification signals from the ground. It can do this in combat, in the position of readiness and on the march.

The following directives for the identification service come into force immediately. They are to be made common property of troops without delay. Provisions in conflict with these directives are abrogated.

A. General

1. Cooperation is to be thoroughly set down and regulated in advance for each case by the proper commanding authorities² of the army and air arm. These commanding authorities are, moreover, responsible for keeping each other constantly informed as to land and air movements which take place in the same field of operations.

2. Commanders of all grades are responsible for scrupulous observance of the provisions in each situation. Violations and negligence are inimical to full success, and they endanger friendly troops.

B. Army

1. Swastika flags are for all troops in each situation the main sign of identification. Depending upon requirements, they are to be laid out on the ground, waved, or spread out on vehicles. On armored cars they should be fastened so as to be clearly visible to airmen.

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1. The German Ia is the equivalent of the American G-2.
 2. Underlines are the same as those in the original German orders.

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2. Swastika flags will be displayed constantly in the zone of identification and in such manner that friendly troop units are made known without fail, precluding any confusion from the air.

The zone of identification shall be determined, provided higher commands of the army groups do not adopt a uniform standard, by army commands acting with competent commanding authorities of the air arm. It embraces that part of the friendly region of combat and movement within which there is question as to whether the air arm will be employed against ground targets. The rearward limit of this zone will be a selected and prescribed line which is easily and unequivocally determinable for air and ground troops, such as a river course, railway, or road. The forward limit lies at the enemy.

The more difficult it is for the air arm to recognize movements on the ground, the deeper in general will be the zone of identification. Whether the zone can be prescribed for a fairly long period of time or whether it must be regulated anew at short intervals depends upon the rapidity with which the ground situation develops.

3. Temporarily the troop unit makes itself known outside the zone of identification as follows:

- a. Upon request by signal of the airmen.
- b. Of its own accord, as soon as the airmen are recognized as friendly.
- c. At the order of a commander, from company commander up, in order to prevent being fired upon by friendly airmen.

4. Yellow panels and white rectangles¹ on the stern armor of all armored vehicles are additional marks of identification. The yellow panels are to be employed when swastika flags are lacking.

5. At night, all troop units on the march and in the position of readiness identify themselves as friendly at the request of airmen, provided the position makes this possible without incurring danger, by flashing with white light. These intermittent signs will be given with all available light sources, including pocket lamps, blinking lamps, and lights of motor vehicles.

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1. When brought into use in snow, the white rectangle is replaced by a dark rectangle on the whitened stern armor.

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6. The order for displaying and withdrawing visual signals is given in each case by the competent commander, from company commander up.

C. Air Arm

1. Determination of the mark of nationality is the surest means of distinguishing between friendly and hostile airplanes. Knowledge of German airplane models facilitates the identification. Good training and constant alertness of air scouts are prerequisite for quick and unimpeachable identification of friendly airplanes.

In higher altitudes, recognition of airplane models and nationality marks is facilitated by friendly airplanes. In case the air situation permits, these planes fly in slightly zigzag fashion and slowly turn around the longitudinal axis, or "wobble".

2. The Very pistol signal is an additional mark of identification for single airplanes and flying formations. It is fired off generally by night, and by day only when necessary. This luminous signal is prescribed for a determinate length of time.

3. The distinguishing formation (Kennungsformation) facilitates identification of aircraft units. Prescribed for a determinate length of time, it may appear in the following forms: (a) line; (b) column; (c) echelon left; (d) echelon right.

The hostile pursuit may make it impossible to adopt the distinguishing formation. Thus, in the proximity of the front, a formation which is not flying in this manner can not be regarded forthwith as hostile.

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II. REGULATIONS FOR THE SIGNAL COMMUNICATION SERVICE BETWEEN TROOP UNITS OF THE ARMY AND FLYING FORMATIONS OF THE AIR ARM.

The Commander-in-Chief of the Army
Army General Staff / Training Detachment (Ia)
No. 750/40 g

A. General

The signal communication service (Verständigungsdienst) transmits messages, reports, and requests between ground troops and airplanes or flying formations. In this connection, visual signals are the means of communication employed by the army, while luminous signals and dropped messages are employed by the air arm.

B. Army1. Visual signals of the army are:

Small panels, white or red;

Large panels, white, yellow, or red; ^{1.}

White tracer bullets;

Improvised means of all sorts.

2. Visual signals are employed as follows:

a. To Make Known the Most Forward Line Attained, for the Combat Air Reconnaissance. The following means are used:

(1) Small panels: These are appropriately laid out in groups of three or four (close together, side by side, and parallel to the front) when their meaning is "We hold the line". In order to obviate errors, they will be displayed only by rifle companies of the front (line?)—not by battalion and higher echelons.

(2) White Luminous Signals: The signals are fired into the earth, especially into shell holes, before the front line. Since they easily disclose forward friendly troops to the enemy

1. Large white panels are to be replaced in the future, as delivery permits, by large yellow panels.

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and make it more difficult to give airmen the exact location, they are to be employed only when the marking of the front line by other signals is not possible.

(3) Improvised Means: When (1) and (2) cannot be used, the most forward units can make their identity known to deep-flying friendly airmen by waving handkerchiefs, maps, helmets, and the like.

b. To Designate Combat Posts:

Combat posts are made known by means of panels, in accordance with Section 6, H. Dv. 425 (Army Signal Tables). For this purpose the large panels are to be laid out in such manner that the signs are readable toward the front.

c. To Designate Combat Messages:

Combat messages are designated by means of large panels in accordance with Section 6 (Panels), the H. Dv. 425 (Army Signal Tables). Panels are laid out in addition to the identification signs of the corresponding headquarters.

Furthermore, visual signals may be employed by troops through laying out small panels as follows:

(1) The front line uses such signals for the purpose of designating the direction in which hostile nests of resistance lie, when support is requested against these nests. The sign is a large "T". 1.

The large vertical line or beam of the "T" is laid pointing towards the hostile nest of resistance. The small horizontal line or beam is laid on that end of the vertical line which is turned toward the target.

(2) Headquarters use visual signals for the purpose of designating the approximate direction in which hostile artillery positions lie when the combatting of such artillery is requested. The sign is a "T" with double horizontal line ($\overline{\overline{T}}$). It is laid out in accordance with the preceding paragraph.

3. Displaying of Visual Signals is either prescribed by agreement with the air arm for a definite time requested by airmen, or carried out independently by troop units. The order for displaying

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1. To eliminate confusion, the signal "Fuel needed", which is similar, will be laid out with the large yellow panels.

~~CONFIDENTIAL~~

and withdrawing visual signals is given in each case by the competent commander, from company commander up.

C. Air Arm

1. The Airman's Means of Communication to the Ground Are:

- a. White tracer bullets, which mean, "Ground troops are requested to make themselves known by visual signals."
- b. Green tracer bullets, which mean, "Observer wishes to drop (a message?). Lay out the message-dropping cross, or make known by any other signs where the dropping can be effected."
- c. Red dropped smoke signals or red tracer bullets, which mean, "Attention! Hostile antitank defenses, antitank guns, artillery or barriers ahead."
- d. Blue or violet dropped smoke signals, ^{1.} which mean, "Attention! Hostile tanks."

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1. Until blue and violet dropped smoke signals have been made ready, the reconnaissance squadrons, particularly those for tank reconnaissance, are advised to improvise them from hand smoke-signals formed in bundles.

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III. MEANING OF LUMINOUS SIGNALS.

Secret. Not to be let fall into enemy hands.To 22d Division,
By order No. 150/40 3.K.

Serial No.	Color	Warning	Signal	Meaning
1	<u>white</u>	white	Luminous signal	<u>Here we are</u>
2	white		Parachute tracer bullet	<u>Here we are</u>
3	white		Star-cluster cartridge	(Warning signal for Nos. 1 & 2)
4	<u>red</u>	red	Single star signal cartridge	<u>Enemy attacking</u>
5	red		Star-cluster	(Warning signal for No. 4)
6	red		Hand smoke signal	<u>Not passable for armored cars; barrier for tanks</u>
7	red		(obliterated)	
8	<u>green</u>	pale rose	Single star signal cartridge	<u>We attack; displace artillery fire forward</u>
9	green		Star-cluster	(Warning signal for No. 8)
10	green		Hand smoke signal	<u>Passable for tanks</u>

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Serial No.	Color	Warning	Signal	Meaning
11	<u>violet</u>		Smoke cluster cartridge or smoke chain cartridge	<u>Tank warning</u>
12	violet		Hand smoke signal	
13	violet		Parachute smoke cartridge	(Warning signal for No. 11)
14	<u>blue</u>		Smoke cluster cartridge or smoke chain cartridge	<u>Tank warning</u>
15	blue		Hand smoke signal	
16	blue		Parachute smoke cartridge	(Warning signal for No. 14)
17	white		Tracer bullets fired from airplane	<u>Ground troops requested to make themselves known by visual signals</u>
	white		Answer at the ground: Firing of tracer bullets, laying out of panels, or displaying of swastika flags at level of company combat posts.	
18	green		Tracer bullets fired from airplane	<u>Observer wants to drop a message; Display message-dropping cross or make known by other means where dropping can be effected</u>

~~CONFIDENTIAL~~

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Serial No.	Color	Warning	Signal	Meaning
19	red		Tracer bullets fired or smoke signals dropped from airplanes	<u>Attention! Hostile antitank defense, antitank guns, artillery, barriers</u>
20	red	Twice in quick succession	Dropped smoke signals	<u>Attention! Hostile armored cars</u>
21	---	---	---	Airplane identification signal, specially announced from time to time

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HEADQUARTERS

222
ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO.

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

6 September, 1940.

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

~~SECRET~~

Message from Professor Buck.

Gen. Chiang Kai-shek and Madame Chiang Kai-shek deeply
appreciate your warm greetings and extend their heartfelt greetings
in return.

~~SECRET~~

~~RESTRICTED~~

223

No. 187

SITUATION REPORTM.I.D., W.D.
September 6, 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.

Heavy air fighting occurred during large-scale German daylight attacks on the 5th. German ground objectives were primarily airdromes, German night bombing was also on a large scale, centering in the London area, where a seven-hour alert occurred. Damage is admitted to railroad stations, riverside industrial plants and sewers.

British night bombing hit the Berlin area, other targets in Germany and airdromes in Belgium and France.

Very heavy air fighting is in progress over England today.

II. Mediterranean and African Theaters of War.

No ground operations reported. The R.A.F. bombed the Turin area on the night of September 5-6. Italian day air attacks were delivered against Malta (twice) and in limited strength against shipping in the Mediterranean and Red Seas.

~~RESTRICTED~~

~~CONFIDENTIAL~~

WASHINGTON

Paraphrase of Code Cablegram Received at the
War Department 11:47 a.m., Sept. 6, 1940

London, Filed 11:02, Sept. 6, 1940

The following information of enemy activities is for the 24 hours ending at 7 a.m. today: The principal air attacks were in the area London—Liverpool—Manchester—Midlands—East Kent. A total of about 650 enemy airplanes participated. German aircraft losses were 37 confirmed, 22 probable, and 17 damaged. The British lost 23 planes, from which 12 pilots were saved. The Dunlop plant in Liverpool was damaged to such an extent that its production will be reduced by about 50 per cent for one week. In the London and Kent areas the main line of a railway, oil tanks, and one airdrome were damaged; and in addition there were considerable damages to gas, water and highway facilities. Air raids resulted in the injury of two military personnel, and the death of 35 and injury to 282 civilians. Submarines sunk 9,000 tons of shipping.

There is no evidence that an invasion is imminent.

A new system of air raids alarms is being developed to reduce the loss of time of employees in factories.

LEE

Copies to: General Watson
Secretary of War
State Dept.
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
ONI
WPD

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Date- 1-9-70

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Signature- RHOOR



TREASURY DEPARTMENT

WASHINGTON

September 6, 1940.

MEMORANDUM FOR THE SECRETARY:

I have made a brief examination of the progress made by the Alcohol Tax Unit in absorbing the functions of the Federal Alcohol Administration, as requested by you on September 4.

The work related to the issuance of permits to distillers, rectifiers, winemakers, wholesalers and importers, has been decentralized to the field where it is being handled by the District Supervisors of the Alcohol Tax Unit. This includes all investigations, and all hearings with regard to permit proceedings.

The issuance of "certificates of label approval" is being done at Washington headquarters, as is a certain volume of legal, administrative, and supervisory work.

The number of employees on the pay roll of the Federal Alcohol Administration at the time of the transfer of its functions to the Alcohol Tax Unit (July 1, 1940) was 157.

The number retained for the work above described was 87, of which number 31 have been sent to field offices while 56 remain in Washington.

Of the 70 surplus employees, all but 20 have been placed, at least for the time being, in vacant positions in the Alcohol Tax Unit, the Office of the General Counsel, or elsewhere in the Bureau of Internal Revenue. It is understood that some of these twenty have secured employment in other agencies.

The savings in appropriations effected by the change will amount to about \$175,000 during the current fiscal year out of a total of \$415,000 available.

I believe that the situation is entirely satisfactory.

GRAVES.

GROUP MEETING

September 6, 1940
10:30 a.m.

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

H.M.Jr: The reason I sort of upset my schedule this morning was that I had this - 5/7ths of the Defense Council here this morning and the line that I took was that I thought it was very unfortunate that they went up on the Hill and filed a complaint, difference of opinion, to what the Treasury was doing, and that if they couldn't come to an agreement with our people on this or any other thing, that they ought to come and see me and if they and I couldn't come to an agreement, we could go to see the President; and for the future, that was the way I would like to do it, and that I would take second place to nobody in Washington as to my interest and desire to have this country ready to defend itself.

Well, then they got into a long discussion on whether or not the provisions which we were pushing at the end of the five-year period, the Government has the right to tell the manufacturer exactly what he should or should not do with his building. Well, they gave me their side of the story and realizing the difficulty they are up against and also the difficulty of writing a contract when it is prescribed by law as to what it should

- 2 -

or should not contain, I got this idea out of the air while I was thinking about it, listening.

I made this suggestion to them: I said, "I will make a suggestion to you people; if you will agree in the Council and get the Army and Navy to agree that from today on every contract that is signed, that all the financial aspects in this contract should be made public, I will withdraw our interest in this particular phase."

At first they weren't particularly interested and I said, "Now look, gentlemen, I think this is very, very important for the manufacturer because in the last war you spent five years manufacturing and then you spent the next five years trying to defend it before committees, and if you publish this thing I have sufficient confidence in the great American public that if you sign a contract which isn't in the interest of the Government, Congress will rectify it; and furthermore, if it isn't right, you can say to Congress or your competitors who make trouble for you five years later, 'Well, it was in the record and if you wanted satisfaction, why didn't you explain it at the time? There was nothing secret about it.'" And I said, "If the first contract that had been signed with Robert had been made public, there wouldn't have been 30 million dollars worth of contracts, because the public wouldn't stand for it."

After about 10 or 15 minutes, Don Nelson said, "This is good; I am for this." And they said, "Well, do you want the specifications of the guns?" And I said, "No, I want full specifications of how much Chrysler makes or doesn't make, how he is financed, everything that has

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to do with money, just the way SEC makes an issuing house give the full details of their profits, underwriters and so forth and so on." We left it on that basis. Ed was present. Have I reported it about right?

Foley: Yes.

H.M.Jr: And the more I think of it - I mean, I can't sit here and I am not going to be put in the position - I mean, you write it into the law, every last detail. I mean, they have got three formulas now and I think one is cock-eyed. I would love to have them sign one and put it in the public press. They would never sign another one. But you and I and people - we don't know, the President of the United States doesn't know, the kind of contracts that are being signed, but make them publish every one of them and if there is one - Ed mentioned a company this morning. Can I mention that company?

Foley: Yes.

H.M.Jr: If the Eastman Kodak Company gets a 70 million dollar contract and Mr. Folsom was down here, treasurer of the company, and the American public doesn't like it and Mr. Folsom is still getting his salary and still Treasurer, they will clamp down and say, "We won't stand for it." Mr. Folsom either has to go home or resign.

I think full publicity on the contracts is so much more important than this little clause, and I think they are going to do it. What do you think of it?

Gaston: It looks swell to me, if you can get enough details of those contracts out so they will be understood.

- 4 -

H.M.Jr: Full finance, everything that has to do with finance. Profits, cost per unit, everything. Everything except the actual specification of the article. Isn't that what I had?

Foley: That is right. Leon's suggestion was that just that should be inserted in the law and I think we may have to do that in order to get the bill through, because you just can't strike those three paragraphs out and leave a hole in the bill.

H.M.Jr: If we want - if Leon wants to get it in the contract, let him go up on the Hill. You were in on this yesterday, Harry. How does it sound to you?

White: On two grounds, I think it excellent. In the first place, political philosophers have held that one of the several pillars of democracy is publicity, so in that general direction on such an important matter I think that is an excellent thing to do and it is certainly the best means of defense of any procedure. I think it is a good way out, provided it could be placed in the law.

I think it would be very excellent if the information that should be made public could be included in the legislation and I think the public would recognize it as an excellent step forward.

H.M.Jr: I agree with you, but I felt that I have got them up to the point where they are getting kind of restless. I want them to go back and meet amongst themselves and they may decide on that themselves, but I think --

White: I do think, with you, that they had more to their case than I had thought at first, a little more to their case.

- 5 -

Foley: There is no doubt about that. In so far as number one is concerned, Mr. Secretary --

H.M.Jr: But I didn't let Johnny Sullivan down one bit in their presence, did I?

Foley: No.

H.M.Jr: Not one bit. I agree with you, Harry, but trying not to let Sullivan down, it suddenly struck me, and I think that the thing they are arguing about is so unimportant as against complete - and the President has a press conference this afternoon. I am going to give it to him.

Schwarz: He has it this morning.

H.M.Jr: Well, he can still do it, but I think it is big enough that the President himself should come out and say, "One thing I want in this bill is full publicity," and that is the answer to the Robert thing.

White: If he could tie that up, too, with a statement on democracy being built on publicity, it would be a good thing. I would like to say --

H.M.Jr: Harry, would you give me a reference on that? Is that from the Old or the New Testament?

White: I think I had better put it back to Aristotle. You would be less likely to look it up.

H.M.Jr: You might say I was rusty on my Greek.

White: I would like to say that I think Johnny did a swell job with Henderson yesterday at luncheon in the light of what had been going on prior to that and I think that they got together. He handled himself very well, I thought.

- 6 -

- Foley: I think John has done very well. Senator Byrd told me last night that John made a very excellent impression on the Committee and he said several Senators complimented John to him on his manner of presentation. He said like so many witnesses that appear before the Committee, John did not try to evade when he got a direct question, even though the answer might not have been in line with the argument he was making at the time.
- H.M.Jr: Well, I frankly really hated to meet this crowd this morning, but I think it came out all right, and I think as a result of this meeting that from now on, all contracts under - what do you call this thing we finance, National Defense? I mean the special money, what is that?
- Bell: National Defense funds?
- H.M.Jr: Yes. The monies that you earmark, what are those called?
- Bell: National Defense notes.
- H.M.Jr: But the funds, what are they called?
- Bell: Just call it special fund.
- H.M.Jr: But on your sheet you showed me the other day --
- Bell: National Defense expenditures.
- H.M.Jr: Wouldn't that be it? All contracts made under National Defense funds.
- Bell: Yes, just say National Defense funds.
- H.M.Jr: National Defense funds, that would be the thing.

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Full publicity on all the financial aspects.
Don't you like that, Chick?

Schwarz: Very much so. That certainly will create the record which will prevent difficulties later on.

H.M.Jr: Then let them write their contracts. We can't - I told them I am not going to sit here and tell them how to write their contracts. Let them write their contracts, but when they are written or finished, we know whether Chrysler gets two dollars or 4%.

Schwarz: All those companies are sensitive enough to public opinion that they won't dare write any tricky contracts.

H.M.Jr: Sure.

White: I hope.

H.M.Jr: What? What did Aristotle say?

Foley: We hope.

H.M.Jr: Well, I said two or three times this morning, Harry, and I was quoting I don't know who --

White: Probably Aristotle.

H.M.Jr: I had more confidence in the opinion of the great American public than I had in any law that Congress passed as to how a man should conduct his business.

White: I think that is a very sound statement.

H.M.Jr: I don't know what the quotation is, but I think you might look it up.

- 8 -

White: I think you could take that back to Aristotle.

H.M.Jr: It might be Mrs. Morgenthau.

I feel kind of pleased. For some unknown reason, Robert Jackson writes me that he wants the income tax of Mr. Hans J. Tipp, of Detroit, Michigan. Who do those go to?

Thompson: They come to me.

H.M.Jr: I have another memorandum - yes, all right, Bell.

Bell: All right, thank you very much.

H.M.Jr: All the arrangements made?

Bell: All the arrangements are made. Anybody else want to play golf today? This is a good day.

White: Does it have to be golf?

H.M.Jr: No, it could be tennis, as long as it is an outdoor sport. Do you want to leave the room and go back, Harry?

White: I think I can manage while I am in here.

H.M.Jr: All right. Where are you?

Thompson: I have nothing.

H.M.Jr: Daniel? Do you know what Mrs. Bliss is coming to see me about this morning?

Bell: I haven't the slightest idea.

H.M.Jr: Do you know?

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Chamber'n: Is Mrs. Bliss coming to see you (Bell)?

H.M.Jr: Me.

Chamber'n: Perhaps I can guess. She represents this fund of Mrs. Morgan's to send for French charity, and she has been riding the Red Cross pretty hard and riding me. I told her we couldn't until it had been determined as to what policy we were going to adopt with respect to general charity funds in France; we couldn't give her any preferred treatment.

H.M.Jr: In occupied France?

Chamber'n: She says now in occupied, but she wants to move down to unoccupied. That is Mrs. Bliss' story.

H.M.Jr: We have done the American Hospital in Paris, haven't we?

Chamber'n: We have done the American Hospital in Paris; that was a special case.

H.M.Jr: And what about that organization feeding children?

Chamber'n: We have allowed two grants for organizations feeding children.

H.M.Jr: In occupied territory?

Chamber'n: In unoccupied. We haven't given anything except the American Hospital in occupied France.

H.M.Jr: What does Mrs. Morgan's committee do?

Chamber'n: It is - they do work, I am told - I don't know,

- 10 -

but Mrs. Bliss tells me they do work - some with the soldiers. They do medical work among the refugees and some little feeding, not much. They haven't got much feeding. They have gotten about \$75,000, Mrs. Bliss' story is, that they want to send over.

H.M.Jr: Will you be in the neighborhood in the next hour?

Chamber'n: I will be here, yes.

H.M.Jr: I agreed with Mrs. Morgenthau on that question that no American citizen should go on a belligerent ship. I think the President is absolutely right.

Chamber'n: I think if this is approved, it will mean we ought to adopt a policy in favor of aid to unoccupied France, and so far we haven't got that through. I understood that that was a matter that - a matter of policy, was the amount of money we would send to occupied France, and we, following the President's thoughts, remember some time ago we simply sat on those questions.

H.M.Jr: I feel this way: I have got so much to take up at lunch today. I have got your memorandum and a lot of other memoranda, and if I get halfway through those - and I want another chance to talk to you about this thing.

Chamber'n: I will be very glad to talk to you about it at any time.

H.M.Jr: I will just stall Mrs. Bliss, that is all.

Chamber'n: I think it would be the wisest thing to do.

Cochran: Mr. Carter telephoned yesterday on that case.

- 11 -

I passed the memorandum on. She is going to leave France very shortly, I think. Carter is the Treasurer of this Committee. I think they would be satisfied with \$10,000, enough to get her out.

Chamber'n: There wouldn't be any trouble, Mr. Secretary, about that. I told Mrs. Bliss, in fact, that we would follow our usual custom and let her have all the money necessary to get these American citizens out of France and to support American citizens in France. In fact, we approved a grant of \$5,000 for Miss Morgan as an American citizen to - she is somewhere in unoccupied France. In order to permit her to - for living expenses and to take care of some of her people.

H.M.Jr: If that is what it is going to be, I am going to call up and you can be here. It will make it that much easier.

(To Lieutenant McKay) Call up Mrs. Bliss and say is she coming down to see me in connection with Miss Ann Morgan's work, because if she is, I want Professor Chamberlain present when she comes.

I spoke to Jesse Jones about his financing and he said he would let me know today.

Bell: He talked to me last night.

H.M.Jr: Did he?

Bell: Yes; and he doesn't want to do anything right away. He has got quite a program on, but he doesn't know when the money is going out and he would like to put it off as long as he could, of course. They are getting 22 million dollars in today for the sale of railroad bonds, so that helps them out to some extent.

- 12 -

H.M.Jr: Would you work on this and have it for me Monday or Tuesday, the thought of letting possibly half of our bills run off and then maybe selling five or seven hundred million dollars worth of regular bonds at this time?

Bell: Regular bonds?

H.M.Jr: Regular Treasury bonds.

Bell: For cash?

H.M.Jr: Yes; just play with that idea.

Bell: Yes. You don't have to let your bills run off, necessarily. You can divert them into national defense bills and then they will be retired in taxes.

H.M.Jr: But I want to raise - I have got too much money on hand, but if I let half of the bills run off, then I can go out and maybe sell another bond issue. Just play with it.

Bell: An equivalent amount?

H.M.Jr: Supposing we let 650 million bills run off and sell a bond issue.

Bell: That could be done, of course.

H.M.Jr: Give me one more chance to sell another bunch of bonds.

Bell: I hate to see the bills run off, because they are so cheap nowadays. There is still a place in the market. The bankers accept them.

H.M.Jr: Will you?

Bell: Yes, I will play with it. I have two bank

- 13 -

situations which I would like to discuss with you next week sometime, one in Michigan and the other in California.

H.M.Jr: Did they ever clean up the Syracuse situation which was so bad?

Foley: Yes, one in Utica, too.

H.M.Jr: Utica? Anything else?

Bell: I didn't know whether you wanted to take some of these figures to the White House today. That shows the approximate balances at the end of the month and the contemplated financing in the next four months.

H.M.Jr: Yes, I do, very much.

Bell: And these are the financings we have done in elections years, in September. I thought maybe you would like that. There have been large amounts heretofore. That shows the National Defense expenditure.

McKay: The answer is yes.

H.M.Jr: Well then, Professor Chamberlain, if you would be here when she comes at 11:45.

What is this?

Bell: That statement shows the National Defense expenditures by months, beginning in July and gradually increasing.

H.M.Jr: I can take that --

Bell: The President hasn't seen the last figures, but he did see the earlier ones in August. It shows that in July it increased 24 million

- 14 -

over June, and in August, 22 million over July, but they have got to go up much more rapidly than that to get the five billion dollars.

H.M.Jr: Anything else?

Bell: That is all.

H.M.Jr: Harold?

Harry?

Professor Chamberlain?

Chamber'n: The only point - I have a little memorandum which I would like you to take up with the President, the question of whether we are to allow the Belgian - the National City Bank to buy Belgian francs, either in Spain or in Berlin. You said you wanted to take the question of buying --

H.M.Jr: Did you take it up --

Chamber'n:with the President.

H.M.Jr: No, I won't bother him with that. Did you take it up with your Committee?

Chamber'n: We took it up in the Committee. The majority of the Committee is against buying Belgian francs in Berlin from the Reichsbank. I think the majority think that it would be wiser to buy them in Spain than in Berlin, although it is quite possible that the Bank of Spain will get them from Berlin.

H.M.Jr: Well, the proposal yesterday was to let them buy them in Spain.

- 15 -

Chamber'n: The proposal yesterday was to let them buy them in Spain.

White: As against buying in Berlin, though some of us felt that they shouldn't buy them in any place.

Chamber'n: I think the Committee was about evenly divided as to whether they should buy them at all.

H.M.Jr: Well, the way I feel is this, if they can buy them in Spain, I would let them do it. It is a tough situation. Here is an American bank that owes \$800,000 to a million dollars, doesn't it?

Chamber'n: About that.

H.M.Jr: And if we could help them clean that situation up for themselves and clean up the Bank and get out --

Chamber'n: Yes, that is what they want to do.

H.M.Jr:I think we ought to do it, because I mean after all, the other side of the story is we don't want the Germans to come out with a statement saying that an American branch bank won't meet its obligations.

Chamber'n: I think it would be better --

H.M.Jr: It isn't ideal, but if - they cleaned up the market here. They got \$25,000 worth, didn't they?

Chamber'n: That is all.

H.M.Jr: Let's see what they can buy in Spain.

Chamber'n: I will tell them then that we will issue a license for them to buy belgas in Spain if they can get them.

- 16 -

H.M.Jr: Who did they buy them from?

Chamber'n: I think it must - I asked about that and I was told they weren't sure, that they hadn't made any offers yet, but I presume it would come through the Bank of Spain.

H.M.Jr: Let's see what they can do.

Chamber'n: I will call them up at once and tell them to go ahead.

Cochran: I think they would have to go through the Exchange people there.

H.M.Jr: I think it would be interesting. Let's see what happens.

Dr. Burgess said they could work it through a good many of their branches if it were embarrassing to us to let them have the direct application. They could go to their Argentine branch or in the Orient. These belgas undoubtedly are coming from the Reichsbank in the end, but he says that if it is embarrassing to us and sets a precedent, give them the "go" sign through a branch and they will work outside of the United States through a branch.

H.M.Jr: Let them try it through Spain.

Bell: I would let them do it.

H.M.Jr: I think so. He is going to close up his bank there, isn't he?

Bell: Yes, it is a liquidation.

Chamber'n: He has already proceeded very far in liquidation.

- 17 -

H.M.Jr: All right, let's try it and see what happens.

Chamber'n: All right, I will call him up.

H.M.Jr: George?

Haas: You wanted to be reminded about the frequency of these airplane --

H.M.Jr: Oh yes, George Mead said - he heard me saying something about it. He was asking for it on the first and the fifteenth. He thought every week was too often, so I said, "Well, I don't care, but I am one of these 52-week fellows and I would like to get it 26 times a year, not 24 times." I would go along on that basis. What do you think?

Haas: Why not leave the calendar week there instead of the first and the fifteenth?

H.M.Jr: I wouldn't go along with them on that. I said every two weeks.

Haas: I think that is better, so your date is Saturday each time.

H.M.Jr: That is right, every two weeks, but he wanted to do it the first and the fifteenth and I said no, so he said Don Nelson of Sears Roebuck would approve of it because they do it on 13 periods of four weeks each.

Haas: Yes.

H.M.Jr: I think that is often enough.

Haas: All right. I think, then, we will all be together. I talked to Major Lyon after the meeting and he seemed to want to get together, that if you wanted it every week, they would

- 18 -

try to time theirs tentatively, he told me, at the same time that your report was timed.

H.M.Jr: Does that Major Lyon want it --

Haas: Their idea was the first and the fifteenth.

H.M.Jr: Mead says he would be delighted to make it on a weekly basis.

Haas: Every other week?

H.M.Jr: Every other week. Okay?

Haas: Fine.

H.M.Jr: When are you going to have my labor figures?

Haas: I have got them all now but Vultee.

H.M.Jr: I see.

Haas: And that will probably come in this morning.

Young: Did your British table give you what you wanted this morning?

H.M.Jr: Yes. What I am surprised at is what they have done on their orders of additional planes. They have just extended the business. You see, practically all of the business they have placed is from October '41 on.

Young: I haven't gone over it yet.

H.M.Jr: They have placed it - the English, you see, confidentially, have placed orders for 3800 planes additional, but the first of these deliveries begins in October '41, and runs through until March '42. Have you got a copy of this?

- 19 -

Young: Yes.

H.M.Jr: When you go up to Buffalo, you can - it surprises me in a way, but that is the way they are doing it. Are you all right?

Young: Yes.

H.M.Jr: Should I raise hell at Cabinet about the planes for Sweden?

Young: I think you might give Berle a ring before that.

H.M.Jr: All right, you stay behind and I will do it now.

Merle?

Cochran: Arthur Loveday, who is the head of the Financial Committee of the League, is in town and he is coming in at 11:30. I think it would be nice if you could receive him sometime.

H.M.Jr: Next week I will be glad to. Isn't he the boss of our friend who used to be at Hungary? He worked for Loveday, didn't he?

Cochran: That is right.

H.M.Jr: Whatever happened to what's-his-name?

Chamber'n: Salters?

H.M.Jr: No, he was the financial adviser to Hungary.

Chamber'n: Is he an American? He died some time ago. Oh, the younger man? I think he is in Switzerland.

Cochran: Royal Tyler.

- 20 -

H.M.Jr: I helped him get out of Sweden. Wasn't he coming to the United States on urgent business?

Cochran: I have heard nothing of him.

H.M.Jr: Royal Tyler, and he works for --

Cochran: That is right.

H.M.Jr: I would like to see him next week.

Anything else?

Cochran: No, sir.

Foley: You wanted to be reminded about Forrestal's call yesterday afternoon.

H.M.Jr: What do you want to do?

Foley: Well, it is all right with me.

H.M.Jr: This is the question. Forrestal wants Cox for six or seven weeks to help him on contracts. Didn't somebody expound the theory that we should help them do the work, provided the men stay in the Treasury?

Gaston: We did that in the case of a Customs man on Maxwell's control outfit. We persuaded him he could do it in the Treasury without moving over there.

H.M.Jr: I personally hate to let Cox go.

Foley: He is a good man.

H.M.Jr: Is Cox anxious to go?

Foley: No, but he would be glad to help him. He wants to do whatever - he is a good soldier.

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H.M.Jr: Isn't he doing important work here?

Foley: Yes.

H.M.Jr: I think we had better keep him here. Will you let Forrestal know?

Foley: Yes.

H.M.Jr: Simply tell him that - I will put it this way. If he wants part of his time - I guess we had better not.

Bell: Well, he is helping him, Ed. He is helping him a little. He goes over there.

Foley: Well, I don't think he has been helping Forrestal.

Bell: He has been helping Patterson more than Forrestal.

Foley: The Secretary told Judge Patterson he could call on him in connection with the Vultee deal any time he wanted to and he has been working a little bit with Patterson and he has been doing some work on National Defense, on other things, but I don't think he has really worked for Forrestal at all since Forrestal has been down.

H.M.Jr: Let's put it this way. If Forrestal has a particular contract that he wants him to help him on, he can help on that and when that is through, we should take it up each time, until we see how it works out. How would that be?

Foley: Well, I don't think that is what Forrestal wants. I think if Forrestal had got him now, at the end of the five or six weeks

- 22 -

he would take him over permanently. I don't think we would ever get him back.

H.M.Jr: I don't want that, unless it is unfair to Cox.

Foley: No, I don't think it is unfair to him because I don't think they could do any more for him over there than we are doing for him here, so far as salary and responsibility are concerned. We have got a very good legal division and if he wanted to help, we could do the work all right.

H.M.Jr: Forrestal said, "If you don't let me have the man, I will not consider that you are not cooperating. I will just understand." I would turn him down. I know that he would stay there, and I think he is a good man and I would like to keep him. Anything else?

Foley: No.

Gaston: Another arrival from Switzerland is Leon Steinig, the secretary of the Opium Advisory Board of the League. We helped to get him out of there. He says that Switzerland is pretty thoroughly under domination of the Germans. They took about half of the entire gasoline stock of Switzerland and they took the entire Army stock and cut the civilian stock way down very sharply.

I looked up that so-called aviation gasoline that went out under yesterday's report and I find, as in the other case, it was motor gasoline of simplified octane content and I think we will have to revise our reporting form to show the three different forms of gasoline that the State Department Control recognizes, the aviation gasoline and the

- 23 -

other gasoline that falls within the control and gasoline which does not fall within the control. The State Department - Price over there in the Export Control Department wanted our help to make that clear to the newspaper men that this so-called aviation gasoline that is going out is not aviation gasoline. He thought that you might respond to a question at a press conference on behalf of the State Department. I think we had better not handle it in that way.

H.M.Jr: No. Okay?

Gaston: That is all.

H.M.Jr: Harry, that thing which you sent me last night on oil, I want to compliment you on it.

White: We have already changed it now.

H.M.Jr: Well, I am just raising it. I am taking this with me to the President at 1:00 o'clock.

White: We have got a revised copy which is some improved. It is ready.

H.M.Jr: How are you going to get it into my hands?

White: It is ready now. It is in the office. I will get it for you as soon as you want it.

H.M.Jr: When you go out, and while I am talking with Berle, would you get it so I can have it?

White: Yes, all right.

H.M.Jr: Okay.

GROUP MEETING

Present:

Mr. Haas
Mr. Thompson
Mr. Graves
Mr. Foley
Mr. White
Mr. Cochran
Mr. Chamberlain
Mr. Young
Mr. Schwarz
Miss Chauncey

H.M.Jr: I just thought you would be interested, some of you who have been with me since the beginning, in a letter I got from Harry Hopkins.

(The Secretary read a personal note from Harry Hopkins, expressing his regret in leaving the Cabinet, and thanking the Secretary for his previous note regarding same.)

Some of you who have been with me since the beginning realize the things we went through and the things they said and so forth and so on.

I got very little done of the things that I took over to see the President, but there are some things that are quite important that happened. The President announced to Cabinet - it is his idea - that from now on, all contracts for the Government will be given publicity. He is going to announce it as an Administration policy.

Gaston: Swell.

H.M.Jr: So I think that is fine. He never mentioned the Defense Council. He was very pleased with what happened this morning.

On steel scrap, they recommended that we put on an embargo, but nobody seems to know how

- 2 -

to do it and still let Great Britain have it, so Ed, do you want to get busy?

Gaston: You can do it right under the terms of the control; issue licenses.

Foley: Issue licenses.

H.M.Jr: I appointed a committee of White and Foley and Gaston to give me the answer.

If you (Thompson) will get a copy of that oil report that White had today and get it out tonight, copies to go to State, War, Navy and Interior, and mark every page confidential.

Incidentally, Harry, this is also very confidential. Hull says that if the Japanese don't pipe down, he wants to put an embargo on silk from Japan and put on an economic boycott and a loan of twenty or twenty-five million dollars to China.

White: If they don't pipe down?

H.M.Jr: Yes.

White: That is - are you sure you have got that straight? That is terrific. It is a really effective measure. An embargo on imports here from Japan --

H.M.Jr: I am sober; are you?

White: I don't know what he means by piping down, but if he lets me interpret it....

Chamber'n: He does pretty effective work. That would be very effective.

H.M.Jr: Then of course - all this is very confidential.

- 3 -

Mr. Hull said there were a lot of people messing around in oil. The President said that I had been handling all of this stuff for the last six or seven months and it should all clear from me in the future.

Gaston: From whom?

H.M.Jr: Anything that has to do with oil, the President said it should clear through me.

Foley: You or the President?

H.M.Jr: Me.

Gaston: That is very interesting.

White: How does that --

Gaston: We will consider the different grades of gasoline.

H.M.Jr: All right, that is as of today.

White: He wasn't speaking of minerals, was he?

H.M.Jr: While I was there --

White: I think I ought to stand in a corner.

Schwarz: I do, too.

H.M.Jr: Listen, Mussolini, how do you get that way? Do you want to put castor oil on the list?

While I was there at lunch, from his bed the Dutch Minister called up the President saying that somebody had taken 250 planes away from him.

Young: No, not that many.

- 4 -

H.M.Jr: And the President said we should look into the thing and encourage the Dutch, but before any planes are shipped to the East Indies, check with Hull.

Young: I had a call from State on that this afternoon and I gave them all the details.

H.M.Jr: And the President also said to check with the English, do they want planes to go into the East Indies.

Now, if anybody has anything terribly important - the sun sets at 6:21. I didn't get very far - just give this to Professor Chamberlain and he will give it back to me Monday. He wouldn't read the second page and I got no help from the State Department. If you give that back to me on Monday, that may help you a little bit.

Gaston: You may be surprised to read in the papers tomorrow that you have forbidden a certain vessel, the Norseland, of Panamanian registry, to enter U. S. waters for three months. If that is all right with you, we are going to forbid it. It is because she made a voyage from the Dutch East Indies to Liverpool and with the American flag painted on both sides. Under the law - she is a Panamanian - under the law, you are empowered to exclude her from U. S. waters for three months and you are doing it.

H.M.Jr: All right.

Gaston: Coyle has written a fairly long article, a first draft, which he asked me to read before showing to you. I don't suppose you want to be bothered with it right now.

H.M.Jr: Not tonight, I am taking this much to read (indicating large volume).

- 5 -

You (Foley) tell Sullivan if he wants to talk to me tonight, he can call me up - let's see, he can call me up between 7:30 and 8:00 Standard Time.

Foley: Washington time?

H.M.Jr: Yes.

Cochran: Nothing.

Schwarz: Nothing.

H.M.Jr: Philip?

Young: I gave Mrs. Klotz Mr. Hinckley's memorandum on plastic planes, which you can take with you.

H.M.Jr: Anything else?

Young: No.

Haas: I have nothing.

White: K. C. Lee is undertaking other negotiations with the Procurement Division. Harold Graves had his man come down to see me about it. It may be that it will prove to have nothing to do with China. Are you interested if it doesn't, in checking the arrangements, or does your interest extend only as he operates in China?

H.M.Jr: Well, talk it over with Archie Lochhead.

White: I am doing that, but he is operating in South America.

H.M.Jr: You do what you think is best, Harry.

- 6 -

White: All right.

H.M.Jr: Okay?

White: The State Department is contemplating --

H.M.Jr: Louder, Harry. Why do you go into such a hushed voice on the State Department?

White: After what you told us this afternoon, I am going to treat them with reverence. Mexico may come here if they --

H.M.Jr: The President turned down a synthetic rubber plant in the United States today, doesn't want it, a refinery on tin, but approved buying tin concentrates from Bolivia.

White: On the Costa Rican --

H.M.Jr: Nothing was said today.

White: Jones said that you were inclined to be favorable to the extension of seven million, but further details will be forthcoming.

H.M.Jr: He is crazy. All I did was lunch with the fellow.

White: Wasn't the matter --

H.M.Jr: Never mentioned it. Jones didn't even know who Dr. Anderson was, what country he came from or why he was invited for lunch. I was there. He asked me. That is as much as I know. They want seven million for a road.

White: That is right.

H.M.Jr: I can't be favorable when Jones - when he walked in the room and met the fellow, he

- 7 -

didn't even know what country he came from or who he was.

White: He may not have known when he came in, but did he know when he went out?

H.M.Jr: I told him.

Professor Chamberlain?

Chamber'n: Nothing on this. On this, I assume that first one is for the funds, expenses in this country, is all right, and the second one is doubtful as to expenses in the hemisphere.

H.M.Jr: That is right.

Chamber'n: And on the world outside the hemisphere, it is no.

H.M.Jr: That is right. Does that help you a little bit?

Chamber'n: Oh, yes. The second one I thought I would take up with you and see if I can get a definite report on it, because the French are going to be on our necks.

H.M.Jr: Would that help a little bit?

Chamber'n: Yes, that helps a little. I am really disappointed because I think --

H.M.Jr: He didn't give it time and Mr. Hull didn't help a bit.

Chamber'n: Well, I am a little surprised at that. Berle told me he had taken it up this morning with everyone.

H.M.Jr: Mr. Hull wouldn't help a bit.

- 8 -

Chamber'n: Wouldn't help on that?

H.M.Jr: Not a bit.

Chamber'n: Would it be proper for me to take it up again with Berle?

H.M.Jr: Yes. He acted as though he never had heard of it.

Chamber'n: I don't understand that. Berle implied to me that the Secretary approved it.

H.M.Jr: He said they approved this hemisphere, but I mean I got no help from him whatsoever.

Chamber'n: I will take it up with Berle at once, then, and see if I can see him tomorrow.

H.M.Jr: Harold?

You (Thompson) tell Dan Bell I never got to talk financing with the President at all. He can rest easy.

I hope you all have a nice week-end.

Chamber'n: Thank you.

H.M.Jr: What is the matter, got a tick?

Young: No, there is something else I just wanted to tell you. I have got a little more information on the Balfour British Pan-American ship. It is a secret deal which nobody knew about. George Mead told me a little bit more about it when I convinced him it would salve his own conscience if he got it off his mind.

H.M.Jr: If you know about it and have time, write me a little letter and send it up to Fishkill, New York tonight.

- 9 -

Young: Well, it is just a question of the number of planes which they are getting, which is three.

H.M.Jr: Well, it will keep. Have a good time in Buffalo. Give my regards to all the Polacks up there and make sure they vote right.

2. Japanese Production
(Annual, including imports from Manchuria)

Treasury estimate U.S. oil experts September 6, 1940 experts

All three estimates place Japanese production at about
4 million barrels

MEMORANDUM FOR THE PRESIDENT:

3. Japanese Refining Capacity

Treasury Summary of Oil Situation in Japan, Germany and its experts

(No independent information) German-Controlled Territory 3.5 million barrels

The estimates given below include confidential ones obtained from British Government oil experts and from American oil experts (Standard Oil and Tidewater Associated). The Treasury estimates are the result of independent calculations based on numerous sources of information available to the Treasury.

35 million barrels 35-40 million barrels 34 million barrels

Situation in Japan

Conclusion: The Treasury estimates that Japan has sufficient oil, without imports, for eight to ten months (at the present rate of consumption). This conclusion seems to be in substantial agreement with the opinion of U. S. and British oil experts. The British, however, feel that the stocks of lighter products are sufficient for only six months, while the stores of fuel oils are adequate for a much longer period.

and her current supplies will be substantially less than her needs. This conclusion assumes no serious impairment of her production facilities or sources of supply but anticipates a substantial rise both in production and imports from

1. Present Stocks

Treasury estimate U.S. oil experts British Gov't. experts

30 million barrels 20-25 million barrels (not including Japanese Navy stocks on which they had no estimates) 32 million barrels (including Navy stocks of 10 million barrels)

- 2 -

2. Japanese Production (Annual, including imports from Sakhalin)

<u>Treasury estimate</u>	<u>U.S. oil experts</u>	<u>British Gov't. experts</u>
40 million barrels	40 million barrels	Not yet resolved

All three estimates place Japanese production at about
4 million barrels

2. Stocks acquired by Germany in invaded areas

3. Japanese Refining Capacity

<u>Treasury estimate</u>	<u>U.S. oil experts</u>	<u>British Gov't. experts</u>
24 million barrels	23.5 million barrels	

(No independent information)

3. Stocks acquired in France

4. Japanese Current Consumption (Annual)

<u>Treasury estimate</u>	<u>U.S. oil experts</u>	<u>British Gov't. experts</u>
35 million barrels	35-40 million barrels	34 million barrels

4. Stocks in Italy

<u>Treasury estimate</u>	<u>U.S. oil experts</u>	<u>British Gov't. experts</u>
18 million barrels	No estimate	18 million barrels

Situation in Germany

British detailed estimates on German stocks are not yet all available to us but their conclusion on the German oil situation is that by April, 1941, the German oil situation will be critical. She will by then have used up available reserves and her current supplies will be substantially less than her needs. This conclusion assumes no serious impairment of her production facilities or source of supply but anticipates a substantial rise both in German production and imports from Rumania. Any destruction of stocks or plant facilities by the British Air Force will move the date forward. Treasury estimates place the critical date two months later, i.e., June, 1941. These estimates may err as much as two months either way, owing to the uncertainty of the rate of consumption.

(d) Synthetic Production	19	"	"
Total	43	"	"
Stocks now available	45	"	"
Total available by April	64	"	"

FILE COPY

1. Present Stocks

7. Estimated consumption Germany, Italy and invaded areas
Treasury estimate U.S. oil experts British Gov't. experts

25 million barrels 30 million barrels Not yet received
 (as of June 1, 1940)

in Italian requirements (because of increased civilian use),
 and a decrease in conquered territories' consumption to one-
 third of present level.

2. Stocks acquired by Germany in Invaded Areas
Other Than France

<u>British estimate</u>	<u>Standard Oil estimate</u>
3 to 4 million barrels	11 million barrels

3. Stocks acquired in France

Both British and Standard Oil officials believe French stocks were largely destroyed. British estimate Germans obtained less than 2 million barrels in France.

4. Stocks in Italy

<u>Treasury estimate</u>	<u>U.S. oil experts</u>	<u>British Gov't. experts</u>
10 million barrels	No estimate supplied	18 million barrels (As of June)

5. Total stocks now available to Germany and Italy

Average of available estimates -- 45 million barrels

6. Supplies estimated by Treasury as forthcoming during the next 8 months -- 40 million barrels

(a) From Rumania	14 million barrels
(b) " U.S.S.R.	1 " "
(c) " Petroleum Production	9 " "
(d) " Synthetic Production	19 " "
	<hr/>
Total	43 " "
	<hr/>
Stocks now available	45 " "
	<hr/>
Total available by April	88 " "

REVIEWED
 9/5/40

FILE COPY

7. Estimated consumption of Germany, Italy and invaded areas
by April, 1941 -- 80 million barrels

This is a very rough estimate, based on an increase in German consumption (over normal peacetime needs), no increase in Italian requirements (because of curtailed civilian use), and a decrease in conquered territories' consumption to one-third of normal. (The Treasury and the British agree that conquered territories will be restricted to about one-third their normal oil consumption.)

Very truly yours,

EDWARD W. N. JACKSON

Administrative Assistant
to the Secretary

The Secretary of the Interior.

HDW:WLU:esh
9/6/40

FILE COPY

September 6, 1940.

*Copies in
following pages*STRICTLY CONFIDENTIAL

My dear Mr. Secretary:

By direction of Secretary Morgenthau, I inclose for your confidential information copy of a memorandum addressed by the Secretary today to the President on the subject of "Summary of Oil Situation in Japan, Germany and German-Controlled Territory."

Very truly yours,

(SIGNED) W. N. THOMPSON

Administrative Assistant
to the Secretary

The Honorable

The Secretary of the Navy.
The Secretary of the Interior.

WNT:nms

STRICTLY CONFIDENTIAL

September 6, 1940

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WNT:nms

WNT:nms/dm

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Administrative Assistant
to the Secretary.

The Honorable

The Secretary of State.

(see ack 9/9)

WNT:nms

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

265

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CONFIDENTIAL

DATE September 6, 1940

Secretary Morgenthau

September 6, 1940

STRICTLY CONFIDENTIAL



Subject: Developments in the High-grade Security Markets

My dear Mr. Secretary:

By direction of Secretary Morgenthau, I

inclose for your confidential information copy of
on balance during the first half of August; but since
a memorandum addressed by the Secretary today to
(Chart I). The average yield of long-term Treasury
the President on the subject of "Summary of Oil
August 1 and yesterday's close (Chart II).
Situation in Japan, Germany and German-Controlled

(2) The market for Treasury bonds has recovered about three-
Territory" thirds of the losses which it suffered between April 3,
the date of the recovery high before the invasion of
Norway, and Very truly yours, date of the subsequent low
(Chart III). Treasury notes have recovered only about
60 percent of their losses since April 3 (Chart IV).

(SIGNED) W. N. THOMPSON

The cost of borrowing money on a 20-25 year bond would
be no higher to Administrative Assistant, 1939, the date of
the all-time high to the Secretary. bonds; for a 10-12 year
bond, it would be about 1/8 of 1 percent higher; and
for a 5-year note, about 1/4 of 1 percent higher.

The Honorable

(3) High-grade corporate bonds have moved within a narrow
The Secretary of War, August 1, but show a small net gain for
that period (Chart II). Municipals are now at a new
all-time high (Chart V). The volume of new security
issues during August was small, and most of the offer-
ings moved slowly.

(4) British 2-1/2 percent consols have gained on balance
since August 1 (Chart VI). Canadian and Australian
dollar bonds have risen sharply since the middle of
August (Chart VII).

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

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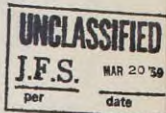
~~CONFIDENTIAL~~

DATE September 6, 1940

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Developments in the High-grade Security Markets



SUMMARY

- (1) Prices of United States Government securities declined on balance during the first half of August; but since August 17, have more than recovered these losses (Chart I). The average yield of long-term Treasury bonds decreased 3 basis points to 2.20 percent between August 1 and yesterday's close (Chart II).
- (2) The market for Treasury bonds has recovered about three-fourths of the losses which it suffered between April 3, the date of the recovery high before the invasion of Norway, and June 10, the date of the subsequent low (Chart III). Treasury notes have recovered only about 60 percent of their losses since April 3 (Chart IV).

The cost of borrowing money on a 20-25 year bond would be no higher today than on June 5, 1939, the date of the all-time high of Government bonds; for a 10-12 year bond, it would be about $1/8$ of 1 percent higher; and for a 5-year note, about $1/4$ of 1 percent higher.

- (3) High-grade corporate bonds have moved within a narrow range since August 1, but show a small net gain for that period (Chart II). Municipals are now at a new all-time high (Chart V). The volume of new security issues during August was small, and most of the offerings moved slowly.
- (4) British 2-1/2 percent consols have gained on balance since August 1 (Chart VI). Canadian and Australian dollar bonds have risen sharply since the middle of August (Chart VII).

I. United States Government Securities

Prices of United States Government securities declined on balance in the first half of August, but have rallied since August 17 to levels somewhat higher than those obtaining on August 1 (Chart I). Price changes are shown, by maturity classes, in the following table:

			Average price change
			August 1 - 17 August 18 - September 5
			(Decimals are thirty-seconds)

Notes

1 to 3 years	- .03	+ .06
3 to 5 years	- .01	+ .12

Bonds

5 to 15 years to call	- .14	+ .28
15 years and over to call	- .21	+ 1.06

The average yield of long-term Treasury bonds was 2.20 percent at yesterday's close (Chart II). This compares with 2.23 percent on August 1 and with a high for August of 2.28 percent.

Trading in Government securities during August was relatively light, but the Treasury notes maturing in December were in fair demand for their rights value. The Federal Reserve Open Market Account since the end of July has disposed on net balance of about \$14 millions of Government securities, the greater part of which amount consisted of the December notes.

II. Long-term Perspective of the Government Security Market

The market for Treasury bonds has now recovered on the average about three-fourths of the loss (measured in terms of

yields) which it suffered between its high for the year on April 3 and its low on June 10 (Chart III). The recovery has been somewhat smaller percentagewise in the middle range of maturities than it has been in either the short or long maturities. Treasury notes, on the other hand, have recovered only about 60 percent on the average of the losses suffered between April 3 and June 10 (Chart IV).

Although price movements of Treasury securities over short periods of time are often more important and always easier to interpret than changes in yields, the latter become more important and easier of interpretation as the period under consideration becomes longer. Price comparisons covering periods of a year or longer lose almost all significance, while yield comparisons over such periods are often very illuminating, as they indicate the fluctuations in the cost of borrowing new money. This is illustrated in the table below, which shows the coupon rates at which Treasury securities of selected maturities probably could have been issued at the dates of various turning points in the Government bond market during the past fifteen months. These dates are June 5, 1939, the all-time high of Treasury bonds; September 25, 1939, the low following the outbreak of war; April 3, 1940, the high point in the subsequent recovery; June 10, 1940, the most recent low point; and September 4, 1940.

	: : 5-Year : Note	: : 10-12 Year : Bond	: : 20-25 Year : Bond
	(Percent)		
June 5, 1939	3/4	1-3/4	2-3/8
September 25, 1939	1-3/8	2-3/4	2-7/8
April 3, 1940	3/4	1-3/4	2-3/8
June 10, 1940	1-1/4	2-1/8	2-5/8
September 4, 1940	1	1-7/8	2-3/8

The relative degrees of recovery in different maturity classes are well illustrated by the table. It will be seen that a 20-25 year bond could probably be issued now at the same coupon rate as at the beginning of April, while a 10-12 year bond would probably require a coupon $1/8$ percent higher, and a 5-year note, a coupon $1/4$ percent higher than in April. The coupons which would have been necessary in April are no higher than those which would have been required at the high in June 1939. (The prices of the outstanding securities most nearly corresponding to each of the two bonds used in the table were slightly higher in June 1939 than in April 1940, but not by a sufficient margin to change the coupon rates which it would have been necessary to place on new securities.)

III. Other Domestic High-grade Securities

High-grade corporate bond prices have moved within a narrow range since August 1, but show a net rise for the period as a whole. Our average yield of such bonds, moving inversely to prices, decreased from 2.82 percent to 2.76 percent at the close yesterday (Chart II).

Municipal bonds gained ground during August. The Dow-Jones average yield of twenty 20-year bonds, published weekly, was 2.51 percent on Saturday, August 31 -- a new all-time low yield, and high price (Chart V). This compares with a yield of 2.54 percent on August 1.

New corporate and municipal bond offerings in the New York market aggregated less than \$100 millions for the month of August, according to Wall Street Journal tabulations. This is the smallest monthly total this year, except for May and June. Somewhat more than half of the total was accounted for by three corporate offerings, while a \$30 millions issue by New York City constituted the major portion of the month's municipal offerings.

Investors have shown only slight interest in last month's new offerings. The three largest offerings, one municipal and two corporate, are reported to have moved slowly. This appears to have been partly because they were not of the very highest grade, and partly because they were rather fully priced.

The New York City offering of \$30 millions of 2-3/4 percent, 1- to 30-year serial bonds priced to yield from .30 percent to 2.95 percent, was made on August 7, but according to the Wall Street Journal, nearly \$6 millions remained unsold at the end of the month.

The two large corporate issues consisted of \$22 millions of 4 percent, 25-year first mortgage bonds of the Carolina, Clinchfield and Ohio Railway, offered at 102-1/2 to yield about 3.84 percent, and \$25 millions of 3 percent, 15-year debentures of the Celanese Corporation of America, offered at 98 to yield about 3.17 percent. Both moved slowly from the hands of syndicate dealers.

IV. Foreign Government Securities

British Government internal securities have gained almost continuously since the first of August. Consols closed yesterday, September 5, at 74, to yield 3.38 percent, as compared with 72-3/4, equivalent to a yield of 3.46 percent at the beginning of August (Chart VI). The British 3-1/2 percent war loan, with no fixed maturity, but callable in 1952, was quoted above par during the greater part of August, and closed yesterday at 101-1/2, to yield 3.44 percent.

Canadian and Australian dollar bonds have gained sharply since the middle of August (Chart VII). Italian dollar bonds have moved very little during this period, and German dollar bonds have declined slightly.

Attachments

Chart I

CHANGES IN THE PRICES OF U.S. SECURITIES

Points Plotted Represent the Difference from April 6, 1940 Price of Each Maturity Class

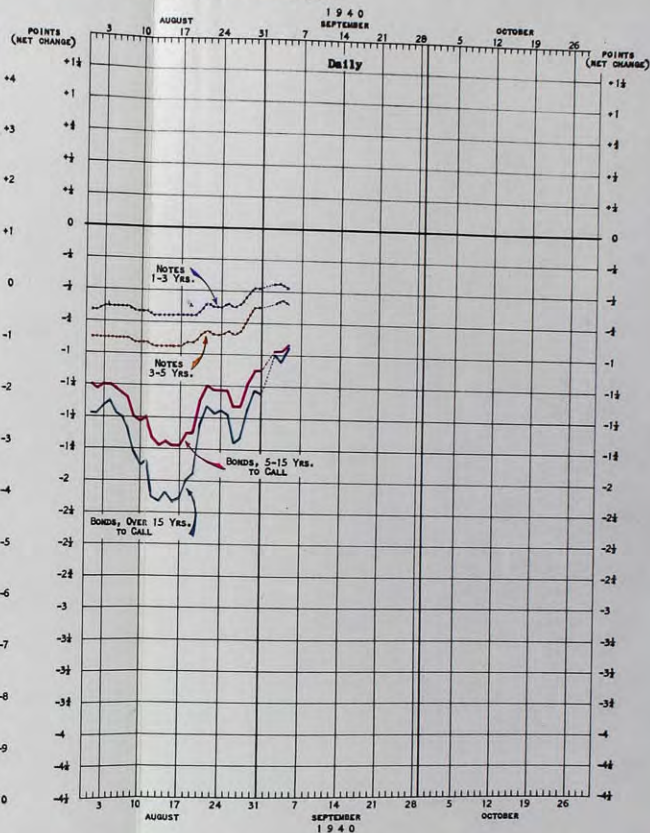
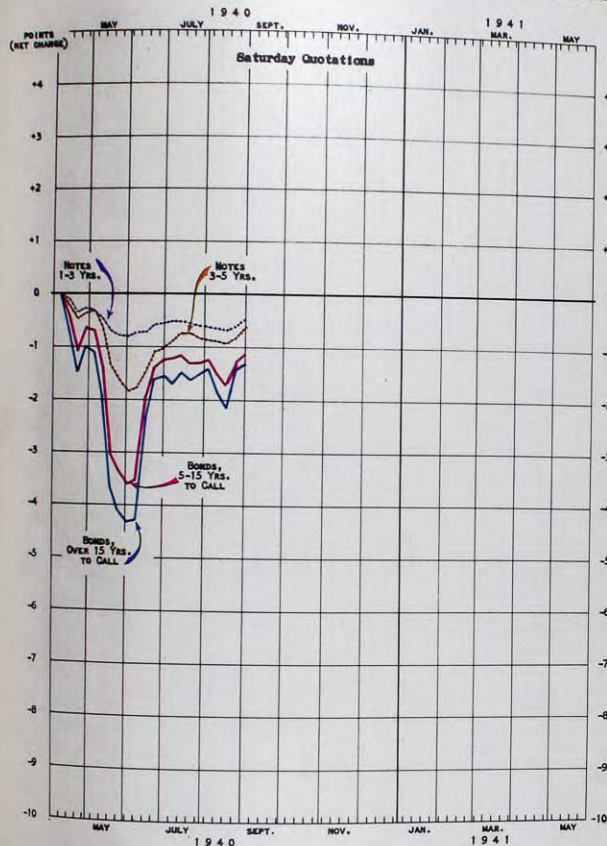
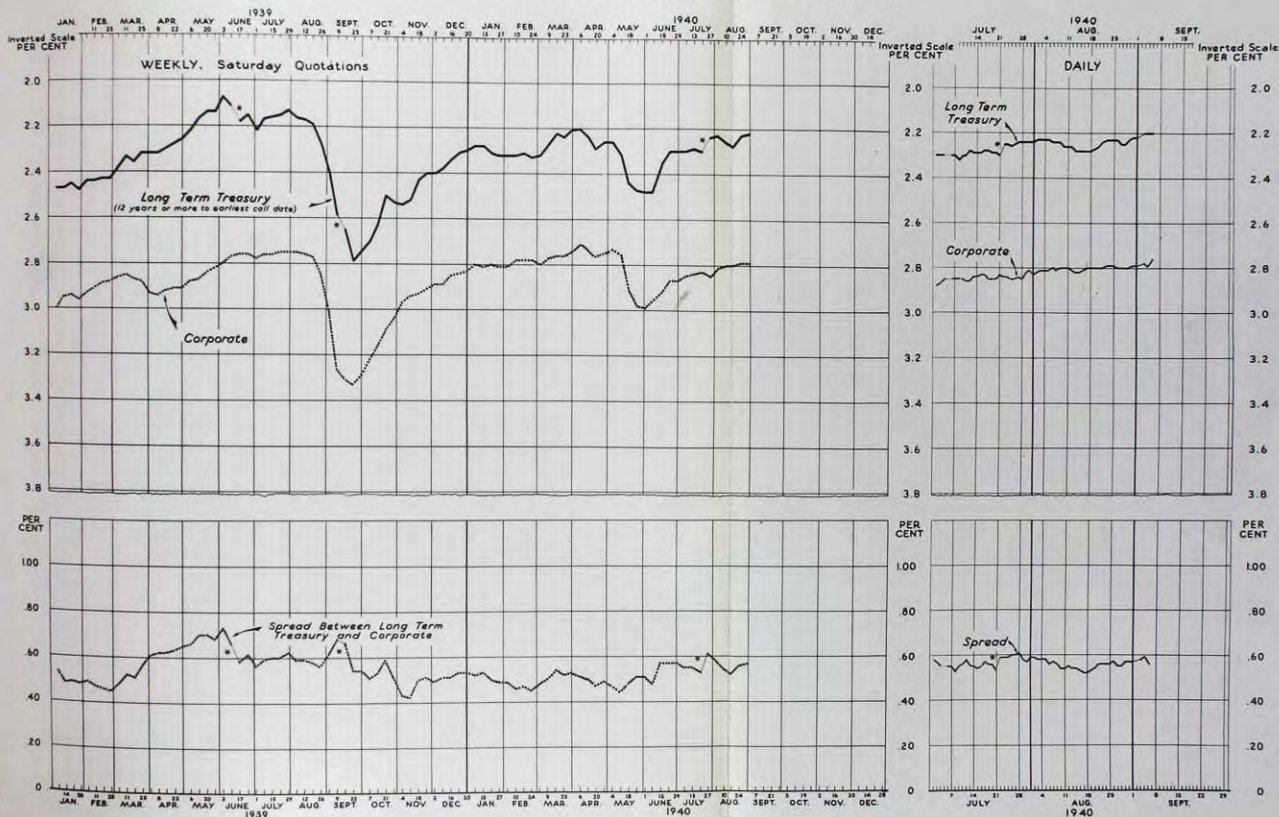


Chart II

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY
AND AVERAGE OF HIGH GRADE CORPORATE BONDS

YIELDS OF TREASURY BONDS Based on Closing Prices

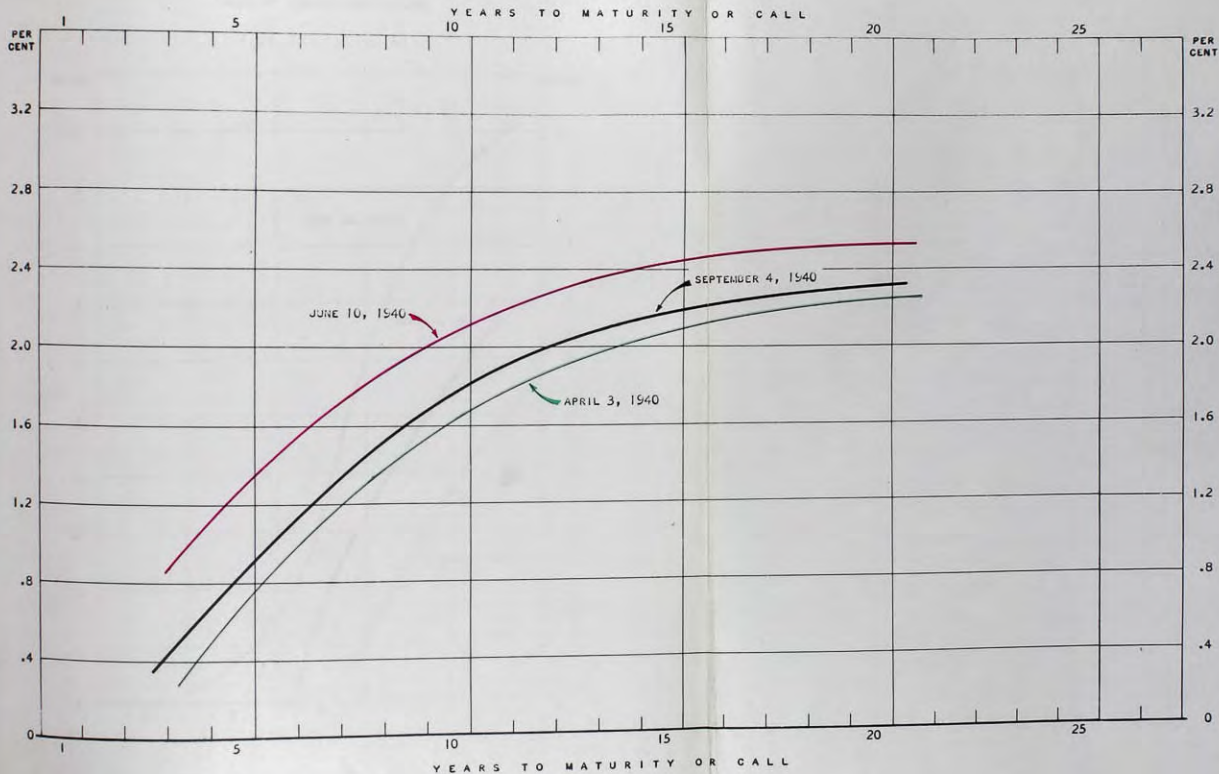
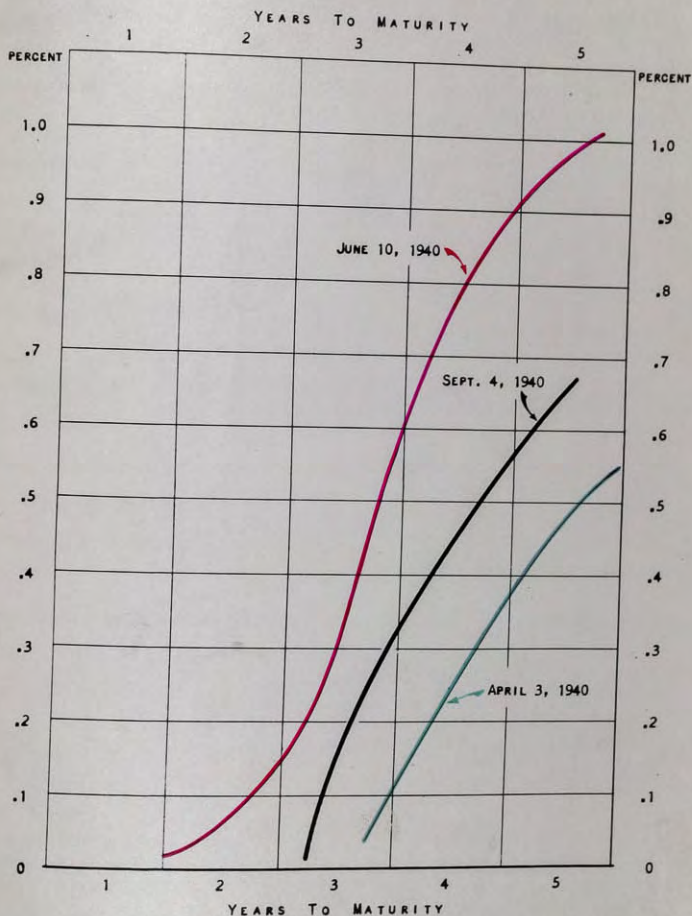


Chart IV
YIELDS OF TREASURY NOTES
Based on Closing Bid Prices



COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY AND DOW-JONES AVERAGE OF MUNICIPAL BONDS

Yields Based on Saturday Quotations

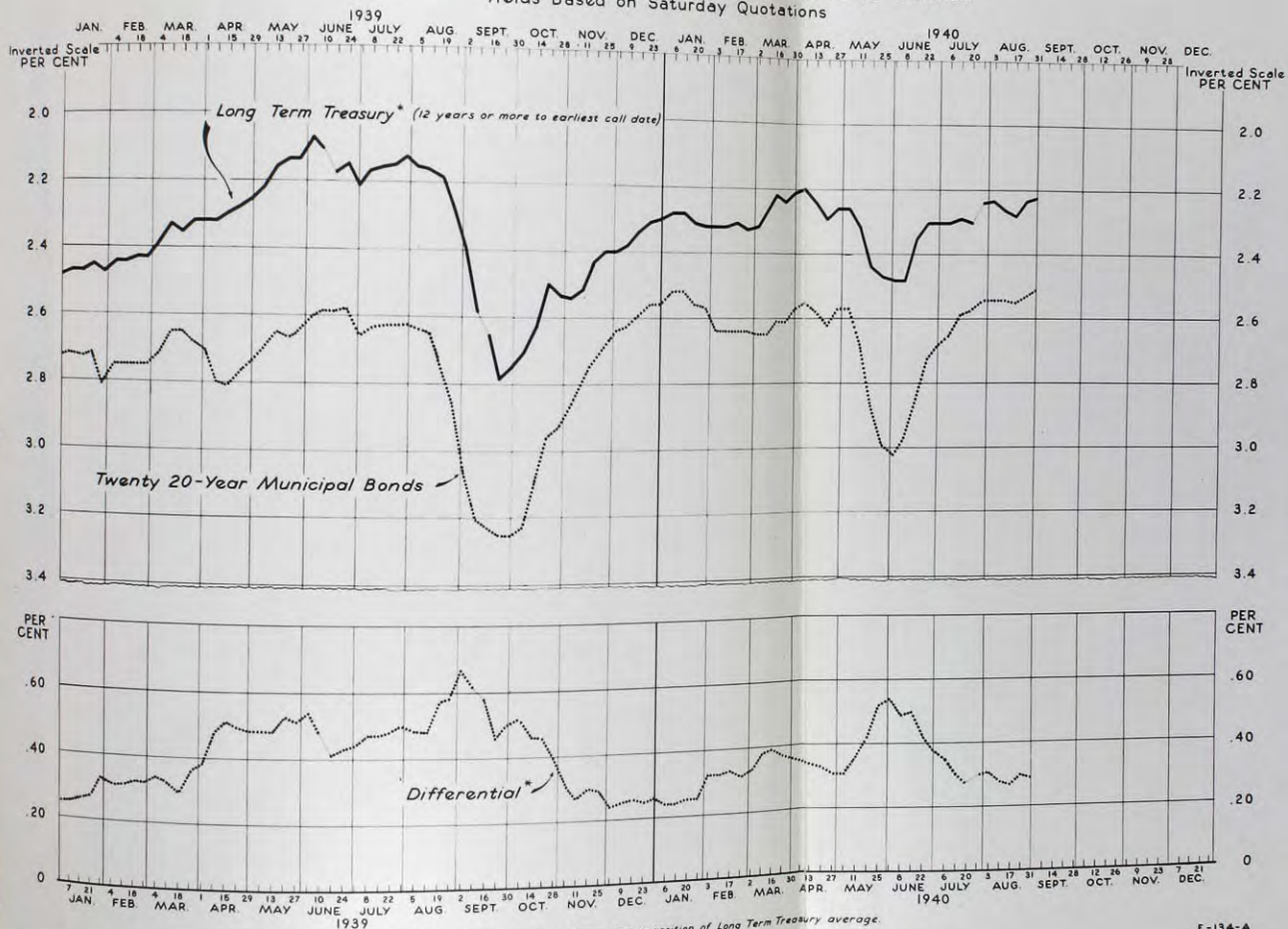
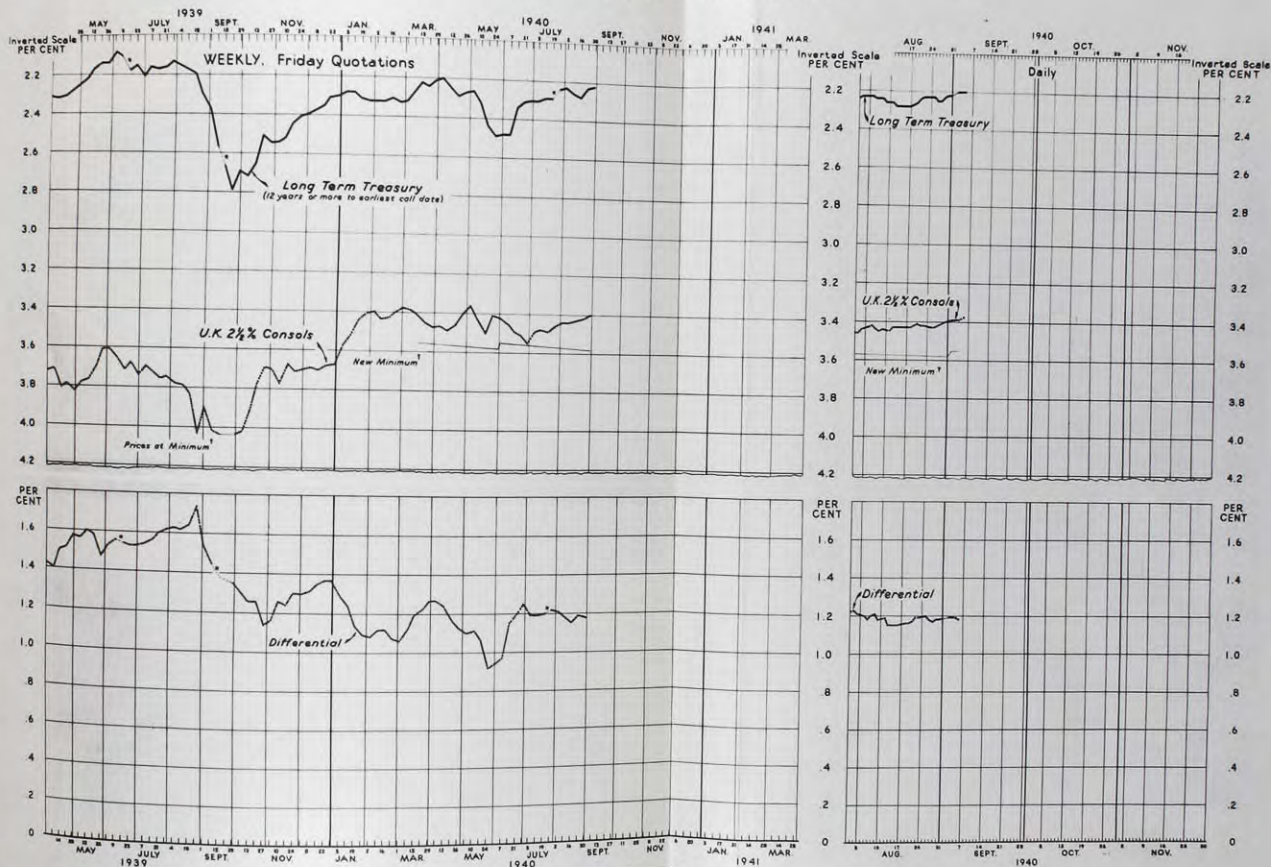


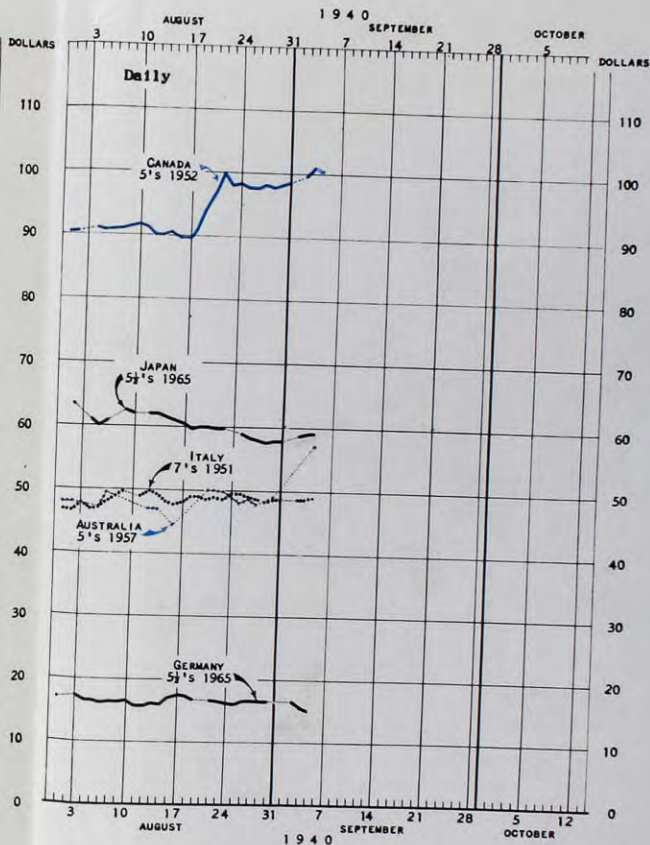
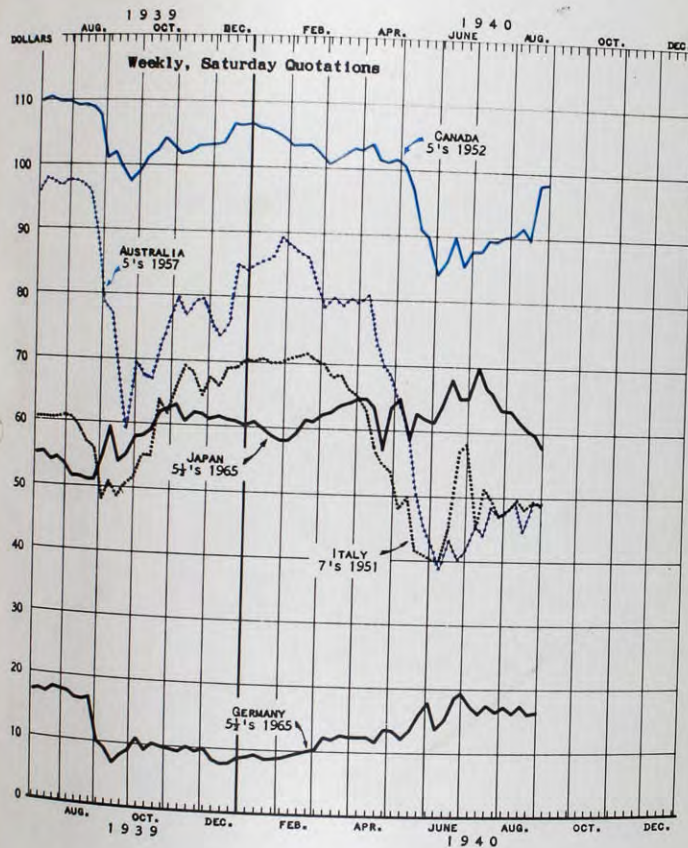
Chart VI

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY
BONDS AND U.K. 2½% CONSOLS

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

* Change in composition of Long Term Treasury average.
* Fixed in terms of prices, but varies in terms of yields.

PRICES OF DOLLAR BONDS OF SELECTED FOREIGN GOVERNMENTS



ATP

PLAIN

SHANGHAI

Dated September 6, 1940

Rec'd 9:10 a.m. 7th.

SECRETARY OF STATE,

WASHINGTON

879 Sixth.

From Commercial Attache. Weekly financial. Shanghai open market foreign exchange rates continued decline toward end of August and early this week to lowest level since May fifth due to speculative and merchant demand, however rates slightly recovered past two days due reported improvement in French Indochina situation as many over-bought speculators liquidating their positions. Interbank spot selling this morning around five five sixteenths cents and three one half pence (cross parity United States dollars three point six four two five) having a high during week of five thirteen thirty seconds and three nineteen thirty seconds and a low of five three thirty seconds and three seven sixteenths, September delivery same as spot, October delivery one thirty second cent and one sixty fourth penny lower. Chinese financial circles believe that owing to possible further liquidation of large over-bought positions (estimated over United States dollars four million) rates near future may be firmer, but owing to continuous import demands higher rates not expected of long duration particularly because of recurrent rumors of pending establishment of new central bank by Nanking regime. Other quotations this morning: gold bars around yuan six two hundred having a high during week of six four three five. (END SECTION ONE)

BUTRICK

CSB

ATP

279

PLAIN

SHANGHAI VIA N.R.

Dated September 7, 1940

Rec'd 9:15 a.m.

Secretary of State,

Washington

879, Seventh (SECTION TWO)

and low of five nine nine eight naught. Bank Japan notes declining due smaller demand and increasing supplies yen one around Chinese yuan one point five six having a record high during week of yen one for Chinese yuan one point eight two, military scrip higher yen one for Chinese yuan one point three five, wei wah cash discount three point four percent indicating abundance of cash, Central Bank gold unit rates yuan two point seven naught seven or United States dollars naught point six six, Shanghai customs for duty payment purposes gold unit for hua hsing yuan two point seven nine four or Chinese yuan four point eight nine naught because hua hsing yuan commands today a premium of seventy five percent over Chinese yuan, Tientsin exchange rates lower in sympathy with Shanghai rates five cents and three nine thirty seconds pence (cross parity of United States dollars three point six six) having a low of four seven eighths cents and three seven thirty seconds pence, Tientsin Shanghai remittance charge six point five percent, Tientsin Federal Reserve Bank yuan nine two point six five for Chinese yuan one hundred. Yesterday's closing quotations: Chinese Government bond prices now reaching highest since beginning of year average five six point two five, Shanghai general stocks higher average two seven eight point two naught, Shanghai rubber shares weaker average two nine one point six six, Hong Kong dollars exchange rates twenty two seven sixteenths cents and fourteen thirty one thirty seconds

BUTRICK

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TREATMENT DEPARTMENT
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TO DIRECTOR
FROM NEW YORK
RE NEW YORK TELETYPE
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NY 100-100000

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20517

JT

PLAIN

TOKYO VIA SHANGHAI & N.R.

Undated

Rec'd September 6, 1940

3:30 p.m.

Secretary of State,

Washington.

Attache Commerce.

"12, September 3. Major developments past week affecting financial economic conditions were:

Premier's statement twenty-ninth defining purpose and urgency of new political structure; departure economic mission to Netherlands East Indies headed by Minister Commerce Kobayashi; announcement more rigid price control for yen bloc trade; definite indications extension stricter government control over numerous industries and functions of trading organizations and individual business concerns. Last named injected considerable uncertainty and apprehension business circles as reflected in unusual weakness Tokyo stock market where issue Tokyo exchange new dropped from yen one two six point thirty one twenty eighth to record low one zero nine point fifty one September third. Effective September second Ministry Commerce ordinance substantially tightened control trade within yen bloc by banning all individual transactions in import and export commodities

commodities and placing such transactions under control of Federation East Asiatic Exporters Importers Association, also prices will be fixed by same Federation and extra profit realized will be funded on a pool account system. Several projects reported for more stringent control raw silk industry including one plan subject silk eggs and cocoons to strict control but only registration system for raw silk. Another was decision reached by group large reelers to restrict market supplies raw silk. Another plan announced by Silk Bureau Ministry Agriculture envisages marked increase production cocoons for manufacture wool substitutes. Finally announcement Government proclamation enforcing beginning October first compulsory mixing silk on basis maximum thirty percent by weight and minimum twenty percent with staple fiber, rayon, wool and cotton both in spinning and weaving which measure estimated increase annual consumption silk by about one hundred thousand bales. Trade reports increase Government silk purchasing operations have caused heavy accumulation stock and has unfavorably influenced price, as remedial measure Government reportedly decided have Industrial Bank Japan make special advance yen thirty million to Imperial Silk Corporation for purchase raising limit raw silk purchases operations. Minister Agriculture reportedly plans increasing government rice holdings to about one two five million bushels order meet increased consumption demands. Minister announced
present

present harvest conditions indicate normal crop. Government new system for control collection distribution rice goes into effect September 10. Domei reports rayon yarn exports July represent drop fifty per cent compjune result market decline sales to India. Rayon Association and Rayon Exporters Association have reportedly decided reduce monthly production export rayon yarn and miscellaneous rayon goods to twenty thousand cases in September and October, also fixed minimum quotations on export rayon yarn at yen seventy per case. Some improvement anticipated in cotton goods export for September October based on prolongation European war and seasonal increase in demand abroad, experts anticipate September shipments will approximate one seven zero million square yards. Foreign trade August empire preliminary read thousand yen exports three one seven six nine three declines nine percent compjuly six point seven percent consamer, imports two eight six two nine four, gains seven and thirty seven one half percent respectively. Unofficial reports indicate rise by two point three percent in living costs during July compjune, zero point eight percent increase in wages and one percent drop in wholesale prices. However, official figures still unavailable. Press reports indicate production ammonium sulphate during 1939-40 fertilizer year totalled nine nine thousand tons, decline fifty thousand tons from scheduled output and fifty six thousand tons consamer. Decrease attributed to shortage electric power during last quarter 1939. Ministry Finance announced government's income during

- 4 -

during 1939-40 fiscal year yen four point ninety seven billion expenditures yen four point forty nine billion. Two major increases occurred in provisional profits tax and income tax. Finance Ministry also announced national savings first three months current fiscal year reached yen three point three billion interpreted indicative yen twelve billion goal may be attained. Tokyo metropolitan police announced gasoline rations September follows: hire cars forty five gallons, taxis sixty one, large trucks one zero one, medium sized eighty seven, small trucks fifty four, private cars seven. Press reports Ministry Commerce decided expend yen three point nine million in subsidies to aluminum manufacturers at rate yen one five zero per metric ton over fixed quota order encourage production. Foreign exchange rates unchanged. Bank note circulation August thirty first yen three five one eight million, increase two two one million over previous week. Money rates somewhat stronger with indication that market will remain tight throughout September due anticipated demand for about yen five two six million between September first and twenty fourth. Industrial share prices August thirty first average eighty five point eight seven index eighty eighty point zero seven, week average eighty five point sixty two index eighty seven point eighty two. (END) Signed Williams."

INFORM COMMERCE

GRJW

CSE

mg

C O P Y

23 WALL STREET
NEW YORK

September 6, 1940.

Dear Merle:

I have just been over to the Federal Reserve talking to Mr. Knoke regarding our franc license problem.

As you know, Morgan & Cie. did not file an application to remit francs to Paris for our own needs as our situation in francs is perfectly liquid at present. However, one of our substantial franc assets on which we are counting is some franc credits we have granted to French subsidiaries of American corporations and formally guaranteed by the latter. The total of these credits at the end of July amounted to over Fcs. 115,000,000. Unfortunately, owing to the interruption in the mails from Paris, we have been unable to obtain more recent figures, but my impression is that these loans have been decreased through collections in France during the past month.

Most of these loans are already past due and therefore we have the legal right to call them and to request the American guarantors - all industrial companies - to remit us the francs in repayment. It would then be up to the American companies to file application for permission to meet their obligations to us. We are reluctant to take such a drastic step as we hope and expect that in the coming months the French subsidiaries will be able to pay off the major part of these credits from their own resources, and we naturally would not like to force the American companies to

buy more francs than they may eventually need.

I am outlining this situation to you to inquire whether the licensing authorities could give Morgan & Cie. some assurance that, if it should develop that it was necessary for us to call on one of more of the American guarantor companies to remit us francs, (owing to the fact that it had become clear that their French subsidiaries had exhausted all their own resources) a license would be granted to the American company to remit the francs to us.

As you know, Henry Alexander and I are planning to come to Washington next Tuesday to discuss some other of our problems with you and Professor Chamberlain and I hope that in the meantime you may have the opportunity of submitting the above considerations to your colleagues. I trust that they will recognize that the attitude we have adopted in connection with these guaranteed credits is based on our desire to protect, as far as possible, the American industrial companies who are the guarantors.

Sincerely yours,

(s) Bernard S. Carter

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

C O P Y



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA 840.51 Frozen
Credits/534

September 6, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of despatch no. 3330 dated July 27, 1940 from the American Consulate General, Shanghai, China, regarding a request for the release of certain French funds held in the United States.

Enclosure:

From Shanghai,
July 27, 1940.

-2-

TO THE
TECHNICAL
OFFICE OF
THE
RECEIVED
JAN 20 1941
JAN 20 1941
JAN 20 1941

A representative of the National City Bank of New York in Shanghai has informed this office that his bank has transmitted to its head office in New York the requests of several French firms and individuals for the release of their "frozen" accounts but that to date no French funds have been released.

This Consulate General is uninformed in regard to the procedure for presenting to the Treasury Department applications for licenses to withdraw "frozen" assets in the United States. It is therefore respectfully requested that it be informed whether the foregoing information is adequate for a consideration of the present case or whether some other form of application should be submitted by Mr. Theuriere.

Respectfully yours,

RICHARD P. BUTRICK
American Consul

JI

GRAY

(Paris)
Vichy

Dated September 6, 1940

Rec'd 11:50 a.m., 7th

Secretary of State

Washington

512, September 6, 9 p.m.

FOR THE TREASURY FROM MATTHEWS:

Please communicate the following to H. C. Shepard, National City Bank, from Pearce. "Banque Nationale pour le Commerce et l'Industrie have approached us with offer to acquire business of National City Bank (France) and personnel with American on their board by excluding building and bank premises. Payment to be made part cash balance in stock. After numerous conversations with German authorities French and American officials and friends have arrived at firm conviction that future American bank activity here will be greatly restricted if not completely arrested for indefinite period provided German economic system prevails Europe. Believe we must decide immediately upon one of two following courses; (first) disposal or liquidation

JI-2-#512, September 6, 9 p.m. from (Paris) Vichy

liquidation of business or (second) immediate drastic retrenchment of present organization and expenses and retain small staff or agent solely for purpose representation to take advantage of future possibilities should they arise. Believe building must be considered separately and consequently we are continuing conversations and investigations previously indicated. As party anxious initiate early conversations recommend your immediate cable reaction in principle through Washington".

MATTHEWS

CSB

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE
DIRECTOR OF THE
BUREAU OF INVESTIGATION
SEP 8 1942

RECEIVED
BUREAU OF INVESTIGATION
SEP 8 1942

RDS

GRAY

BERLIN

Dated September 6, 1940

Rec'd 7:05 p.m.

Secretary of State,
Washington.

3916, September 6, 1 p.m.

My 3668, August 21, noon.

FOR TREASURY FROM HEATH AND FOR DEPARTMENT'S
INFORMATION.

The steady expansion of Reichsbank credit and note circulation which was interrupted by a slight recession in July (see Embassy's No. 2990, August 5, 5 p.m.) was resumed during August. The total of investments (holdings of securities, commercial and Treasury bills and loans on collateral) stood at a new high of 13396 million marks as compared with 13163 million marks on July 31 and 13233 million marks on June 29. The holdings of miscellaneous assets which include direct cash advances to the Reich stood at 1851 million marks as compared with 1814 million marks on July 31 and 1863 million marks on June 29. As usual the expansion in investments was mainly caused by an increase in the holdings of commercial and Treasury bills which at the end of August stood at 12891 million marks as compared with 12613 million



In reply refer to
EA

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

DEPARTMENT OF STATE
WASHINGTON

294

September 6, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of a translation of a note, no. 56, dated September 4, 1940, from the Ecuadoran Embassy at Washington, regarding the application of Señora Leticia de Cordovez for the release of certain funds held in the United States.

Enclosure:

From Ecuadoran Embassy,
September 4, 1940.

78

RECEIVED
TREASURY DEPARTMENT

TRANSLATION

Embassy of Ecuador
Washington

The Ambassador of Ecuador has the honor to present his compliments to his Excellency the Secretary of State and, in confirmation of the request made to Mr. Robert F. Woodward of the Division of the American Republics, states that he would appreciate if the Department would take up with the Treasury Department the possibility of facilitating the consideration of the application which the National City Bank of New York presented to the Treasury Department on August 8, 1940, under application no. 7263, through the Federal Reserve Bank, with a view to the remittance by the National City Bank of the amount of \$2,500 to Señora Leticia de Cordovez, at present in Toulouse, France.

September 4, 1940

No. 56

RA:RFW:SJN 9/5/40



HEADQUARTERS

Treasury Department
Division of Monetary Research

Date Sept. 19, 1940.

To: Secretary Morgenthau

From:

Appended is the telegram which Miss Chauncey had in her files. I presume this is the one you refer to.

From: Spagent, Sha
To : The Secretar

Message from

The following

materials recieved

1000 planes, 200 t

1,200,000 rifles,

being at the front

month, 120 air adv

100 more planes by

MR. WHITE
Branch 2058 - Room 210

forty per cent of Russia's production going to Germany and
sixty per cent to China.

Chinese military forces: army, 2,400,000 equipped fighting
soldiers, 1,800,000 new recruits one third trained as replacements,
750,000 guerrillas, 1,200 fighting air force 8000 land air force.
Japanese forces: thirty three corps in China, seven corps in Man-
churia, 30,000 soldiers to the corps, three other Japanese required
for each sold ier. Chiang Kai-shek has appointed two field marshals,
one for north China and one for south China, with mobile headquarters.
Chungking is serving as a political, economic, and educational
capital, with offices partially dispersed outside the city.

SECRET

296

297

U.S. COAST GUARD

Roosevelt Library

SECRET



ADDRESS THE COMMANDANT, U.S. COAST GUARD
AND REFER TO NO.

297

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

6 September, 1940

Franklin D. Roosevelt Library

DECLASSIFIED

Date

~~SECRET~~

Sign

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

Message from Professor Buck.

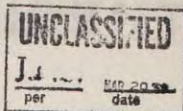
The following information was supplied by Chang Chung. War materials recieved from Russia since the beginning of the war; 1000 planes, 200 tanks, 1480 field guns of 37 to 155 millimeters, 1,200,000 rifles, 140 military advisers now in service, most of them being at the front, forty more military advisers arriving next month, 120 air advisers, 260 volunteer airmen changed each year, 100 more planes by the end of the year, delivery slow because forty per cent of Russia's production going to Germany and sixty per cent to China.

Chinese military forces: army, 2,400,000 equipped fighting soldiers, 1,800,000 new recruits one third trained as replacements, 750,000 guerrillas, 1,200 fighting air force 8000 land air force. Japanese forces: thirty three corps in China, seven corps in Manchuria, 30,000 soldiers to the corps, three other Japanese required for each sold ier. Chiang Kai-shek has appointed two field marshals, one for north China and one for south China, with mobile headquarters. Chungking is serving as a political, economic, and educational capital, with offices partially dispersed outside the city.

~~SECRET~~

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION



298

DATE September 6, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

~~CONFIDENTIAL~~

Today's transactions in registered sterling by the six reporting banks were as follows:

Sold to commercial concerns	£116,000
Purchased from commercial concerns	£ 15,000

Of the reported sales, £80,000 consisted of sterling sold by the Irving Trust Company to cover imports of tin.

The Federal Reserve Bank of New York sold £4,000 in registered sterling to one of the reporting banks. Its transactions with non-reporting banks consisted of a sale of £5,000 and a purchase of £2,000.

In the open market, sterling remained at 4.03-1/2 until the close, when a small trade of 4.04 was effected. Transactions of the reporting banks in open market sterling were as follows:

Sold to commercial concerns	£ 62,000
Purchased from commercial concerns	£ 24,000

The Swiss franc had a weak tone this morning, possibly due to the reported accusation by the German press that Switzerland was not conducting a strict policy of neutrality. From an opening rate of .2279, that currency receded to a noontime quotation of .2268. It then developed a firmer tendency, and the closing rate was .2274. Trading in Swiss francs was reported to have been very light.

The Cuban peso, which improved considerably during the past week, weakened today to 10-15/16% discount. Yesterday's quotation was 10-1/4%.

The other currencies closed as follows:

Canadian dollar	12-1/8% discount
Swedish krona	.2386
Lira	.0505
Reichsmark	.4000
Mexican peso	.1996 bid, .2016 offered

There were no gold transactions consumated by us today.



299
~~CONFIDENTIAL~~

A three-months loan of \$50,000 to the Central Reserve Bank of El Salvador was made by the Federal Reserve Bank of New York today. As collateral, the Federal set aside gold valued at \$53,430 from the Salvadorean Bank's earmarked account. It will be recalled that the Federal made a similar loan to El Salvador on August 31.

In our report of September 3, mention was made of a gold shipment of \$2,649,000 from Curacao, consigned to the Federal Reserve Bank by and for account of the Bank of Curacao. This gold arrived in New York yesterday and was earmarked for account of the Bank of Curacao, the Federal having opened a new gold account in the name of that bank.

The Federal Reserve Bank of New York reported that it had received cable advice from the Bank of England that a shipment of \$8,323,000 in gold would shortly arrive at the Federal Reserve Bank of San Francisco for account of His Britannic Majesty's Government, to be sold to the U.S. Mint there. Although the cable stated that weight lists covering this shipment would be received from the Bank of Canada, it is possible that the gold originally came from Australia, since shipments of so large an amount are not ordinarily sent from Canada to San Francisco.

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

\$5,812,000 from Portugal, representing two shipments by the Bank of Portugal, to be earmarked for its account.
2,095,000 from England, shipped by the Bank of England, to be earmarked for account of His Britannic Majesty's Government.
530,000 from England, shipped by the Bank of England, to be earmarked for account of the National Bank of the Kingdom of Yugoslavia.
522,000 from England, shipped by the Bank of England, to be earmarked for account of the Swiss National Bank.
\$8,959,000 Total

It was reported that the Bombay bullion markets were closed today, and no quotations were received from that center.

In London, the prices fixed for spot and forward silver were again unchanged at 23-7/16d and 23-1/4d respectively. The dollar equivalents were 42.56¢ and 42.22¢.

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

We made one purchase of silver amounting to 55,000 ounces under the Silver Purchase Act. This represented a sale from inventory by one of the refining companies.

Bmf

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 6, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

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

German

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
September 3	\$250,000	German Gold Discount Bank	Central Hanover Bank and Trust Co. for account of the Banco de la Nation Argentina, Buenos Aires.

Italian

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
September 3	\$120,000	Bank of Rome, Rome	Central Hanover Bank and Trust Co. for account of Bank of Italy, Geneva.
September 3	53,000	Credito Italiano, Rome	Hungarian Commercial Bank, Budapest

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 6, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. McKeon of the Federal Reserve Bank of New York gave us the following information regarding transactions in the account of the State Bank of the U.S.S.R. maintained with the Chase National Bank.

Principal changes in the account during the period August 29 to September 4, inclusive, were as follows:

<u>Date</u>	<u>Amount Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Paid To</u>
August 29	\$1,060,000	National City Bank, N.Y. by order of Jordbrukarbanken, Stockholm	\$1,700,000	Commercial Letter of Credit Account
	400,000	First National Bank, Chicago by order of Reichsbank		
	300,000	First of Boston Corp., by order of Reichsbank		
	300,000	Continental Illinois National Bank and Trust Company, Chicago, by order of Reichsbank		
	282,000	Skandinaviska Banka, Stockholm		
August 30	2,000,000	German Gold Dis- count Bank		
September 4	325,000	Irving Trust Company	1,150,000	Amtorg Trading Co.
	300,000	Finlands Bank	345,000	Commercial Letter of Credit Account
	90,000	Narodni Banka, Prague		

September 6, 1940
12:40 p.m.

Adolph
Berle:

Henry.

H.M.Jr:

How are you?

B:

Well, I'm sorry not to have been at the other end of the wire -- too many people.

H.M.Jr:

Well, I understand. Where are we on Sweden and the planes?

B:

Well, we're at it. The situation is that the licenses, of course, have been revoked and the Swedish Government is hanging onto the planes.

H.M.Jr:

Yeah.

B:

They say they're dickering for price but I imagine the real reason when you come down to it is that they're probably influenced a good deal by Berlin now -- scared to death of making any record and I accordingly have done two things which, I trust, meet with your approval.

H.M.Jr:

I'm sure.

B:

In the first place we're tackling it with the Swedish to see what the best deal we can make for immediate release is. I'm not too optimistic about that because if they're really being influenced from overseas why of course they'll just delay and delay and delay. Second, I went up to the Senate where the requisition bill is resting and talked to Senator Sheppard. They have not necessarily as a result of that reported that bill out today. Of course, if that gets through -- quick passage -- then we don't need to bother with indefinite negotiations we just take them.

H.M.Jr:

Good. Does that mean that Canada would still get them?

- 2 -

- B: Well, we'd take them but what we did next is a matter of our own good discretion -- presumably they would get to Canada.
- H.M.Jr: Good.
- B: Those are the two things. Now one other thing, I may want to take you up on an offer you made in our previous conversation. If the Swedes balk, we may ask you to ask the Secretary of War if he'll fish out some kind of a document and say we want those planes.
- H.M.Jr: Well, that can always be done.
- B: Of course, fishing them out of the Secretary of War might be almost as troublesome as fishing them out of the Swedes.
- H.M.Jr: No, no.
- B: Not quite as bad.
- H.M.Jr: No, he's not a Swede.
- B: Oh, I don't mean on account of the Secretary, I mean on account of the War Department red tape, but I daresay we could get through that somehow.
- H.M.Jr: Well, I wouldn't ask them to do it unless I knew that Canada was going to get it.
- B: That's right.
- H.M.Jr: No, we've got, as Mr. Stimson reminded me the other day, you know there is a Secretary of War now. (Laughs). I said, yes, thank God.
- B: That comes in handy. We're going to need him I think based on the news as it comes in today which indicates a general all out attack on England may be very well beginning.
- H.M.Jr: Oh, really.

- 3 -

B: Well, I mean that the heavy -- this heavy wave of planing would probably be the prelude to that kind of thing.

H.M.Jr: I see.

B: So I suppose the battle is on.

H.M.Jr: Well, it's been on for some time.

B: Yeah but just beginning to get to the high point now.

H.M.Jr: O. K.

B: All right. Good-bye.

H.M.Jr: Good-bye.



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BRITISH EMBASSY,
WASHINGTON, D.C.

Personal and Secret

September
August 6th 1940.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. S. R.

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

Telegram despatched from London
early morning September 6th.

1. Naval.

Seventh Canadian Troop Convoy has arrived safely at a British port.

On September 2nd a British submarine sank a large outward bound U-boat in the Bay of Biscay.

On September 3rd a Norwegian ship was scuttled by her German prize crew on sighting a British submarine. The same submarine rescued the Master, his wife and 23 of the crew of a British ship (5,200 tons), now presumed sunk last April. Sunderland flying boat picked up the rest of the Norwegian crew; 2 more Sunderlands are now proceeding to rescue 2 boat loads of the German prize crew.

Between September 3rd and September 5th four attacks on U-boats have been made without visible result, one in the Mediterranean and 3 in home waters.

On September 2nd for the first time German dive bombers were employed against His Majesty's ships in the Mediterranean, and in these waters between August 31st and September 2nd 6 enemy aircraft/

aircraft were shot down during naval operations; except for one store ship damaged enemy attacks were unsuccessful.

2. Royal Air Force.

Night operations September 3rd/4th. Incendiary attacks on forest areas in Hartz mountains and in Berlin area have been very successful. All aircraft report starting fires, and one caused 2 explosions. Reconnaissance of Black Forest showed fierce fire burning. Low clouds and intense darkness made identification and observation very difficult. Bursts were caused on Berlin Power Station, fires were started at transformer station and gas works, and a large flash resulted from an attack on an armament factory; all these in Berlin. Hits were observed on railway targets, and bursts and fires seen in the Magdeburg synthetic oil plant. A blast furnace, a factory and a heavy anti-aircraft battery were also hit, and satisfactory reports have been received of attacks on 16 aerodromes. Numerous fires were caused and hits obtained on Ostend harbour, including a direct hit on canal dock gates. Flushing harbour and barges in the Dutch canals were also attacked. Last night 105 bombers were sent out to the following objectives.

Power station at Berlin,
Oil plant at Magdeburg and Stettin,
oil cisterns at Cherbourg and Flushing,
Aerodromes/

Aerodromes in Northern France including Chartres, and

Railway goods yards and barges, and by 28 heavy bombers went to set alight to forests.

One heavy bomber reported lost off the Dutch coast and crew of one medium bomber were killed on return through a crash.

3. German Air Force.

Additional reports of enemy bombing on the night of September 3rd/4th state that large numbers of incendiary bombs were dropped in Kent and Essex, but very little damage resulted.

Yesterday enemy made 2 heavy attacks. The first at about 9 a.m. consisted of about 150 aircraft, flew in over south coast, was intercepted by our fighters and broken up into groups. Enemy casualties were heavy and one squadron destroyed 15 enemy aircraft without sustaining a casualty. 3 aerodromes were attacked but no serious damage was caused. Damage was done to property in Canterbury, but casualties were slight. In early afternoon, a second formation of about 200 came in via the Thames Estuary. This again was intercepted, and heavy losses caused to the enemy. Bombs were dropped in the Medway area; neither casualties nor damage was serious. The Vickers-Armstrong aeroplane works at Raybridge were hit by 5 or 6 high explosive bombs; considerable damage was caused, and production will be seriously affected. Casualties reported are 58 killed and

230 wounded. In these two raids 52 enemy aircraft were definitely destroyed.

Last night enemy activity, mainly by single aircraft, extended over a wide area, but was principally directed against the Thames Estuary, Bristol Channel and Liverpool areas. Large fires were started in Tilbury Docks, but were under control before daylight. Other fires elsewhere in docks were quickly extinguished. Other bombs dropped in London area, including Westminster, causing little damage and few casualties. A sustained attack in the Liverpool area caused extensive damage to property; casualties at present reported include 15 killed. Fires were started at an oil refinery but did not reach the oil cistern and are under control. During the night our fighters shot down 2 enemy bombers.

4. Summary of Air Casualties.

<u>Enemy:</u>	<u>Destroyed.</u>	<u>Probable.</u>	<u>Damaged.</u>
By our fighters during the day ..			
Bombers:	13	3	4
Fighters	39	16	18
By our fighters during the night..			
Bombers	2	0	1
Totals	54	19	23

British: 17 fighters (11 pilots safe)

5. Shipping Casualties.

(a) By E. Boats.

A south bound convoy was attacked by E-boats off east coast yesterday, and 3 ships

total/

BRITISH EMBASSY,
WASHINGTON, D.C.

September 6th, 1940
(total tonnage 12,250) were sunk.

(b) By U-Boat.

Early yesterday morning s.s. "Titan"
(9,000 tons) outward bound to Sydney and in
convoy, was sunk in north western approaches.
89 Europeans have been saved.

6. Middle East.

Somaliland. Yesterday 3 medium bombers
attacked a railway station and camp on Jibouti
railway.

Dear Mr. Secretary,

Very sincerely yours,

L. L. L.

RECEIVED
SEP 11 1940
U.S. DEPT. OF STATE
WASHINGTON, D.C.

311

BRITISH EMBASSY,
WASHINGTON, D.C.

September 6th, 1940

Secret and Personal

Dear Mr. Secretary,

I enclose herein for your
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London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. L. L.

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram despatched from London ^{station at Berlin}
late on the evening of September 4th. 312

Naval.

H.M.S. Fiji has arrived safely
in port for repairs.

2. Royal Air Force. over this country on

Our night bombers on September 2nd -
3rd in most cases located their targets but
observation was bad and results could not always
be observed. Several large fires were started
over a wide area in the Black Forest, especially
south of Baden Baden. Target area at Lorient,
thought to contain U-boats and E-boats, was located
and bombed, results unobserved. Fires were started
at oil targets in Germany, and an explosive
factory and Bosch factory were also bombed, but
only one machine observed bursts in the target
area. Single aircraft also attacked railway and
canal communications and gun emplacements opposite
Dover. One aircraft additional to yesterday's
report did not return. The power station and a
railway junction at Genoa were each attacked by
two aircraft, fires being caused in target area.
Two aircraft landed in the sea on return, but
crews were saved.

Last night 90 bombers were sent out.
Objectives were given as follows:-

Transformery