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C O P Y

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON

Trading and Exchange Division

February 1, 1941.

Mr. H. Merle Cochran,
Technical Assistant to the
Secretary of the Treasury,
Washington, D. C.

Dear Mr. Cochran:

I think you may well be interested in a further memorandum on the subject of securities transactions from Switzerland which has been submitted to me by Mr. Louchheim. I therefore enclose for your information copy of his memorandum of January 30, 1941.

Very truly yours,

(Signed) Ganson Purcell,

Ganson Purcell,
Director.

Enclosure.

dm

C O P Y

MEMORANDUM

January 30, 1941

To: Ganson Purcell, Director
Trading and Exchange Division

From: Walter C. Louchheim, Jr.
Assistant to the Director

Subject: Securities Transactions from Switzerland

According to preliminary reports received by the Commission, net sales from Switzerland have been in the following amounts:

January 27, 1941	\$203,000
January 28, 1941	297,000
January 29, 1941	124,000

On January 27, 1941, Dominick & Dominick sold for Alinentana, Ltd., a Zurich bank. Brown Brothers & Harriman sold for two Swiss banks and other sales were for the accounts of two investment trusts and an individual in Geneva.

On January 28, 1941, about ten firms participated in the selling. Dominick & Dominick sold for Banca Unione Di Credito in Lugano and most of the other sales were for accounts of banks in Switzerland.

On January 29, 1941, Dominick & Dominick again sold for several banks. Hayden, Stone & Co., sold for the account of A. Hofmann & Co., a private bank in Zurich and other sales were for various banks.

Practically all the selling is from cash accounts, the securities sold being on deposit in New York. One of the brokers participating in these sales advises that in addition to the sales of stocks which are reported to the Commission, a large volume of bonds is being sold for the accounts of Swiss banks.

Walter C. Louchheim, Jr.:mmc

dm

Miss Chalmers

February 1, 1941

CONFIDENTIAL

Dear Mr. Eakin:

Permit me to acknowledge, on behalf of Secretary Hargnum, the receipt of your letter of January 30, 1941, enclosing your compilation for the week ended January 22, 1941, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank and the means by which these expenditures were financed.

Faithfully yours,

H. Marie Graham
Technical Assistant to the Secretary

E. V. Eakin, Esquire,
Vice President,
Federal Reserve Bank of New York,
New York, New York.

:lsp-2/1/41

Copy for Secy's Files

Noted
H. N. Cochran

FEDERAL RESERVE BANK
OF NEW YORK

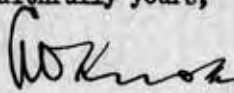
January 30, 1941.

CONFIDENTIAL

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

I am enclosing herewith our compilation for the week ended January 22, 1941, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,



L. W. Knoke,
Vice President.

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

Enclosure

RECEIVED
FEB 1 11 08

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(in Millions of Dollars)

Week Ended Jan. 22, 1941

Strictly
Confidential

PERIOD	BANK OF CANADA									COMMONWEALTH BANK OF AUSTRALIA								
	DEBITS				CREDITS					DEBITS				CREDITS				
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C for Own A/C	For French A/C	Other Credits	Net Inscr. (+) or Deor. (-) in Balance	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Inscr. (+) or Deor. (-) in Balance		
1939																		
Aug. 31 - Sept. 27	17.5	0.6	16.9	21.8	15.1	0.8	-	5.9	+ 4.3	-	-	-	-	-	-	-	-	-
Sept. 28 - Nov. 1	9.6	0.3	9.3	16.7	7.3	2.1	-	7.3	+ 7.1	-	-	-	-	-	-	-	-	-
Nov. 2 - 29	9.9	0.7	9.2	14.4	13.3	-	-	1.1	+ 4.5	-	-	-	1.9	1.9	-	+ 1.9		
Nov. 30 - Jan. 3	30.0	-	30.0	22.8	13.3	3.0	-	6.5	- 7.2	2.5	-	2.5	5.8	5.8	-	- 3.3		
1940																		
Jan. 4 - 31	23.5	-	23.5	25.7	21.1	-	-	4.6	+ 3.2	5.2	0.3	4.9	3.3	3.0	0.3	- 1.9		
Feb. 1 - 28	23.1	-	23.1	17.0	16.1	-	-	0.9	- 6.1	3.3	0.1	3.2	2.4	2.2	0.2	- 0.9		
Feb. 29 - Apr. 3	42.3	-	42.3	29.5	29.3	-	-	0.2	- 12.8	3.0	0.3	2.7	2.2	1.6	0.6	- 0.8		
Apr. 4 - May 1	38.2	-	38.2	42.9	24.8	15.0	-	3.1	+ 4.7	2.3	-	2.3	2.0	1.8	0.2	- 0.3		
May 2 - 29	37.9	15.0	37.9	50.2	50.0	-	-	0.2	+ 12.3	1.2	0.2	1.0	2.6	1.7	0.9	+ 1.4		
May 30 - July 3	44.1	-	44.1	72.3	72.2	-	-	0.3	+ 28.4	2.8	-	2.3	5.9	4.4	1.5	+ 3.6		
July 4 - 31	28.2	-	28.2	117.6	95.3	-	19.2	2.1	+ 89.4	4.6	-	4.6	5.0	4.2	0.8	+ 0.4		
Aug. 1 - 26	18.7	-	18.7	73.6	53.9	-	19.5	0.2	+ 54.9	6.8	3.0	3.8	5.0	3.4	1.6	- 1.6		
First year of war	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9		
Aug. 29 - Oct. 2	44.3	-	44.3	43.9	16.4	-	27.3	0.2	- 0.4	8.7	2.5	6.2	8.0	6.2	1.8	- 0.2		
Oct. 3 - 30	26.7	-	26.7	28.6	14.0	-	14.3	0.3	+ 1.9	10.1	7.5	2.6	7.9	6.5	1.4	- 2.2		
Oct. 31 - Nov. 27	35.2	-	35.2	69.6	49.2	-	16.7	3.7	+ 34.4	3.1	0.6	2.5	3.6	2.1	1.5	+ 0.5		
Nov. 28 - Dec. 31	48.0	-	48.0	60.6	42.5	-	13.7	4.4	+ 12.6	4.8	-	4.8	6.8	4.8	2.0	+ 2.0		
WEEK ENDED																		
Dec. 31	11.7	-	11.7	2.0	1.6	-	0.2	0.2	- 11.7	1.4	-	1.4	0.1	-	0.1	- 1.3		
Jan. 8	1.8	-	1.8	7.0	5.4	-	-	1.6	+ 5.2	0.9	-	0.9	9.1	-	0.1	- 0.8		
15	9.0	-	9.0	1.8	1.8	-	-	-	+ 7.2	2.8	-	2.8	0.4	-	0.4	- 2.4		
22	9.0	-	9.0	9.7	4.5	-	4.8	0.4	+ 0.7	0.2	-	0.2	5.4	5.1	0.3	+ 5.2		

Weekly Average of Total Debits Since Outbreak of War
Through Jan. 22 \$ 6.8 million

ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week Ended Jan. 22, 1941

Strictly
Confidential

PERIOD	BANK OF CANADA									COMMONWEALTH BANK OF AUSTRALIA						
	DEBITS			CREDITS						DEBITS			CREDITS			
	Total Debits	Transfers to		Total Credits	Proceeds of Gold Sales	Transfers from Official		Other Credits	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Transfers to		Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance
		Official British A/C	Other Debits			For Own A/C	For French A/C				Official British A/C	Other Debits				
1939																
Aug. 31 - Sept. 27	17.5	0.6	15.9	21.8	15.1	0.8	-	5.9	+ 4.3	-	-	-	-	-	-	-
Sept. 28 - Nov. 1	9.6	0.3	9.3	16.7	7.3	2.1	-	7.3	+ 7.1	-	-	-	-	-	-	-
Nov. 2 - 29	9.9	0.7	9.2	14.4	13.3	-	-	1.1	+ 4.5	-	-	-	1.9	1.9	-	+ 1.9
Nov. 30 - Jan. 3	30.0	-	30.0	22.8	15.3	3.0	-	5.5	- 7.2	2.5	-	2.5	5.8	5.8	-	+ 3.3
1940																
Jan. 4 - 31	23.5	-	23.5	25.7	21.1	-	-	4.6	+ 2.2	5.2	0.3	4.9	3.3	3.0	0.3	- 1.9
Feb. 1 - 28	23.1	-	23.1	17.0	16.1	-	-	0.9	- 6.1	3.3	0.1	3.2	2.4	2.2	0.2	- 0.9
Feb. 29 - Apr. 3	42.3	-	42.3	29.5	29.3	-	-	0.2	- 12.8	3.0	0.3	2.7	2.2	1.6	0.6	- 0.6
Apr. 4 - May 1	38.2	-	38.2	42.9	24.8	15.0	-	3.1	+ 4.7	2.3	-	2.3	2.0	1.5	0.5	- 0.3
May 2 - 29	37.9	15.0	37.9	50.2	50.0	-	-	0.2	+ 12.3	1.2	0.3	1.0	2.6	1.7	0.9	+ 1.4
May 30 - July 3	44.1	-	44.1	72.5	72.2	-	-	0.3	+ 28.4	2.3	-	2.3	5.9	4.4	1.5	+ 3.6
July 4 - 31	28.2	-	28.2	117.6	95.3	-	19.2	2.1	+ 89.4	4.6	-	4.6	5.0	4.2	0.8	+ 0.4
Aug. 1 - 28	18.7	-	18.7	73.8	53.9	-	19.5	0.2	+ 54.9	6.8	3.0	3.8	5.0	3.4	1.6	- 1.6
First year of war	523.0	16.6	306.4	504.7	412.7	20.9	28.7	32.4	+121.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
Aug. 29 - Oct. 2	44.3	-	44.3	43.9	15.4	-	27.3	0.2	- 0.4	8.7	2.5	6.2	8.0	6.7	1.3	- 0.7
Oct. 3 - 30	26.7	-	26.7	28.6	14.0	-	14.3	0.3	+ 1.9	10.1	7.5	2.6	7.9	6.5	1.4	- 2.2
Oct. 31 - Nov. 27	35.2	-	35.2	59.6	49.2	-	16.7	3.7	+ 34.4	3.1	0.6	2.5	3.6	2.1	1.5	+ 0.5
Nov. 28 - Dec. 31	48.0	-	48.0	60.6	42.5	-	13.7	4.4	+ 12.6	4.8	-	4.8	6.8	4.8	2.0	+ 2.0
WEEK ENDED																
Dec. 31	11.7	-	11.7	2.0	1.6	-	0.2	0.2	- 11.7	1.4	-	1.4	0.1	-	0.1	- 1.3
Jan. 8	1.8	-	1.8	7.0	5.4	-	-	1.6	+ 5.2	0.9	-	0.9	0.1	-	0.1	- 0.8
15	9.0	-	9.0	1.8	1.8	-	-	-	- 7.2	2.8	-	2.8	0.4	-	0.4	- 2.4
22	9.0	-	9.0	9.7	4.5	-	4.8	0.4	+ 0.7	0.2	-	0.2	5.4	5.1	0.3	+ 5.2

Weekly Average of Total Debits Since Outbreak of War
Through Jan. 22 \$ 6.8 million

(in millions of dollars)

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE							
	DEBITS				CREDITS				DEBITS				CREDITS			
	Total Debits	Gov't Expenditures(a)	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities (Est.) (b)	Other Credits (incl. adj'to)	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Gov't Expenditures(c)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance	
1939																
Aug. 31 - Sept. 27	94.3	3.6	90.7	207.8	185.4	33.6	-11.2(d)	+113.5	19.4	6.0	13.4	11.3	-	11.3	+ 8.1	
Sept. 28 - Nov. 1	106.7	5.6	100.9	142.0	3.3	52.6	86.2(e)	+ 35.3	88.6	51.8	105.4	75.2	35.0	41.2	+ 12.4	
Nov. 2 - 29	191.7	8.9	182.8	105.8	37.8	35.0	-	- 85.2	78.6	-	-	82.9	55.1	27.8	+ 4.3	
Nov. 30 - Jan. 3	97.7	8.7	89.0	75.2	50.6	14.2	10.4	- 22.5	66.8	28.1	58.7	109.2	93.9	15.3	+ 22.4	
1940																
Jan. 4 - 31	54.8	16.8	38.0	43.4	30.6	17.8	5.0(f)	- 11.4	51.5	31.5	30.0	55.9	50.1	5.8	+ 5.6	
Feb. 1 - 28	124.2	15.4	108.8	108.3	56.7	17.9	33.7	- 15.9	72.7	35.8	39.9	71.5	54.8	16.7	+ 1.2	
Feb. 29 - Apr. 3	115.5	14.5	101.0	94.0	60.2	21.3	11.6(g)	- 21.5	99.6	35.9	53.7	105.0	75.4	29.6	+ 5.4	
Apr. 4 - May 1	118.4	26.1	87.3	86.4	46.8	13.4	26.2(h)	- 27.0	84.6	29.4	55.4	78.7	60.7	18.0	+ 6.1	
May 2 - 29	100.9	23.6	77.3	126.2	93.2	7.1	25.9	+ 25.3	101.4	57.0	44.4	145.4	126.2	19.2	+ 44.0	
May 30 - July 3	283.3	145.3	137.9	319.3	301.3	5.1	12.9	+ 36.1	156.7(i)	127.3(j)	29.4	345.1(k)	335.6	9.5(l)	+128.4	
July 5 - 31	249.7	156.7	93.0	225.0	212.2	2.0	10.3	- 24.7	7.3	6.3	1.0	3.2	3.0	0.2	+ 4.1	
Aug. 1 - 28	261.1	180.2	80.9	294.8	257.4	1.0	26.4(m)	+ 33.7	8.8	0.5	8.4	10.9	10.4	0.5	+ 2.0	
First year of war	1793.2	505.6	1189.6	1628.2	1356.1	211.2	310.9	+ 35.0	866.3	416.6	449.7	1065.3	900.2	195.1	+229.0	
Aug. 29 - Oct. 2	316.8	224.3	72.5	308.9	271.5	6.0	31.4(n)	- 7.9	8.6	4.3	-	1.3	-	1.3	+ 7.3	
Oct. 3 - 30	196.7	167.8	28.9	198.5	160.5	6.0	32.0(o)	+ 1.8	0.6	0.3	0.2	0.5	-	0.5	-	
Oct. 31 - Nov. 27	241.0	201.1	39.9	259.5	210.0	18.0	31.5(p)	+ 18.5	0.8	0.1	0.7	0.7	-	0.7	+ 0.1	
Nov. 28 - Dec. 31	234.6	206.8	27.8	198.0	111.4	26.0	60.6(q)	- 36.6	2.1	-	2.1	0.6	-	0.6	+ 1.5	
WEEK ENDED																
Dec. 31	50.1	46.5	3.6	74.5	48.3	8.0	18.2	+ 24.4	-	-	-	-	-	-	-	
Jan. 8	60.9	43.9	17.0	47.9	25.8	14.0	8.1	- 13.0	-	-	-	0.2	-	0.2	+ 0.2	
15	56.9	49.9	7.0	163.8	143.6	14.0	6.2	+106.9	0.8	-	0.8	0.2	-	0.2	+ 0.6	
22	37.8	31.9	5.9	28.6	5.8	12.0	10.8(r)	- 9.2	0.5	-	0.5	-	-	-	- 0.5	

Average Weekly Expenditures Since Outbreak of War
France (through June 19) \$19.6 million
England (through June 19) 27.6 million
England (since June 19) 57.4 million

Transfers from British Purchasing Commission to
Bank of Canada for French Account
Week ended Jan. 22 \$4.8 million
Cumulation from July 5 \$115.6 million

(See footnotes on reverse side)

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.
- (b) Through June 19, these figures represent total sales of American securities in Second District reported for account of the United Kingdom. (Proceeds of these sales, however, may not have been credited to the Bank of England's account in all cases.) Beginning with the week ended June 26, the figures represent transfers from the Bank of Montreal, New York Agency, which is custodian for requisitioned American securities held in this country. The transfers apparently reflect proceeds of official security sales, including those handled through private deals. From June 17 to July 19, transactions in securities payable in specified foreign currencies, including dollars, by United Kingdom residents were prohibited.
- (c) Includes payments for account of French Air Commission and French Purchasing Commission.
- (d) Includes adjustment for (b) above.
- (e) About \$85 million transferred from accounts of British authorized banks with New York banks.
- (f) About \$11 million transferred from accounts of British authorized banks with New York banks.
- (g) About \$8 million transferred from accounts of British authorized banks with New York banks.
- (h) About \$10 million transferred from accounts of British authorized banks with New York banks.
- (i) Adjusted to eliminate the effect of \$20 million paid out on June 26 and returned the following day.
- (j) About \$2 million transferred from accounts of British authorized banks with New York banks.
- (k) About \$2 million transferred from accounts of British authorized banks with New York banks.
- (l) About \$4 million transferred from accounts of British authorized banks with New York banks.
- (m) About \$6 million transferred from accounts of British authorized banks with New York banks.
- (n) About \$32 million transferred from accounts of British authorized banks with New York banks.
- (o) About \$2 million transferred from accounts of British authorized banks with New York banks.
About \$0.8 million transferred from account of Uruguay with a New York bank.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

94 FEB 1 AM 9 09

Regraded Unclassified

(STRICTLY CONFIDENTIAL)

PARAPHRASE

A strictly confidential telegram (no. 204) dated February 1 from the Embassy at Moscow reads substantially as follows:

On January 31 I had a conversation with the Chinese Ambassador in which he declared that there had been an increase during the past two months in the shipment of military equipment to Chungking from Russia. Among the supplies delivered were 250 units of aircraft, an appreciable number of light field artillery pieces, gasoline, ammunition and small arms. Loxovski, he said to me, had some days ago voiced a mild complaint to the Chinese Central Government's action against the New Fourth Army. In reply, the Chinese Ambassador had declared that the unity of the Chinese Army had been endangered by the behavior of the New Fourth Army. Had the New Fourth Army been allowed to follow its policy it might have critically affected the resistance to Japanese aggression being maintained by the Chinese. Loxovski, the Ambassador declared, seemed to accept this explanation. The delivery of Russian military supplies has, since this conversation with Loxovski, continued, the Ambassador stated, at the same volume which existed before the augmentation of the two months preceding this.

- 2 -

During the period between March and June when the thaw will set in and roads in central Asia will be impassable, Chungking will receive from the U.S.S.R. no further military supplies, the Ambassador concluded, and therefore Chinese officials at Chungking are negotiating with a Soviet delegate for military supplies to be delivered after the thaw.

P A R A P H R A S E

CONFIDENTIAL

A telegram (no. 10) dated February 1, 1941, from the American Consul at Hanoi reads substantially as follows:

The Texas Oil Company and the Standard-Vacuum Oil Company have been refused the right of reexporting their products through the port of Haiphong. This is the second refusal which these companies have received since the establishment of Japanese control over reexportation through that port. The present instance involves the refusal of the right to export by a vessel which is now on her way to Haiphong, under charter for that purpose by these companies. As regards the Texas Oil Company the authorities had made an oral promise to issue the permit, and the permit authorizing the reexportation had already been issued to the Standard-Vacuum Oil Company.

The Standard-Vacuum Oil Company was informed on January 30 that the reexportation permit was being withdrawn (although it had been issued December 13). The French liaison officer who informed the Standard-Vacuum Oil Company said the withdrawal was being made at Japanese insistence that until a settlement had been made with regard to the entire subject of transit cargoes, there should be no reexportations. However, the same officer said that the Texas Oil Company's promised permit to reexport would not be issued because that company had transhipped

CONFIDENTIAL

-2-

transshipped at Hong Kong for Rangoon an earlier re-exportation.

The disregard by the Japanese of third party rights and their complete control in Tongking is again illustrated by the above. The impression has been received from persons who are usually well informed, that Japan will soon proceed to force a settlement of the question regarding transit cargo which will make available to them the cargo which had previously been consigned to the government at Chungking. It also appears that the Japanese settlement of the issue will make available to them whatever other portion they may covet of the general transit cargo.

RADIOGRAM FROM SHANGHAI

February 1, 1941

Tsu Yee-pei (general manager Bank of China, Hongkong) states head offices Bank of China and Bank of Communications completely surprised a Reuters report of January 29 to effect that their Shanghai offices are accepting deposits of new Wang Ching-wei currency from Nanking's Central Reserve Bank (puppet). Reuters now learns from high authorities of two banks that no instructions have ever been issued to their Shanghai branches to accept notes and that investigations are being made in connection with this report. Reuters have also been informed strict orders have further been issued by two head offices Chungking to their Shanghai branches that under no circumstances are they allowed to accept puppet notes for deposits in any form.

Note. - See radio of Feb. 3 in apparent contradiction.

RECEIVED
FEB 3 1941
U.S. DEPT. OF TREASURY
WASHINGTON

CONFIDENTIAL

PARAPHRASE

A telegram (no. 33) of February 1, 1941, from the Officer in charge of the American Embassy at Nanking reads substantially as follows:

When offered in large quantities for exchange the new notes are discounted secretly by exchange shops as much as 10 percent in terms of fapi, according to reliable reports.

TO THE SECRETARY
TECHNICAL DEPARTMENT
YMA 12 FEB 1941

12 FEB 1941

RECEIVED
TECHNICAL DEPARTMENT
YMA 12 FEB 1941

REB

GRAY

Berlin

Dated February 1, 1941

Rec'd 8 p. m.

Secretary of State,
Washington.

366, February 1, 1 p. m.

FOR TREASURY FROM HEATH.

A presumable first step in a large scale conversion of the Reich's funded debt to a lower interest rate is constituted by a calling in of the 1927 government bond issue, the only German 5% internal bond issue remaining on the market. September 30 last 295,000,000 marks of this issue were still outstanding. It is to be noted that, strictly speaking, this is not a conversion operation since the bonds will simply be paid off with no option of exchange offered to the holders. There is no doubt, however, that it is anticipated that the funds thus released will largely be reinvested in German Government securities at a 3-1/2% rate. It is not certain if and when conversion of the 4-1/2% bonds will be attempted. Bonds of 4-1/2% interest which was the invariable rate for long term borrowing from 1935 to the beginning of 1940 amounted to 24,000,000,000 marks on September 30 or 64% of the disclosed funded debt of the Reich on that date.

MORRIS

DDM

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 1, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£35,000
Purchased from commercial concerns	£ 3,000

Open market sterling remained at 4.03-1/2. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 3,000
Purchased from commercial concerns	£ 1,000

The Cuban peso, which has had a firm tone of late, improved to 7-1/16% discount today. A week ago, it was quoted at 7-13/16%.

Closing quotations for the other currencies were:

Canadian dollar	17-1/4% discount
Swiss franc (commercial)	.2324
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Portuguese escudo	.0402
Argentine peso (free)	.2375
Brazilian milreis (free)	.0505
Mexican peso	.2066
Chinese yuan	.05-1/2

There were no purchases or sales of gold consummated by us today.

The Federal Reserve Bank of New York reported that the Central Bank of El Salvador repaid the balance of the three-month loans previously made to it by the Federal, which amounted to \$360,000. Upon repayment, the Federal returned to the Salvadorean bank's own earmarked account all of the gold which was held as collateral against these loans. The value of this gold was \$407,485.

The Treasury issued licenses under both the Gold Reserve Act and Executive Order No. 8389 as amended, permitting the Federal Reserve Bank of New York to effect the following transfers of gold in its vaults:

- 2 -

\$1,120,000 from the account of the National Bank of Denmark to B.I.S. account No. 2, then from B.I.S. account No. 2 to the account of the National Bank of the Kingdom of Yugoslavia.

Except for the amount involved, the above operation is identical to the one executed on January 17. The transfers represent a sale of gold from the Danish bank to the Yugoslavian bank through the medium of the B.I.S., whose New York gold holdings are not changed thereby. The B.I.S. will pay the National Bank of Denmark in dollars withdrawn from its dollar account at the Federal, and we understand that the Danish bank is using these funds for the purchase of Kingdom of Denmark dollar bonds. The B.I.S. will receive payment from the Yugoslavian bank by debit to a dollar account maintained by the latter on the books of the B.I.S.

No new gold engagements were reported.

The Bombay gold price was 3¢ higher at the equivalent of \$34.04. Silver was priced at the equivalent of 44.90¢, up 1/16¢.

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B. M. F.

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G-2/2657-220
No. 306

M.I.D., W.D.
February 1, 1941
12:00 M.

SITUATION REPORTI. Western Theater of War.1. Air Force Operations.

A British communique states that during the day of January 31 a large number of German planes, operating singly, but in large numbers, dropped bombs in the London and southern England areas. There were few casualties. Two German bombers were brought down.

II. Greek Theater of War.

Air: No activity reported.

Ground: The Greeks report the capture of positions of great importance.

III. African and Mediterranean Theaters of War.

Air: R.A.F. planes attacked the airdrome at Barce several times during the day, securing direct hits on the hangars. A Cr-42 was shot down. In East Africa a bridge on the Mega-Noghelli road was straddled by bombs. In Kenya, R.A.F. planes attacked Italian artillery and the post at Moyale.

Ground:

Libya. The Italian High Command admits the loss of Derna and states it was ordered evacuated to prevent encirclement. Italian troops are retreating toward Bengazi and offering some resistance.

East Africa. The British report operations are proceeding satisfactorily.

Note: 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.

RESTRICTED

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Paraphrase of Code Radiogram
Received at the War Department
at 8:57 A.M., February 1, 1941

London, filed February 1, 1941.

1. On Friday, January 11, and during the preceding night planes of the British Coastal Command engaged in the usual patrols. During the same period adverse weather caused the cancellation or abandonment of all flights of the Bomber Command. A small number of bombers was dispatched on the mission of bombing Dutch gasoline and oil supply points but the flight had to be abandoned.

2. During the night of January 11-February 1 Peterborough, Grantham, Lincoln, Norfolk, and Suffolk were attacked by nine German raiders. During daylight hours of January 11, 60 planes of the German Air Force were used in almost continuous widespread raids against Britain. Merchant shipping in the Thames Estuary was attacked a number of times. Practically all of the counties in southeastern England, including Essex, East Sussex, Hertford, the Home Counties, Kent, Suffolk and Norfolk were attacked. German reconnaissance was carried out in the Southampton-Portsmouth area and raids were made on the Peterborough and Newark regions. London was attacked in six separate raids. British fighter planes were in the air but were unable to intercept the attackers. However, antiaircraft fire was responsible for the destruction of two German planes and the damaging of one other.

3. British planes based in the Sudan bombed Assab in southern Britain. They were attacked by four Italian planes near that place

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and were able to shoot down three of them. British aircraft cooperated with ground forces in the Libyan theater and bombed the airfield at Bares, Libya, where one Axis plane was destroyed. A bridge was destroyed by British planes from Kenya in the vicinity of Mega (?) and the town of Moyale on the Kenya-Ethiopian frontier was bombed.

4. British troops in the vicinity of Dill in eastern Kenya were bombed by Axis planes. A town 40 miles northwest of Dicks Head (?), Kenya, was also bombed.

5. Press reports of the testimony favoring the passage of the Lend-Lease Bill by the Congress of the United States augment the increased emphasis being placed on the possibility of an attempted invasion by the British press and by statements made in public by responsible British officials.

6. During the recent bad weather the German Air Force has adopted for day bombing the tactics of sending a steady stream of single planes into widely scattered areas. When they reach the vicinity of their objectives they drop to comparatively low altitudes and bomb and run. The misty haze and the low-hanging clouds which have characterized weather conditions over Britain for the past week are ideal for this kind of operation. If such conditions continue it is probable that larger numbers of German planes will

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be used in day bombings of this type. Antiaircraft fire has not proved to be effective against planes using these tactics and British fighter planes are also unable to cope with them.

SEARLOW

Distribution:

Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps - 2
C-3

CONFIDENTIAL

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CONFIDENTIAL

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Paraphrase of Code Radiogram
Received at the War Department
at 8:16, February 2, 1941

London, filed February 2, 1941.

1. On Saturday, February 1, planes of the British Coastal Command engaged in the usual patrols and a small number of planes of the Bomber Command attacked a German cargo boat off the coast of Holland. These bombers had originally been dispatched to bomb targets in Holland but were forced to turn back because of their inability to locate these targets. During the preceding night adverse weather conditions caused the cancellation of all flights of British bombers. The weather cleared during the night of February 1-2 and the next morning it was dry and bright in London.

2. On February 1 German planes were over the English Channel and along the Cornish coast on reconnaissance missions and six German raiders attacked Norfolk and Suffolk.

3. Italian forces in the Dalmatian (?) area of Albania were severely attacked by British bombers from Greece. Italian positions in the vicinity of Agordat in northern Eritrea were dive bombed by Sudan-based British aircraft. A motor transport concentration near Gubba and another near Bares, both in Libya, were machine gunned and bombed by the British. One Italian plane was destroyed at Benina and the airfield at Bares was also bombed. Water-front buildings, Italian compliances and naval vessels in the harbor of Tripoli in north eastern

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Lilya were hit by bombs dropped by Malta-based British planes. No Italian fighter planes attempted to intercept the British attackers and there were no British aircraft losses in spite of the fact that the attack was carried out in the face of extremely heavy anti-aircraft fire.

4. During the morning of February 1, 12 Italian fighter planes escorted one Italian bomber in an attempted attack on Malta. The attackers turned back after British interceptors had shot down two of the Italian planes. No damage was inflicted on the harbor at Malta during the preceding night when two German bombers attacked it. Off the Egyptian coast near Sidi Barani a British vessel transporting Italian prisoners was attacked and hit by two German bombers. More than 50 of the prisoners were drowned when they became panicky.

5. About 500 German airplanes are at present in Italy. Up to now German land forces in Italy have not been identified positively.

6. The War Office has been informed by a source believed to be authoritative that the supplies of oil in Italy will be exhausted by May 1941.

7. Colonel Greenwell has been informed by the Director of British Military Intelligence that there is no conclusive evidence that the invasion of England will be attempted in the immediate future. Invasion alert No. 3 is now effective.

SCARLETON

Distribution:

Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps
G-3

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Paraphrase of Code Radiogram
Received at the War Department
at 10:44, February 3, 1941

London, filed February 3, 1941.

1. On Sunday, February 3, two German-occupied airfields in France were bombed by planes of the British Coastal Command. On the same day 100 British fighter planes engaged in two separate attacks on Boulogne, Ostend and Calais and served as escorts for British bombers. A German-occupied port on the English Channel was attacked by planes of the Bomber Command with success. During the preceding night planes of the Coastal Command were over ports in France in attacks on invasion craft. During the same night 15 British heavy bombers attacked merchant shipping and water-front installations at Boulogne and three others attacked a German cruiser in the harbor of Brest. While it is thought that these night attacks were successful, adverse weather conditions prevented observation of results.

2. During these operations two British bombers were lost and German air casualties were four lost and three damaged.

3. During the night of February 2-3 no German planes were active over England. During daylight hours of February 2 a total of 20 German planes were on reconnaissance missions over the Estuary of the Thames. Portsmouth was attacked by one plane, Sunderland by another, and six planes made attacks on targets in Norfolk and Suffolk.

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During daylight hours of January 31 German bombs were dropped in 25 English boroughs and 25 German planes took part in the raids on London. These attacks resulted in the destruction of nine barrage balloons, damage to a radio factory and to three hospitals, and the starting of one serious fire.

4. British casualties from the daylight raids of January 31 are now reported as 26 killed and 186 injured seriously. Thirteen were killed and 59 seriously injured in the German attacks on Britain on January 30.

5. The activities of the Royal Air Force in the Middle East were as follows: Asseb in southern Eritrea was bombed by planes from Aden; at Agordat, Eritrea, one Italian airplane was destroyed and the airfield at Isala and Italian Headquarters at Elgama, both in Eritrea, were attacked by British bombers based in the Sudan; Italian planes on the ground at Solush, just south of Benghazi in Libya, were bombed by British aircraft; Italian installations at Valona, Albania, were machine-gunned and bombed by Greek-based British planes; motor transport concentrations at Javelle and Maga in southern Ethiopia were attacked by British bombers from Kenya.

6. On the morning of February 1 a German sea raider which could not be identified was located 180 miles west of the Seychelle Islands in the Indian Ocean. Two German sea raiders, one an armed merchant boat and the other thought to be the "pocket battleship"

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ADMIRAL BOKER, attacked a British vessel 800 miles west of Freetown, Sierra Leone. On February 1 one German bomber was shot down when German planes unsuccessfully attacked two convoys and three single vessels near the British Isles. On January 31 a German U-boat was reported to be in operation 190 miles northwest of the Azores in the Atlantic Ocean.

7. It has just become known that the Suez Canal has been closed since January 30 as a result of the Italian air attack on that day. Parachute mines were dropped between Suez, at the southern end of the Canal, and Ismailia and a dredger in the Lake Timsah region of the Canal was sunk. Up to the morning of February 3 no traffic was proceeding through the Canal.

SCANLON

Distribution:

Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps
G-3

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RESTRICTED

G-2/2657-220
No. 307

M.I.D., W.D.
February 3, 1941
12:00 M.

SITUATION REPORT

I. Western Theater of War.

1. Air Force Operations.

Few night operations took place.

German daylight operations were by single planes, using cloud cover, and were directed principally against airdromes and rail lines except west of Ireland, where several ships were bombed.

II. Greek Theater of War.

Air: Some air action reported.

Ground: Local operations reported.

III. African and Mediterranean Theaters of War.

Air: German bombers made another daylight attack on British shipping at Bardia and Sollum. Malta was also bombed. British bombers made night raids on Tripoli and a nearby airdrome. Local operations took place in East Africa and the Fleet Air Arm attacked Sardinia.

Ground:

Libya. British forces are concentrating west of Derna.

Eritrea. The British captured Agordat February 2, and by dusk were in close pursuit of the Italians withdrawing towards Cheren. They also advanced in the Baresata area, farther south.

Abyssinia. Italians in retreat on road between Matemma (Gallabat) and Gondar.

Italian Somaliland. British patrols are pressing the Italian advanced screen.

Note: 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.

RESTRICTED

RDS

PLAIN

STOCKHOLM

Dated February 3, 1941

Rec'd 11 p.m.

Secretary of State,
Washington.

73, Third.

Riksbank report January 31 in million crowns metallic reserve 694 foreign exchange 769 loans and discounts 769 note circulation 1417.

Government revenue first six months current fiscal year 808 compared 760 same period last year both million crowns.

Riksbank has recommended to the government conversion of part of foreign exchange reserves into essential commodities to be stored abroad if necessary during the war one newspaper of opinion this measure is intended as safeguard against possible blocking of Swedish dollar balances.

INFORM TREASURY, COMMERCE.

STERLING

NPL

REPORT OF GASTON'S MEETING FEBRUARY 3, 1941

Thompson had nothing to report of importance but said that Duffy was qualified and that his bond had come in last Thursday. Gaston asked if the nomination of the Assayer, Rippeto, had gone over, and Thompson indicated that it had gone to the President but he did not know whether it had gone to the Capitol.

Coe said his shop was quiet and that he had not heard a word from Mr. White.

Gaston told Schwarz that he noticed he had succeeded in getting an article by Alsop and Kintner in the paper and Pehle commented that it sounded pretty authentic. Schwarz said he would commend it to the interested people here if they want to be brought up to date. Schwarz also said that Dorothy Thompson will be shifting next month from the Herald-Tribune to the Bell Syndicate and then will appear in the Star.

Graves said that after he and Kuhn went over some material this morning he might go down to the Post Office Department and see just how far they would be willing to go towards substituting a special series of stamps and certificates for use in this program. Gaston thought we would probably want to use special obligations throughout on this and if so we had better get busy on it. Graves thought it would take time to eliminate the present series completely and substitute a new one and

- 2 -

not carry two. Kuhn said the idea was to use the mechanism of Postal Savings and use the structure on Baby Bonds but wrap them up in different packages for defense, printing different stamps and different bonds but enlarging the selling outlets. Graves said that was the general idea and added that there would also be the question of establishing agencies where these things could be sold much more widely than the present facilities would permit and suggested that we also take this up with the Post Office. Gaston agreed and thought we wouldn't want to have two series running at once, adding that we would probably have to start in with the regular Series D-1941 in the Savings Bonds and then, when we get the others ready, substitute them clean. Graves thought there was no reason why the promotion program should not be developed fully without awaiting the substitution for the present securities which would take two or three months and you would be redeeming them as you go along without having to wait. Gaston said yes but since it does take time to make them we had better decide what we are going to do and then concentrate on our pattern of promotion. Graves said he had in his office a memo on just exactly what the Post Office's present series is. Kuhn thought there must be something wrong because Ralph Robey, who is always critical, had a column last week praising the Treasury to the skies in this savings program. Gaston suggested we get hold of Robey and have a talk with him. Kuhn said he was very friendly. Schwarz said everybody was for the system we are talking about. Gaston thought we had better collect some possibilities on these various section heads and Graves agreed and added that in fact we were doing that and said he had asked Mr. Sloan

- 3 -

and Mr. Bryan to give us all the names they can think of and they have some good ideas.

Buckley said he had had a wire from Mr. Young who is staying at the Green Heron in Miami Beach if anybody wanted him. Buckley said he had a job for somebody on the legal staff -- Joe Green of the State Department had called up and was wondering if their man couldn't talk to someone on our legal staff about the proposed proclamation covering plans for items which themselves are under export control. This new proclamation has been referred back for more arguing because nobody can agree on the way it is written up. It is very complicated and Green's concern is that maybe the State Department couldn't administer it because it is a tremendous job and they are now beginning to wonder if the right way isn't some clarification of the terms of the Espionage Act instead of putting all the stuff under export control, because the way it stands now they might get an application for export for every photograph taken by a Brownie Camera and Green is afraid and wondered if somebody on our staff couldn't talk about it. Gaston thought that, as an organizational matter, it was all wet. The Administrator of Export Control is supposed to present directives to the Division of Export Control in the State Department and he prepares all orders and regulations to be signed by the President. Presumably this thing has been passed on by experts. Buckley said they were worried as the administrators because they have a tremendous load and pointed out that all the experts haven't agreed --

- 4 -

Smith from Justice and Price from State and two or three other people -- everybody is disagreeing which is why it is back once more. Gaston asked if there were questions of legality or technical administrative questions. Buckley said there was one basic legal question as to whether we can do it this way or whether we should do it by some additional regulations or whether it is possible by some additional regulations under the Espionage Act, because Justice already has the power. It is a long involved process and the question is whether you should clarify that situation or put it under export control. Then once you put it under export control there is the wording of the definition so that you rule out some photographs and still get the basic ones. Gaston thought that on the face of it it looked like a Justice matter but thought we could be a little bit informal and talk it over with them. Buckley thought that would be all right and Gaston told him to inform Green. Buckley said he had sent to Gaston a letter on the last batch of contracts -- the last \$20,000,000 worth -- for signature but Gaston hadn't seen it yet and Buckley said he might want to talk to Gaston about Greece a little later in the day.

Cairns said Rep. McCormack had telephoned Saturday and wanted four memoranda on the Lend-Lease Bill and he got them up over the weekend and had sent them up this morning. McCormack wanted to know if the President had the power to send convoys to England, what limitations there were in the bill, whether or not the bill authorized appropriations -- he wanted to use the data. Gaston wondered if we could express ourselves on the question of convoys without consulting anyone else and Cairns assured

- 5 -

him that we could. The President has authority, irrespective of the bill. It is doubtful whether Congress could forbid him to do it. Gaston said he had the general power to make exceptions in this combat zone matter. Cairns said he would have to do that under the Neutrality Act. Schwarz asked what the answer was on appropriations and Cairns said we were still wrestling with that but he was of the opinion that it did not authorize appropriations. Gaston asked if the bill did not expressly authorize appropriations and Pehle asked if the President would have to go back to get new authorization. The other thing, Cairns said, was the limitations on the President's power contained in the bill. McCormack also wanted the bill broken down, section by section, and an analysis of its purposes stated so he could have it in front of him. He said Foley's address was the American Embassy in Mexico City.

Pehle said he wanted to mention recent developments on Indochina. He had noticed a pretty detailed story in the New York Times to the effect that they had pretty well sold out to the Japanese on naval bases, put them in charge of Customs and nearly everything. He pointed out that Indochina was included in the freezing orders as a French colony. Gaston asked if they didn't have a general license and Pehle said yes and that was what he wanted to discuss. We have a number of licenses outstanding covering the Bank of Indochina's Far Eastern branches and under that license we froze twenty-five percent of their balances on the day the license was issued somewhere back in June and all new deposits, and that license has been renewed monthly. It was renewed for February in the last few days. Under the license, when we last checked up, there was about \$10,000,000 in the free account and an equal amount in the blocked account. Some of those are in the Far

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East. The question was raised at the time whether we should revoke that license and State told us it wasn't a propitious time to do it, but they would keep track of what is going on involving that \$10,000,000 which could be drawn out inside of an hour. Pehle thought we should want to raise that question with State again -- whether the license should be revoked. There is also a license for the French Chinese Bank which has some funds in it. Now there is some question as to procedure. We wrote State a letter before but Pehle did not think time permitted too much of letter-writing here and thought we ought to get somebody over there and get the State Department's point of view. Gaston thought we ought to go to Sumner Welles with it. Cochran suggested that Pehle had a good connection with Atherton. Pehle said the only question was whether it is serious enough to call up Sumner Welles and say we want to raise this again, we would like to come over. Gaston wondered if we should not write them a letter and take it over and discuss it at the same time. Pehle said he could have a letter in a short time. Cochran pointed out that there were two divisions concerned -- Far Eastern and European -- Atherton is one. Gaston thought it would be better to take it up with Atherton and if he wants to take it up with Welles he could do that. Pehle suggested he get the letter out and bring it up to be signed and then call him up and Gaston agreed.

Gaston told of his conversation with Assistant Secretary Long on Saturday regarding the request for funds for Danish ships on behalf of Maersk Moller, during which it had been agreed that we would write a letter asking the State Department's advice. He hoped the President was about ready to appoint a coordinator for shipping, the existing status being confused. He said logic also called for the coordination of economic defense. Pehle promised him a letter on the Danish ship matter today.

Gaston told Haas that, after receiving our letter, Mr. F. E. Marshall of the National Wool Growers' Association charged Saturday that the Secretary was plain ignorant in declaring there had been an unwarranted increase in the price of wool. Haas said that was his job. Gaston said Marshall had records which he said showed that in 1940 the price of wool was lower than in 1937. Haas said he had changed a little bit -- the first statement he made was lower than a year ago but now he said recent months -- he will probably keep that up. Haas said he had a letter which he would like to see about a little later on -- one going to the Defense Commission on steel -- a reply to one that came in to the Secretary.

Cochran said he wished Fehle would let him know how he comes out with the State Department in this Indo-China business because he had a request as to whether the Mint could help them get some nickel. Also, Sir Edward Peacock came down here Saturday, the British banker, and John Hanbury-Williams came with him and they are both here. Cochran had a number of inquiries from people Saturday who wanted to get in touch with them. So far he has been referring them to Mr. Gifford's office in New York and Bohancker at the SEO said he would do nothing to approach these people. Cochran said Swales sales of American securities last week declined quite a bit from the week before and on Saturday the purchases were small in number, but we had a cable from the Consul General in Zurich Saturday saying they are very much worried about this freezing prospect. Fehle mentioned that Saturday Bell signed some licenses liberalizing our policy on sending remittances to individuals in the frozen countries. Gaston asked Cochran what the play was on Peacock -- whether we should just wait for him to come to Cochran and whether we would do anything

- 8 -

at all this week. Cochran thought there was nothing for us to do. The story given out in London doesn't go quite as far as the Secretary did on the Hill with regard to their plans for actually disposing of these investments. Peacock is going to study the situation and see what the prospects are. Gaston thought he was going to look into what they have and how to dispose of it and what would be the consequences. Cochran said they had been getting together a list and Peacock might have that now. He is concerned with direct investments. Gifford has been here since a year ago on listed securities -- this man is working on direct investments, real estate, etc. Gifford still retains his jurisdiction over the common stock and listed securities so their spheres are not overlapping. Gaston thought he would probably come in and have some informal talks with Cochran.

Pehle said there was quite a bit of material coming up to Gaston -- the things they had discussed the other day. Gaston asked Graves if he had anything to report on the Jo Davidson medal and Graves said no but that he had tried to chisel some medals out of Mrs. Ross for the Secretary and he was told that we would have to pay for them. The Mint made these at a price, performing the same service for the Inaugural Committee as anyone else.

Gaston asked Thompson who was taking care of the space situation in the New York Federal Building and Thompson said Ed Berney was working on it and that he had gone up to look the situation over.

HOUSE OF LORDS,

S.W.1

3rd February, 1941.

Dear Mr. Morgenthau,

I must send to you and Mrs. Morgenthau my warm thanks for your card of good wishes at Christmas time. Here we are entering on a new year which is going to be decisive of the future of liberty, and we are all in good heart because we know our cause is good, our country is united, and the practical help of your great people and republic is not far away. I shall always remember how pleasant were the dealings between us when I was Chancellor of the Exchequer and I retain to the full my interest at this side, and indeed still have many contacts with our Treasury work. You do not need me to tell you what has been the stimulus and encouragement to us of your President's magnificent speeches and of the zealotness with which you and others in the American administration have supported your programme of help to Britain. We in this country would never stop fighting to resist this evil that threatens to overwhelm the world; and it is an enormous encouragement to know how close we are to you all in this time of crisis.

Believe me, my dear Mr. Morgenthau,

yours sincerely,

Simon

Henry Morgenthau, Esq.



THE SECRETARY OF THE TREASURY
WASHINGTON

FEB 3 1941

Dear Sirs:

There are enclosed herewith photostatic copies of a letter dated January 28, 1941 and enclosures, addressed to this Department by the Secretary of State relative to the opening of further accounts with the Federal Reserve Bank of New York in the name of the British Government.

In accordance with the letter of the Secretary of the Treasury to the Federal Reserve Bank of New York dated June 7, 1940, relative to the opening of accounts with the Federal Reserve Bank of New York, as fiscal agent of the United States, for and in the names of the British and Netherlands Governments, the Federal Reserve Bank of New York is authorized to open and maintain the further account for and in the name of the British Government, and any other accounts in the name of the British Government the opening of which may be requested by the Bank of England, on the same basis that the Federal Reserve Bank of New York handles other foreign accounts.

Very truly yours,

W. B. E.
Acting Secretary of the Treasury.

Federal Reserve Bank of New York,

New York, New York.

Enclosures.



DEPARTMENT OF STATE
WASHINGTON

reply refer to

January 26, 1941

CONFIDENTIAL:

My dear Mr. Secretary:

There are enclosed two authenticated photostatic copies of a note (W 9188/G Secret) dated December 20, 1940, received by the American Embassy at London from the British Foreign Office, which is signed by N. B. Ronald on behalf of the Secretary of State for Foreign Affairs, and which requests that the Embassy forward to the Secretary of State of the United States for transmission to the Treasury Department and the Federal Reserve Bank of New York certain requests, instructions, and representations in regard to the opening of further accounts with the Federal Reserve Bank of New York for and in the name of the British Government. There are also enclosed two authenticated copies of a note dated January 20, 1941 received by this Department from the British Embassy in Washington relating to the above-mentioned note.

The

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

The Department of State is satisfied that Mr. N. B. Ronald, who executed and delivered such note to the American Embassy at London, is duly authorized and empowered to do so on behalf of the British Government, and recognizes that the requests, instructions, and representations set forth in such note emanate from and are the requests, instructions, and representations of the British Government.

The foregoing is transmitted to you for your information and in order to enable you to give such advice in the premises to the Federal Reserve Bank of New York as you may consider appropriate.

Sincerely yours,

A large, stylized handwritten signature in cursive script, reading "Cordell Hull". The signature is written in dark ink and is positioned below the typed name "Cordell Hull".

Enclosures:

1. Two photostatic copies from the British Foreign Offices, December 20, 1940.
2. Two copies of note from British Embassy, January 20, 1941.

No. 844

United States of America



DEPARTMENT OF STATE

to whom these presents shall come, Greeting:

Certify That the document hereunto annexed is a true copy
of the files of this Department.

In testimony whereof, I, CORDELL HULL,

Secretary of State, have hereunto caused the Seal of the Department of
State to be affixed and my name subscribed by the Director of Personnel
of the said Department, at the City of Washington, in the District of
Columbia, this 27th day of January, 1941.

Cordell Hull
Secretary of State.

Edward G. Dudley
Director of Personnel.

20th December, 1940.

Sir,

With reference to the note No. 2452 which the United States Ambassador was so good as to address to me on the 5th August, I have the honour to state that His Majesty's Government in the United Kingdom are desirous of opening a further account in their name at the Federal Reserve Bank of New York. The Federal Reserve Bank have suggested that His Majesty's Government should address their request to the Secretary of State of the United States, and I shall accordingly be obliged if you will be kind enough to forward to the Secretary of State of the United States for transmission to the Treasury Department of the United States and to the Federal Reserve Bank the following requests and instructions:

- (a) His Majesty's Government request the Federal Reserve Bank of New York to open an account to be entitled His Britannic Majesty's Government Special Account "B".
- (b) His Majesty's Government request the Federal Reserve Bank to accept on their behalf instructions of the Bank of England in all matters relating to this account.
- (c) His Majesty's Government take this opportunity to advise the Federal Reserve Bank of New York that the Bank of England is authorised to manage and operate any and all accounts in the name of His Majesty's Government with the Federal Reserve Bank of New York and in connexion therewith to give all manner of orders, instructions and advices relating to such account, it being expressly understood that the person or persons

from/

Herschel V. Johnson Esq.,

etc., etc., etc.,

from time to time authorised by the Bank of England to sign on their behalf cheques, drafts or other orders, instructions or advices drawn on or otherwise relating to such accounts need not be officers or employees of the Bank of England or persons in England.

(d) His Majesty's Government also advise the Federal Reserve Bank that the Bank of England is authorised to request the opening of further accounts in the name of His Majesty's Government and to manage and operate such accounts in accordance with the instructions as outlined in paragraph (c) above.

(e) His Majesty's Government confirm that the understanding and agreement with regard to tested telegrams, cablegrams and radiograms contained in the following cables -

Nos. 952 and 977, dated August 1 and August 3, 1940, from Federal Reserve Bank of New York to Bank of England
Nos. 814 and 825, dated August 2 and August 6, 1940, from Bank of England to Federal Reserve Bank of New York

applies to any telegrams, radiograms and cablegrams relating to any account of His Majesty's Government with the Federal Reserve Bank of New York heretofore or hereafter established. This understanding and agreement is to the effect that (1) the Federal Reserve Bank of New York is authorized and requested to accept and act upon any telegram, cablegram or radiogram, relating to any Account in the name of His Majesty's Government, which is received by the Federal Reserve Bank of New York in the name of the Bank of England and which conforms to arrangements agreed upon between the Federal Reserve Bank of New York and the Bank of England with respect to the authentication of telegrams, cablegrams and radiograms by the use of test numbers, and (2) such telegram, cablegram or radiogram will be binding upon the Bank of England and His Majesty's Government and will have the same force and effect in all respects as a letter signed in behalf of the Bank of England by its officers who are authorized

to/

to sign correspondence and documents containing instructions or other communications such as are contained in the telegram, cablegram or radiogram.

(f) His Majesty's Government confirm that all funds and other property which may be transferred, deposited or placed in any account in the name of His Majesty's Government with the Federal Reserve Bank of New York will be the funds and property of His Majesty's Government.

(g) His Majesty's Government advise the Federal Reserve Bank that the authority extended to His Britannic Majesty's Ambassador in Washington and to Mr. J.A.C. Osborne under the "emergency signing procedure" does not apply to Special Account "B". Further His Majesty's Government advise the Federal Reserve Bank that in respect of His Britannic Majesty's Government Special Account "A" and Special Account "B", (and any other accounts to which the emergency signing procedure might not apply), the signatories who have authority to sign on behalf of the Bank of England immediately prior to the time the emergency signing procedure becomes effective will thereafter have authority to sign on behalf of His Majesty's Government.

2. The Federal Reserve Bank have requested that His Majesty's Government's communication to the Secretary of State of the United States should be authenticated by the Consul General of the United States in London and I shall accordingly be grateful if the counter-signature by the Librarian and Keeper of the Papers at the Foreign Office of the signatory

J. F. Willard Calder

I, Consul of the United States of America, at London, England,
do hereby make known and certify to all whom it may concern, that the signature
" Stephen Gaselee " subscribed to the annexed Certificate, is of the
true and proper handwriting of Stephen Gaselee, Librarian and Keeper of the
Papers for the Secretary of State for Foreign Affairs, London, England
that the seal affixed to the said Certificate is the seal of the Foreign Office, London,
England
and that to all acts signed as the annexed full faith and credit are and ought to be given in
all places and thereout.

In testimony whereof I have hereto set my hand and affixed the
Seal of the Consulate-General of the United States of America, at London,
England, aforesaid, this 26th day of December 1940

Service No. 101.
No fee prescribed.

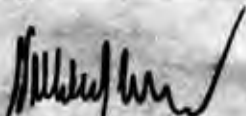
[Signature]
Vice-Consul of the United States of America
at London, England

I, F. Willard Calder

Vice-Consul of the United States of America, at London, England,
do hereby make known and certify to all whom it may concern, that the signature
" Stephen Gaselee " subscribed to the annexed Certificate, is of the
true and proper handwriting of Stephen Gaselee, Librarian and Keeper of the
Papers for the Secretary of State for Foreign Affairs, London, England
that the seal affixed to the said Certificate is the seal of the Foreign Office, London,
England
and that to all acts signed as the annexed full faith and credit are and ought to be given in
all countries and throughout.

In testimony whereof I have hereto set my hand and affixed the
Seal of the Consulate-General of the United States of America, at London,
England, aforesaid, this 26th day of December 1940

Service No. 563.
No fee prescribed.


Vice-Consul of the United States of America,
at London, England

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of this note may be duly authenticated by or for the United States Consul General in London before this note is transmitted to the United States Government.

I have the honour to be,
with high consideration,

Sir,

Your obedient Servant,
(For the Secretary of State)

N. B. Ronald

CERTIFIED AT THE FOREIGN OFFICE
FOR LEGALIZATION
OF THE FOREGOING
SIGNATURE.
"N. B. Ronald"



LONDON.

24 DEC 1940

Stephen Gaselee,

LIBRARIAN AND KEEPER OF THE PAPERS FOR
THE SECRETARY OF STATE FOR FOREIGN AFFAIRS

of this note may be duly authenticated by or for the United States Consul General in London before this note is transmitted to the United States Government.

I have the honour to be,
with high consideration,

Sir,

Your obedient Servant,
(For the Secretary of State)

N. B. Ronald



LONDON.

24 DEC 1940

CERTIFIED AT THE FOREIGN OFFICE
FOR LEGALIZATION
OF THE FOREGOING
SIGNATURE.
"N. B. Ronald"

Stephen Gaselee,

LIBRARIAN AND KEEPER OF THE PAPERS FOR
THE SECRETARY OF STATE FOR FOREIGN AFFAIRS.

No. 647

United States of America



DEPARTMENT OF STATE

to whom these presents shall come, Greeting:

Certify That the document hereunto annexed is a true copy
of the files of this Department.

In testimony whereof, I, CORDELL HULL,

Secretary of State, have hereunto caused the Seal of the Department of
State to be affixed and my name subscribed by the Director of Personnel
of the said Department, at the City of Washington, in the District of
Columbia, this 27th day of January, 1941.

Correll Hull
Secretary of State.

By Edward G. Godley
Director of Personnel

RECEIVED
DEPARTMENT OF STATE

1941 JAN 22 AM 11 04



BRITISH EMBASSY,

WASHINGTON, D.C.

20th January 1941.

DIVISION OF
COMMUNICATIONS
AND RECORDS

No. 32.

Sir,

I have the honour to acknowledge the receipt of your note dated January 3rd, 1941, conveying to me the text of a note marked "Secret" and dated December 20th, 1940, addressed to the American Embassy in London by the Foreign Office on the subject of the opening of a further account with the Federal Reserve Bank of New York in the name of His Britannic Majesty's Government.

In reply I have the honour to state that the text of the Foreign Office note of December 20th, 1940, is in accordance with the instructions received by this Embassy from His Majesty's Government, and I shall be grateful if you will communicate that note to the Secretary of the Treasury and the Federal Reserve Bank of New York with the confirmation that the instructions contained in it emanate from His Majesty's Government.

I have the honour to be,
with the highest consideration,

Sir,

Your most obedient, humble servant,

Frank B. Baker

The Honourable

Cordell Hull,

Secretary of State of the United States,

Washington, D.C.

Confidential File

Regraded Unclassified

JR

PLAIN

London

Dated February 3, 1941

Rec'd 2:10 p.m.

Secretary of State,
Washington.

414, third.

FOR TREASURY.

1. With reference to the paragraph numbered 1 in my telegram No. 376 of January 31, the FINANCIAL NEWS today runs an editorial headed "our dollar assets" which first sets out the considerations found in the press of Friday as reported and ends with a plea that the realization of dollar assets however necessary is serious but the loss of strategic trade centers throughout the Western Hemisphere accounts for even more especially in view of lost opportunities for trade during the war and the need for overseas markets afterwards: "In recent months we have begun to realize the folly of democratic disunion in the pre-war years and to avow our determination to seek the path of full cooperation in the task of rebuilding a better world. But cooperation implies partnership rather than vassalage and our part in the post-war world will not be eased by the severance of the present direct links with American commerce and industry. We must admittedly do everything

-2- #414, February 3, from London.

everything in our power to convince United States spokesmen in Congress and elsewhere that we are determined to pay cash down for assistance so long as we possibly can. But, to say the least of official policy, it is certain that our present actions contrast forcibly with the earlier delay and lackadaisical procedure in the matter of exchange controls. Perhaps it is not too much to hope that further discussion on the problem of direct investments will show the impracticability of large-scale realizations. There should certainly be other ways of putting up the necessary security, or at least of assuring that the pledge of such assets as security for supplies does not involve an outright change of ownership."

2. The Bank of England gave notice to banks on January 30 that by a Netherlands Government decree Dutch refugees in the United Kingdom are required to register guilder bank notes in their possession with the Dutch Consulate between January 24 and February 7. The notes will be stamped by the Consul and after February 7 unstamped notes will not be exchanged against sterling by the Netherlands Treasury. It is thought that such notes still in the hands of refugees total a relatively small amount at present but this step is taken to prevent any possible replenishment beneficial to Germany.

HSM

JOHNSON

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 3, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19, 1940:

	No. of Shares Sold	\$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	\$ Proceeds of Bonds Sold
January 20	47,441	1,407,636	1,502,000	1,621,812
21	43,915	1,822,302	1,123,000	1,208,689
22	244,152	1,840,589	17,000	18,401
23	41,866	1,994,084	1,260,500	1,387,801
24	26,939	994,567	841,000	911,726
25	<u>1,978</u>	<u>23,275</u>	<u>53,000</u>	<u>43,439</u>
	406,291	8,082,453	4,796,500	5,191,868
Sales from February 22, 1940 to January 18, 1941	<u>4,405,999</u>	<u>137,618,220</u>	<u>6,983,800</u>	<u>5,508,629</u>
TOTAL FEBRUARY 22, 1940 TO JANUARY 25, 1941	4,812,290	145,700,673	11,780,300	10,700,497

Miss Poate reported sales of non-vested securities for the week ending January 18 totaled \$250,000.

WMP

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 3, 1941.

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£40,000
Purchased from commercial concerns	£ 9,000

In the open market, sterling held steady at 4.03-1/2. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 2,000
Purchased from commercial concerns	£ 8,000

The Cuban peso, which advanced last week to close at 7-1/16% discount, continued to gain today. The final quotation was 6-13/16%.

Little movement took place in quotations for the other currencies. It was reported that a very small amount of Swiss francs available for non-commercial use was sold at .2334. Closing quotations were:

Canadian dollar	17-1/4% discount
Swiss franc (commercial)	.2324
Swiss franc (non-commercial)	.2334
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2375
Brazilian milreis (free)	.0505
Mexican peso	.2066
Chinese yuan	.05-7/16

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$4,702,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

The Bombay gold price was 1¢ higher at the equivalent of \$34.05. Silver was slightly lower at the equivalent of 44.87¢.

- 2 -

A price of 23-5/16d was fixed in London for both spot and forward silver, representing a gain of 1/16d in each case. The dollar equivalent of this price is 42.33¢.

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

We made five purchases of silver totaling 510,000 ounces under the Silver Purchase Act, all of which consisted of new production from foreign countries, for forward delivery.

H. M. S.

CONFIDENTIAL

2854

COUNCIL OF NATIONAL DEFENSE
COORDINATOR OF COMMERCIAL AND CULTURAL RELATIONS
BETWEEN THE AMERICAN REPUBLICS

STATE DEPARTMENT BUILDING
WASHINGTON, D. C.

2/9/41

You will find, herewith, for your confidential information a copy of our weekly digest of the current activities of the various departments and agencies handling matters on inter-American concern.

Attachment

CONFIDENTIAL

COUNCIL OF NATIONAL DEFENSE
COORDINATOR OF COMMERCIAL AND CULTURAL RELATIONS
BETWEEN THE AMERICAN REPUBLICS

STATE DEPARTMENT BUILDING
WASHINGTON, D. C.

February 3, 1941.

WEEKLY PROGRESS REPORT
ON ACTIVITIES IN RELATION TO THE OTHER AMERICAN REPUBLICS

COMMERCIAL

Inter-Departmental Committee on Inter-American Affairs

The first of a series of meetings to explore policy-considerations raised by the survey of Colombia was held on January 28. Discussion focused on three problems: (a) criteria for the extent of exchange assistance to be granted for current commercial account; (b) status of arrears in financing arrangements; (c) extent of the support to be given efforts to achieve self-sufficiency in staple foodstuffs.

Developmental Activities

A group of experts of the Department of Agriculture headed by Mr. Garibaldi Laguardia have been sent to Cuba to participate with Cuban officials in a survey of potential agricultural development along the lines proposed by the Cuban Economic Mission in October 1940. Particular attention will be given to (a) development of irrigation works; (b) development of new crops for export to the United States and other parts of the Western Hemisphere; (c) development of a system of rural rehabilitation. It is anticipated that the survey will require two months.

The question of equipment for the Brazilian steel plant has been discussed with and cleared by the Administrator of Export Control.

Mr. C. L. Luedtke, Agricultural Attaché at Panamá City, is proceeding to Nicaragua to make a preliminary survey of agricultural potentialities, with special reference to lumber and abacá, requested by the Nicaraguan Government.

The first rubber survey party, which made the studies in Peru, Ecuador, and the Pacific side of Colombia under the leadership of Dr. E. C. Stakman, has returned to Washington where a report is being prepared.

- 2 -

Current Problems

- Pears: On January 22, Argentina fixed 300,000 boxes as the upper limit on movement of pears to the United States until April 1 of the current season. The announcement indicated that the decision was taken following a survey of the market and with a view to the difficulty of obtaining refrigerated space for fruit as well as to the need to reserve sufficient space for shipment of grapes to the United States.
- Lumber: The Robinson Lumber Company of New Orleans indicated to the Coordinator's Office that it was prepared to import from Nicaragua annually 10 million board feet of yellow pine for use in defense contracts. The supply of large-size yellow pine in the United States is said to be practically exhausted; the Nicaraguan pine would be considerably cheaper.
- Zinc: Although the President of Mexico is pressing for settlement of the labor dispute at the Rosita Smelter of the American Smelting and Refining Company, it is feared that the dispute may deteriorate into a test of strength between Labor and the Administration.
- Industrial Diamonds: Procurement (Treasury) is planning purchase of diamonds from Brazil after ironing out difficulties relating to experts to pass on the diamonds.
- Coffee: The Foreign Relations Committee of the Senate on January 30 voted to report out favorably the coffee agreement.

CULTURALMusic Study

The Executive Committee approved plans for a clipper trip of a month by Evans Clark, member of the Coordinator's Music Committee, to Central and South American countries, beginning February 12. Mr. Evans will study pre-Lenten carnivals with a view to stimulating United States interest in 1942, investigate opportunities for music interchange, and establish relationships with individuals and organizations prominent in music in the neighboring Republics.

Exhibitions of United States Contemporary Fine Art

The Executive Committee of the Coordinator's Office has authorized an increase of \$3,600 in the total amount allocated for the exhibition of American paintings and water colors to be sent to South America as described in the weekly progress report of January 6, 1941.

- 3 -

Publications

The Coordinator's Office is considering the preparation of copies and illustrations of two pictorial language books, one in English and one in Spanish. The Office is also considering the preparation of a two-volume guide book on the other American Republics; one for the Northern and one for the Southern half.

Weekly Progress Report No. 18

February 3, 1941.

To the Secretary:

VISIT OF HALL-PATCH TO SHANGHAI OFFICE

Hall-Patch on his recent visit to this office stated: that for some time H. H. Kung has entertained the view that it would be necessary to withdraw support of the National Currency from the Shanghai market. A month ago, Hall-Patch saw Kung, who said he felt it could be done, because the average Chinese has confidence in the national currency and in him as Minister of Finance. Hall-Patch expressed a profound difference of opinion, to the effect that if the Chinese peasant is offered two currencies, both valueless, possession of the one entailing persecution and of the other not, the former will be chosen; that the only strength of the national currency to date has been its convertibility; and that if this is withdrawn, the Chinese Government will in effect abandon whatever semblance of control it may have over occupied territory. This has been the official position of the British Government all through, hammered in by Clark-Kerr, Hall-Patch, and Rogers.

Following this interview with Kung, Hall-Patch saw C. C. --- (did not get the name exactly), who denied that anything of the sort was in the wind. Hall-Patch urged him to strengthen Kung and keep him up to the mark.

Last week there was a leak in the press here, in an article on proposed methods of use of the American credits, to the effect that they would not be used to support the currency in the Shanghai market. Hall-Patch felt sure that, censorship in Chungking being what it is, this could not have gotten out without some sort of official approval; hence he wired immediately to Hongkong, asking what was being done about it. The reply stated that nothing was known about the article in question, so he wired it in detail and was informed by Hongkong in reply that the matter was being taken up energetically.

Within the past day or two, Clark-Kerr saw Chiang Kai-shek, who explained to him that they had been considering ways and means to use the American credits to best advantage, and were afraid they would have to let the Shanghai market drop. Clark-Kerr told Chiang he was most surprised, in view particularly of the conversations now proceeding in Washington between the U.S. Treasury, Phillips of the British Treasury, and T. V. Soong, and

-2-

asked if the decision had actually been taken. Chiang said it had not, and Clark-Kerr said he would at least like time to consult his Government, as such a move represented a sudden and complete reversal of long-standing policy. He thereupon wired Hall-Patch to come to Chungking as fast as he could get there, to try to handle the situation, and Hall-Patch is leaving very shortly.

Hall-Patch asked if the American Government saw eye to eye with him on the matter, and was told that the office was not well enough informed to give him a reliable answer. He said in any case he would like very much to have the situation and his views cabled to Washington, in an effort to muster support and we promised that this would be done (See our radiogram of February 4, 1941). He feels that abandonment of the Shanghai market will very greatly affect the resistance which China is able to offer Japan, in which Britain and the United States are both interested.

He feels also that H. H. Kung is not effective as Minister of Finance. Has seen him in action ever since 1935, and has not been impressed. Recently has been much worried over the rise in prices in unoccupied China, as attested by index figures from various centers. The first interview with Kung reported above was sought to call attention to this, but Kung did not seem to be worried; said he did not see how it would be embarrassing, as everybody had confidence in the currency and him.

U. S. Treasury Attache.

Note:- C. C. mentioned above refers to C. C. Chien, Secretary General of the National Resources Commission of the Chungking Government.

TO THE SECRETARY
OF THE TREASURY
WASHINGTON, D. C.

RECEIVED
FEB 11 1941

RECEIVED
FEB 11 1941

RADIOGRAM FROM SHANGHAI

Feb. 3, 1941

The value of Chinese dollar dropped a little today but remained firm throughout the day. Fisher Yu (Manager, Shanghai branch of Bank of China), states that Frenchtown branches of Bank of China and Bank Communications were forced to accept one lakh each Nanking notes for account of new bank but are not accepting new notes for accounts of individuals. Y. L. Chang, (Manager, Shanghai branch Central Bank of China) now in Hongkong, understands Central Bank has not accepted any new puppet notes. None of foreign banks have been asked to accept these new notes. It is believed in local banking circles that there is some squabbling going on between the Japanese and Nanking regime about the pushing of their respective notes: i.e., notes of the puppet Reserve Bank and Japanese military notes.

COPY:aja

DEPARTMENT OF STATE

Washington

In reply refer to
BA 840.51-Frozen Credits/ 1247

February 3, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith copies of the paraphrase of telegram no. 8, dated February 3, 1941, from Tsingtao concerning attempts to prevent the funds of the Federal Reserve Bank in the Yokohama Specie Bank in New York from being frozen by the American Government.

Enclosures:

Paraphrase of no. 8
from Tsingtao,
February 3, 1941.

ka

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Tsingtao, China.

DATE: February 3, 1941, 11 a.m.

NO.: 8

A local American businessman has been approached by the financial expert of Japan on the Asia Affairs Board here for suggestions for ways to prevent the freezing of the Federal Reserve Bank funds in the Yokohama Specie Bank in New York by the United States Government along with other assets in the United States of foreign countries. These funds accrued from the 10% commission collected from the exchange on exports from North China and they constitute the bulk of the reserve of foreign currency for the Federal Reserve Bank note issue. The authorities of Japan are now concerned about the protection of these funds. There will be held at Peiping this week a conference on the subject which is to be attended by the financial expert mentioned above.

This message being transmitted to the Department and repeated to Chungking and Peiping.

MEYER

CW

EA:VCL

CONFIDENTIAL

(CONFIDENTIAL)

PARAPHRASE

A telegram (no. 8) of February 3, 1941 from the American Consul at Tsingtao reads substantially as follows:

A businessman (American) in Tsingtao has been approached by the Japanese financial expert on the Asia Affairs Board in Tsingtao for suggestions as to a method for preventing the Federal Reserve Bank's funds on deposit in the New York branch of the Yokohama Specie Bank from being frozen, along with other foreign assets in the United States, by the United States Government. How to protect the above-mentioned funds is now perplexing the Japanese authorities. The funds which constitute the greater part of the foreign currency reserve for the Federal Reserve Bank's note issue represent the ten percent commission collected from the exchange on north China exports. During the week of February 2 a conference in regard to the matter will be held in Peiping and will be attended by the financial expert mentioned above.

DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA 840.51 Frozen Credits/1027

February 3, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and, referring to telegram no. 77 dated January 31, 1941 from the American Consulate General at Zurich, regarding rumors of the freezing of foreign funds in the United States, encloses a copy of strictly confidential despatch no. 144 dated November 26, 1940 from the Consulate General.

Enclosure:

No. 144, November 26,
from Consulate General,
Zurich, Switzerland.

Zurich, Switzerland, November 26, 1940.

Strictly Confidential.

Subject:

Rumors concerning the possibility of a blocking of Swiss assets in the United States.

The Honorable

The Secretary of State.

Washington.

Sir:

I have the honor to invite the attention of the Department to the enclosed article, in translation, from the "Basler Nachrichten" Basel of November 19, 1940, entitled: "Blocking of all foreign assets in the United States". As will be noted this article purports to be based on a news item appearing in the "New York Post" and states that the authorities in Washington have prepared a plan providing for the blocking of all foreign assets in the United States, with the exception of the funds of the countries of the Western Hemisphere.

The foregoing article was brought to the attention of Consul Altaffer by Mr. Walter Fessler, a director general of the Credit Suisse, Zurich, the largest and most important the group known as the "Big Swiss Banks". Mr. Fessler pointed out that recurring rumors, based largely on notices appearing in the New York press, are causing considerable inconvenience and losses to Swiss banking interests. Each time one of these notices appears, it results in the transfer back to Switzerland of a certain amount of Swiss funds in the fear that the owners may lose control of such funds if Swiss assets are blocked by our Government. Mr. Fessler has inquired whether there is actually danger of a step like this being taken if there is no change in the present political situation in Switzerland. In other words, if the Swiss are able to maintain their political independence as heretofore and there is no interference in the internal affairs of the country by foreign interests, is there any danger of Swiss assets in the United States being blocked?

The Credit Suisse established a branch in the United States, the Credit Suisse New York Agency, 24 Pine Street, New York City, in 1939 and carries on a very active business especially on behalf of Swiss investors in the United States. It therefore has a very real interest in clearing up this question if possible and I would appreciate receiving appropriate information in the premises which could discretely be passed on to local banking interests.

Respectfully yours,

James B. Stewart
American Consul General

In quintuplicate.

Copy to Legation Bern.

Copy to American Consulate, Basel.

File no. 851.6 MWA/mr.

Enclosure: Translation of an article which appears in the "Basler Nachrichten" of November 19, 1940.

Translation of an article which appears in the
"Basler Nachrichten" of November 19, 1940.

Blocking of all foreign assets in the United States ?

New York. The "New York Post" reports from Washington that the competent authorities have prepared a plan which provides for the blocking of all foreign assets with the exception of assets of countries of the Western Hemisphere. This procedure is said to be considered in Washington as an effective means to support England and China, as these two countries would receive licenses from the Treasury conceding them the free disposition of blocked assets. Considering that after all Canadian funds and those of Central and South American countries are to be exempted from the blockade, this motion would in other respects also be in accordance with the present foreign policy of the United States. President Roosevelt has not yet approved this plan.

THE WALL STREET JOURNAL - FEBRUARY 3, 1941

DUTCH SUSPEND DEBT SERVICE TO STOP FLOW OF FUNDS TO GERMANY

Washington (AP)--The Netherlands legation announced yesterday that its government had suspended payment of interest on and redemption of its outstanding debt.

There are no outstanding Netherlands dollar bonds, the entire debt being stipulated in guilders. Bonds outstanding total 3,000,000,000 guilders (about \$1,600,000,000 by pre-war exchange.)

Although there was no statement from the legation to that effect, it was understood that a major objective of the move was to prevent funds from going into German hands.

The legation's statement said: "The government will consider the possibility of resuming interest payments to bona fide bondholders as soon as data are available concerning the amounts held on and since May 15, 1940, in countries outside the territories controlled by Germany and its allies. To this end, facilities for registering bonds and other obligations of the Kingdom of the Netherlands will be available during the month of February, 1941. Holders in the continental United States of America of such claims should get in touch with the consulates general of the Netherlands, either in New York, San Francisco or Chicago."

The legation said it had no information on how much of the debt is held in the United States.

dm

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

Week ended February 1, 1941

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	341,023 Bbls.	--	47,500 Bbls.	121,000 Bbls.
Crude -				
Blended or California High Octane Crude*	194,032 Bbls.	--	--	--
All Other Crude	240,289 Bbls.	--	--	--
Gasoline -				
Gasoline A**	--	--	--	--
Gasoline B*	138,804 Bbls.	--	--	70,000 Bbls.
All Other Gasoline	--	--	--	--
Lubricating Oil -				
Aviation Lubricating Oil***	1,260 Bbls.	--	--	18,579 Bbls.
All Other Lubricating Oil	34,502 Bbls.	--	6,874 Bbls.	6,810 Bbls.
Tetraethyl Lead***	--	--	--	--
"Boosters", such as Iso-Octane, Iso-Hexane, or Iso-Pentane	--	--	--	94,656 Bbls.
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	--	--	--	11,880 Tons
All Other Scrap	--	--	--	6,600 Tons

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

February 3, 1941.

Source: Office of Merchant Ship Control, Treasury Department.

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

Aviation Gasoline.

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

China ✓
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THE INTERCONTINENT CORPORATION
30 ROCKEFELLER PLAZA
NEW YORK

WILLIAM D. PAWLEY, PRESIDENT

February 3, 1941

Mr. Philip Young,
United States Treasury Department,
Washington, D. C.

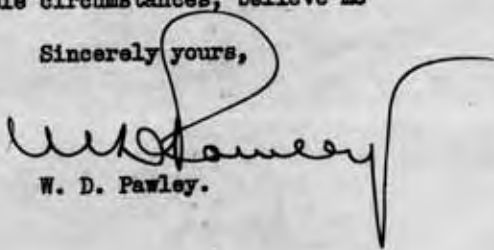
Dear Mr. Young:

I enjoyed the opportunity of making your acquaintance, although I am sorry it had to be under the circumstances of our last week's meeting.

I received a letter a few days ago from Mrs. C. W. Hunter, wife of the General Manager of our Chinese factory, giving the details of the Japanese bombing of the plant. I thought you might find time to read the enclosed copy.

Looking forward to seeing you again and, I hope, under more favorable circumstances, believe me

Sincerely yours,


W. D. Pawley.

WDP/ahl
Enclosure.

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CONFIDENTIAL

NOT FOR PUBLICATION OR REPRINT.

Loiwing, Yunnan, China
November 12, 1940.

Dear Bill:

Had the brainstorm this morning that you might enjoy a letter other than business, about our little bang-bang party out here. I can tell you before we go any further that I DON'T like bombs and what they can do to a person; so if later on in this letter you think - "Well Gertrude is showing the white feather", remember that I warned you.....

Supposing I start at the beginning and sketch through the whole thing for you. McCarty's wife, Jerry, whom I like, was leaving that day on the Condor for Lashio at 2:30; so after spending the morning with her, I came home about noon to freshen up before C.W. came in, and Wally came dashing in and asked me to come up to the club for lunch. I said O.K., and off we went to hunt C.W. We met him on the road, - someone had taken his car, so from there we went on to lunch.

Ed, Matty, Wallace and I waited for a table to be fixed, and we were just finishing our coffee when the siren sounded. We had had several alarms before and C.W. had trouble with the air defense men trying to make them understand that they must be more careful HOW they blew the siren, - so many blows for 1 st. alarm, so many for "urgent" etc. etc. So when this one was sounded, even though C.W. had gone to sleep on the divan, he jumped up and came down to our end of the room and asked all of us, (who were yelling our heads off, acting the fools, to be quiet as he really wanted to check the alarm and how it was sounded.) Well, the darn thing was sounded as the "urgent." With that he gave me a look that I well know meant business, and out of doors we went.

He shouted for us to get in the car and he ran to the front of the clubhouse; didn't take him long to race back yelling - "Get going, I can see them." In the meantime, the other cars were all leaving the clubyard. Neither my car nor C.W.'s was there, so we of course got into Wally's without hesitation, waited fully three minutes for Nan Dickenson, found out later she had gone to get her sketchbook, then we raced down the hill with another car following us. All the others were out of sight by then; we only crossed onto the main road at the foot of the hills when we heard the bombs dropping and whistling all about. Chuck called to stop the car and dive into the ditches, which we did, and there on the main road to meet me was my faithful Chinese Boy, Moa, calling - "Missy I have got jewel case." Gosh did I feel like a heel, - couldn't take care of my own valuables!

- 2 -

What with Moa pulling me and C.W. pushing me, and Wally yelling at me to get down, I only got to see the last nine ships that went over. Of course, by now you know there were 36, but we believe the last three to have been photo ships as the boys who watched the whole show say they didn't drop any bombs at all. By the time we were well into the ditches, they had turned and headed back home, - their horrors well done.

Whew, - what a long tail our cat has! But I am well into it now, and you will just have to bear with me, - no stopping me at this stage.....

Wallace had rammed his car into a ditch in stopping, so it wouldn't start; we walked over to the house and got mine, drove back to the club hilltop, where we could look the place over. We could see great pillars of black smoke pouring up and C.W. was afraid they had hit the power house. By the time we topped the hill several other cars had returned; one was Matty's, and they were looking frantically for Ed. Seems he had fallen off Matty's car as it was rounding the hill on the downward trip; had called to them not to stop; and that was the last anyone had seen of him. We quickly organized a search for him, - only to be told by one of the Chinese that he had gone to the factory with Mr. Sobel.

We then took time to look out over the hill at our factory. The runway was a mess of bomb craters, conder burning, three Ryans completely shot, final assembly hit square on the front. The powerhouse was not hit; it was the Deisel oil dump right beside it that was burning.

The men left us, (Nan and me) at the club, and went down to help put out fires that had started. We stood in the big windows in your apartment and watched for several minutes until we could see all the cars heading back this way and turning into the hospital.

Honestly, Bill, I don't recall that either of us said one word to the other, but we both headed out of the building. I took a car, - I still don't know whose it was, and we went down. Enroute we picked up Mamie. She was in the big room. What a sight met us as we went into that place! I stopped Dr. Yu and asked him what to do, and he told us to get their clothes off and into beds, which we did to the best of our ability. I must confess that I came so damn near fainting several times that if it hadn't been for Murph Garrold who was working right beside me, I'm sure I would have been just another patient in the hospital, but he would joke and laugh with them, and no matter how badly mangled they might be, he could always get a grin out of them. Gosh but he was good down there! For one thing, he can speak their language, found out who they were, etc.; Well, anyway, after an afternoon and evening spent in there, trying to ease and comfort those mangled and torn bodies, I wonder if the whole darn world has gone crazy!

The bamboo village that houses our workmen had been hit and set afire; several burned to death, but most of the people hurt were running for the hills and got clipped either in the back or legs; they had to take off a couple of legs, and believe it or not I stood and handed bandages while they did one of them! Don't ask me now how I did it for I couldn't tell you. Darn sure I couldn't do it again, but that day I was running on High G, and half the time didn't know where I was nor what I was doing. I even gave one hypo, and I'm quite sure it hurt me more than it did the woman I gave it to.

Poor Dr. Yu was up to his neck in blood. Really, Bill, that hospital was running in blood, - all over the floors, beds, etc. Not near enough beds to take care of the people, so we had to put the stretchers on the floors as they came in.

I made the remark as we went into the hospital that I would give Gordon Seagrave half an hour to get to us, and by gosh it was just 35 minutes later that I glanced out of the window and there he came around the drive on two wheels, his wife Marian right behind him with another carload of nurses. After they got there a little order came out of positive chaos; the doors to the operating room were thrown open and those two men, - Dr. Yu and Dr. Seagrave, stood at those tables and handled those cases as fast as humanly possible, until after ten that night. Really, I have never seen anything like it in all my life. Our water supply was of course cut off, and we had a devil of a time getting sterile water for them, - brought it from all the hot water tanks in the houses.

The Staff B houses were badly hit. Not a house escaped. One direct hit in Staff A group, one large bomb lit right in front of the Commissary; no damage to the building that can't be repaired easily, but it was the one that played the devil with our water line.

After it was all over and the bomb pattern could be studied, it was determined that they dropped their bombs two seconds too soon, and were about 30 degrees off their course, or they would have wiped this place off the map. They really had us plotted just right: the heavy 500 pounder, 100 pounder on down to the 20 pounder right where they were needed. Gosh I'm glad they are rotten bombers; as it is, actually, there isn't any great damage done to the plant at all.

In Final Assembly, there were four Ryans, completely ruined, the Breda and the Madams Duck both full of shrapnel but can be fixed.

There are two duds in the pavement in front of Final Assembly. One behind the clubhouse hill and one or two up in the hills behind the workmen's village.

- 4 -

There were nine killed in a dugout right down beside the group B houses. A bomb hit close by and buried them. Then there were several killed on the hillside as they ran, and I saw five die in the hospital after they brought them in. While I was in the hospital, they registered 65 with terrible wounds, and I don't know how many with slight cuts, etc.

The Americans have all been grand, - every man jack in the gang went to town and worked like dogs; never a complaint from any of them. The women have been just as good; we are still living in camp in our house as are the Giles, but everyone else has moved over onto the Burma side into grass houses, - Most of the families as far away as Manwing. However we leave here during the daylight hours when we feel they might pay us a return visit, and we have a grass house ready to move into over near the golf course, but intend to fix it for us more or less as a camping place. I frankly don't want to sleep here on moonlit nights. (Before you snort, just remember what I said in the beginning of this letter. I may be a sissy, but I want no part of one of those Japanese bombs. I saw too much of it on October 26th.)

The girls have all taken to the move nicely and are as good-natured about it as can be. Really, Bill, we have a grand gang out here. They certainly came through this ordeal with flying colors. The men worked all night at first. Col. C.T. was here and he wanted the stuff moved out of the factory at ONCE. So out it went. Then in the daytime they had to take their families out, so it meant no sleep of a proper nature for some of them for over a week.

Wally, the Dickensons, and Matty are still at the club. The others have moved into mat sheds over in Manwing; they call it Stokerville, as Bill Stoker was the first one over there to rent a house; the others have built. Wally is building a house for the Dickensons over in Pangkham, but I don't think he will move. That young man has worked like a demon, and he has had to. For a while they had to feed 5 and 600 men at night and he had to furnish the food, - did a good job of it. We are all proud of him.

Ed hurt his knee very badly when he fell from the car, but before he left he had discarded first his crutches, then his cane, and said it was good as new the day he left. It could have been a very serious accident. Thank God it wasn't....

The Chinese moved out in a body the first night after the bombing over to Pangkham, where they took over the native houses, the natives having left. Fact is today I heard C.W. and Col. Chin estimate those living here around 150.

Oh, darn it, I thought I had about covered the works, and I know there is one thing you will want to know. That is what reason was there for them coming in on us with no warning. Well, I'll try to explain that:

First off, they came in over Burma, not over China, with whom we have radio contact. Then too, out in the hills from here we have listening posts and they are connected by telephone to air defense headquarters; by coming in over Burma, the radio was of no use, but our boys out in the hills heard them and phoned in and asked if we had planes in the air. We did have two Ryans up, so the answer was of course - Yes. He hung up, but by that time, he knew he heard something more than two Ryans, so instead of phoning again to a.d. he telephoned direct to the powerhouse and the boy there sounded the alarm, and before he could get to cover he was killed by a bomb that hit the employment building. They are going to put a bronze plaque in the powerhouse for him.

Another thing, the boys manning the guns in the hills stayed at their posts and fired at the ships, but to no avail, as the Japs were flying around 16,000 to 18,000 feet up. The guns against the bombs sounded like my 22 pistol.

Now we are completely connected with both the Burma side and the China side, so the next visit should be known well in advance; the last one was entirely too close for comfort; However, now I am getting so that I can sleep without seeing those horribly mangled bodies, I only hope and pray that they won't come back.

It's been over two weeks now since the Japs have flown at all, not since the day they shot Foxy down, - that was so sad. You can't by any stretch of imagination call that WAR, - it is nothing but murder. But as Chuck keeps reminding me, he knew the chances he was taking; C.N.A.C. are doing all their flying out here by night now, - and much better I think.

I do sincerely hope that all this long winded tale has not bored you. I somehow felt that you might enjoy a little more than a business letter would tell you about our famous little City and the way it is going to pot. Darn the luck! It makes me sick at heart to see all our hopes blasted, but as C.W. says, - there can be other factories built....

With affectionate greetings from all of us and our best wishes to you always -

(Signed) Gertrude Hunter.

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FEB 3 1941

STRICTLY CONFIDENTIAL

Dear Mr. Dunn:

Receipt is acknowledged of your letter of January 27, in which you discuss the estimates of British Government requirements for steel in the United States.

The first three questions which you raise concerning the Treasury estimates submitted to you apparently arise because of a difference in the basic data considered. The Treasury estimates (except for plant expansion) were based on a secret comprehensive statement of British requirements which was recently received from Mr. Purvis. This statement showed, for selected items, the estimated quantity or dollar value required from the United States in 1941 and 1942. Naturally, in some cases, these requirements represent an amount greater than present available productive capacity in the United States. This is the case with ships. If the British are to secure the ships which they estimate they need, however, it will of course be necessary to attack the problem of increasing ship-building capacity where it is deficient, as well as supplying the steel for the ships.

For your confidential use, I am attaching a table listing the requirements of selected items referred to above. It should be noted that the figures for commercial steel have now been cleared up as to the basis of measurement, and the original Treasury estimates will have to be revised upward accordingly. Your attention is also called to the fact that no ammunition tanks are included in the ammunition figures, so that the Treasury estimates do not include cast steel for their manufacture, as you suggest.

The last question that you raise concerns the amount of steel required for plant expansion in order to meet British requirements in this country. The estimate for plant expansion included in the statement of British steel requirements prepared by the Treasury was taken from data prepared by the British Purchasing Commission recently but prior to receipt of the secret comprehensive statement of British requirements referred to above. This means that the estimate was based on

FILE COPY

Mr. Dunn - 2

a less comprehensive list of requirements than is now available, and the figure included in the Treasury table is therefore probably too low.

In any event, you suggest that steel required for plant expansion to cover British export requirements should be considered as already allowed for in estimates of civilian consumption of steel, and that, therefore, such requirements should not be considered along with the British needs for export. One question occurs to me, however, in connection with estimates made from the point of view of domestic consumption. Is it possible for such estimates of steel requirements to cover plant expansion required for British export needs beyond the orders or inquiries already known to manufacturers? On the other hand, the estimate for plant expansion in the Treasury table covered not only such orders but also programs which were in the initial stages of development.

I should like to call to your attention the fact that the attached list itself is not all-inclusive, but covers only the principal kinds of articles required. For example, no estimate is included for motor vehicles, although it is obvious that British purchases of trucks, scout cars, and the like will call for at least a small amount of steel.

Sincerely yours,

(Signed) Herbert E. Gaston

Acting Secretary of the Treasury

Mr. Sam Dunn, Senior Consultant,
Industrial Materials Division,
The Advisory Commission to the
Council of National Defense,
Washington, D. C.

Attachment

AMM:VL/fch

FILE COPY

2/3/41
orig with attachment
sent by special
messenger at 2:30 pm
copy attachment
on file in Mr. Hoes'
office

power filed 1-17-41
76✓

THE ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE
WASHINGTON, D. C.

Monday
January 27, 1941

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

Dear Mr. Secretary:

I want to thank you for the estimate of British Government requirements for steel in the United States, which you sent me in your letter of January 17 and which I have carefully studied.

Since receiving your letter I have received the Monthly Program Statement of the British Iron and Steel Corporation, Ltd., giving their estimates for the coming year. There is considerable difference between these estimates, which I should like to submit for your advice as to whether they can be harmonized.

The British figures from their Institute indicate for the calendar year 1941 approximately 5 million gross tons in semi-finished and finished commercial carbon steels. If we assume (which may not be warranted) that 60% of this amount is in semi-finished steel and convertible into ingots at an inverse ratio of 85%, and if we assume that 40% is similarly convertible at an inverse ratio of 72%, it yields an annual delivery of 6,380,000 gross tons, which is equal to 7,120,000 net tons. The figure in your estimate is 8,251,000 net tons, or 1,131,000 net tons more.

In your estimate 1,504,000 net tons is set aside for ships during 1941, but I am informed that these ships, which are of a

- 2 -

cargo type, call for 3,500 net tons of finished steel of which the ingot equivalent is approximately 4,000 net tons. At the rate of 1,504,000 net tons of requirements this would represent 376 ships, which seems way beyond what might be expected to be the right number, as it is beyond the present and future capacity of our shipyards. I am informed that the British program at present calls for only 60 ships of which only half are expected to be off the ways this year.

Would not 500,000 tons for ships seem nearer the possible requirements than 1,504,000 tons?

The estimate with which you have been kind enough to supply me gives for the calendar year 1941 918,000 net tons for ammunition. It is my understanding that a large portion of this ammunition steel is for demolition bombs, which are not made of ingot steel but of cast steel in foundaries whose steel-making capacity is not included in the ingot capacity figures reported by the American Iron and Steel Institute for the steel industry. It would seem, if I am not in error, that a reduction by 500,000 tons to 418,000 tons would be a more likely figure for the ingot steel for ammunition.

Your estimate also gives 480,000 tons for plant expansion, but is it not true that this plant expansion is in the United States, in which case the whole of this item would be included in the figures for United States civilian consumption and should not be entered in the export requirements?

- 3 -

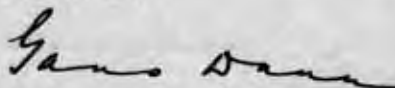
If we add together the differences so far accumulated between your estimates and the estimates of the British Iron and Steel Corporation, Ltd., they amount to 3,115,000 net tons, and if we subtract this from your figure for 1941 of 11,724,000 net tons, it leaves for British export 8,609,000 net tons instead of the 11,724,000 tons of your estimate.

If to the British export we add 1,800,000 tons for Canada and 2,000,000 tons for other exports, we will get a total export figure of 12,409,000 tons, which is considerably within the figure of 14,500,000, which up to now we have been using.

Your estimates did not indicate whether the tons were gross or net, but inquiry from your office brought the reply that they were net, excepting for possibly a few items of small amount which were gross, of which the inclusion would not materially affect the result.

Appreciating very much your help in this matter, I am

Sincerely yours,



Gano Dunn
Senior Consultant
Industrial Materials Division

REPORT OF 9:30 GROUP MEETING, FEBRUARY 4, 1941:

Mr. Graves first reported that he had seen Roy North yesterday about the question of whether or not the Post Office Department would be willing to eliminate its present series of postal savings stamps and cards and substitute a new defense series for use in our program. Mr. North saw no reason why that could not or should not be done. Mr. Graves also asked what his position would be about using postal savings certificates as well as stamps as a part of our program and North's feeling seemed to be that that would be an unnecessary duplication of the stamps. Mr. Kuhn and Mr. Graves feel that there would be no particular point to stressing the availability of postal savings certificates.

Mr. Gaston pointed out that if it took a saver six months or a year to save the price of an \$18.75 bond they would get only a trivial amount of interest out of it and Mr. Graves said there would not be any selling point for us to make. Mr. Graves also asked about the policy of the Post Office Department with reference to the establishment of agencies other than post offices and postal stations where stamps could be put on sale as a part of the Treasury's program and Mr. North saw no objection to this. Mr. Graves said the Post Office would be entirely willing to supply the stamps and the Treasury would supply to such agencies the literature, posters, and advertising material. Mr. Gaston asked whether the stamps were a transferrable obligation and

- 2 -

Mr. Graves said they were as they are not accounted for at all and would be redeemable in the hands of any holder. Mr. Graves said he felt that we could count on Mr. North and that, at his request, he was going to give him a memo containing these various points in order to have it checked through the Post Office's legal division. Mr. Graves said we could count on full cooperation of the Post Office people on any kind of a program along the lines we are now thinking about.

Mr. Graves also asked Mr. Hall yesterday to go ahead with the preliminary work of design on a new series of stamps and he will ask Jim Bryan and Gene Sloan today to check the cards on which the stamps are to be pasted for the convenience of keeping them. It is expected to use a specially designed card. The Post Office now supplies such cards but North suggested that we get out new ones stressing the ultimate investment in savings bonds and the Post Office and the Treasury would distribute them.

Mr. Wiley said he had sent a memo to Mr. Gaston on Dr. Somary and Mr. Gaston said he would dig it up and asked Mr. Cochran if he had been in on some meetings last spring or summer when the Swiss became disturbed about the possibility of their funds here being frozen. Dr. Somary came in at that time. Mr. Gaston said the FBI was interested in Dr. Somary and Mr. Cochran said he had memorandums of all of his conversations with Dr. Somary.

- 3 -

Mr. Gaston asked if those would throw any light on Dr. Somary's background and Mr. Cochran said they would not but that he was pretty familiar with it. Mr. Gaston said that Mr. Cochran could help Mr. Wiley on Dr. Somary as he probably knew a good deal more about him than he himself did. All Mr. Gaston knew is that Dr. Bruggmann brought Somary in and introduced him as a special adviser to him. Mr. Cochran said Somary was not an official of the Swiss Central Bank but was a good friend of the head man and was sent over here primarily to see about getting foodstuff through to Switzerland. He pointed out that Somary had been at various times on the question of freezing and that he is a man of interesting background, being both a banker and an economist and a Swiss by naturalization. He was a subject of the former Austria-Hungarian Empire and during the World War he was in Belgium with the army of occupation to look after Belgian economics. Later Somary went to Switzerland and was naturalized and subsequently went to Vienna to help get the Rothschild fortune out. He is considered very good on foreign exchange.

Mr. Gaston asked Cochran if he had any idea what his personal relations with Dr. Schacht were and Cochran said they were in Belgium at the same time. Mr. Gaston wondered if it would not be advisable for the FBI to talk with Dr. Bruggmann about Somary. Mr. Cochran said if they wanted to talk to a foreign legation

- 4 -

about a man who has a diplomatic status they should go through the State Department first. Wiley said he would check this with Feis. Cochran said that when Somary first came over he had a talk with Walter Stewart before it was suggested that the Secretary might see him because both he and Stewart knew Somary's background. The Secretary was given the information available and that Somary had only been seen here once since then. Mr. Cochran considers him highly intelligent and one of the best informed men on European affairs that he knows of and added that he had gotten quite a bit out of the talks he has had with him but that he (Cochran) has been cautious in those talks.

Mr. Gaston asked if Cochran thought his point of view was pro-Nazi and Cochran said he was absolutely pro-Swiss. Cochran said there was a little friction between Somary and Bruggmann and that the Minister would not allow Somary to make representations. Pehle asked if there wasn't some question as to whether Somary's talk around Wall Street was not responsible for some of those earlier disturbances with regard to the imminence of Swiss freezing and Cochran said he did not think that Somary had started the gossip.

Mr. Wiley said that Max Horn of Sofina came in yesterday and remarked that Mr. Pehle was employing 12,000 people on applications. Mr. Gaston remarked that he had gotten his decimal points misplaced.

- 5 -

Pehle pointed out that Horn came in on a Belgian Congo matter and stated that our relations with him on Congo matters have been highly satisfactory and that he was highly intelligent. Mr. Gaston said he had received a memorandum on Mr. Lipschats from Mr. Wiley who pointed out that this man was from Antwerp.

Mr. Gaston asked if Sir Frederick had brought in a new visitor to see Mr. Cochran yesterday—Mr. Peacock of the Bank of England. Cochran said he came in for a minute and then returned to talk about China. The Chinese have their own stabilization fund and have been in touch with the British Government in regard to what arrangements can be made jointly. Cochran indicated it was getting complicated and added that we were not undertaking any operations as the Chinese matter has not yet been consummated. Both the Chinese and ourselves are waiting to hear from Great Britain and Peacock is submitting a memo today which will be sent to Mr. Gaston and other Treasury people to examine. An arrangement has been figured out whereby they can relieve the British and put all the load on the American dollar. Mr. Gaston indicated that the Secretary had had a distinct understanding on this point with Soong. Cochran said that the British have the idea of making the use of sterling so restricted it could only be used for commercial purposes, insulating the pound from the main problem. All of the pressure would be on the dollar—from people who wanted to get out

- 6 -

from the yuan into dollars. The memo will be on Mr. Gaston's desk today.

Mr. Gaston asked whether Peacock had requested advice or help on his main problem (disposition of securities in U. S.). Cochran said he had not and that Peacock had told him they were just getting their feet on the ground and plans on opening an office in New York; he was told Mr. Gaston is now in charge. Mr. Gaston imagined there was little for him to do here in the Treasury until he examines the situation a little and gets some data and ideas to discuss with the Secretary. Cochran indicated Peacock wanted to talk it over with Phillips and perhaps the Ambassador because there has been some criticism from London of this policy of selling securities. Mr. Gaston asked if Rubenstein was Mr. Cochran's friend, too, and was told that he came in about a week ago introduced by John Harlan, formerly a Treasury lawyer, and he had all kinds of financial schemes, one for Latin-Americans paying us in compensation dollars for service on loans floated in Latin-America. Since Rubenstein returned to New York he called Cochran three times and asked to be placed in touch with the British and Cochran referred him to Mr. Gifford. Rubenstein is making a campaign to collect the problems of Government officials in Washington; he has money and apparently a great deal of energy. He entertained the Chilean Ambassador and others at a recent dinner.

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Commenting on the bill raising the debt limit, John Sullivan said there would be a minority report in which a motion is made that the debt limit be raised only to 60 billion instead of 65. Sullivan considers that stupid as we would need about 57 or 58 through next year and the 60 is more than enough for that period but not enough for the two years, so it is not expected that they will get any place. They are not opposed to taxable securities. Wright Patman called Sullivan on Friday and in one sentence talked about six or seven different angles of the situation and particularly about an amendment providing that these securities be redeemed for what they cost which grows out of the fact that after the War Liberty bonds dropped to about 82 and Patman thought that was pretty terrible. He wanted to know how we felt about the amendment which was being drafted. Sullivan offered to look it over. Gaston said we want to be sure, in case of such an amendment, that the power of the President to issue three billion of U. S. notes is continued because we are likely to need it if all our securities are going to be redeemable on demand. Sullivan said the committee was very strong for redeeming all securities at par at any time and that the matter came up in executive session and he had explained to them that it had been Treasury policy to do that and that we had been doing it for quite some time and under the bill as it is now drafted we would continue to have the authority

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to do that but that we did not want to be obliged to do it because, for example, if there is another New England hurricane and people need money to make repairs and if a billion dollars' worth came in in one week we would be out of luck and with no time to do re-financing. Gaston pointed out that our liability in savings bonds, out of a $4\frac{1}{2}$ billion debt, was perhaps $3\frac{1}{2}$ billion and that it was not anticipated this type of debt would be more than a fraction of total borrowing. Graves said it might be more than a minor fraction, possibly as high as 5 billion a year out of some $14\frac{1}{2}$ billion this year.

Mr. Pehle stated that the letter to the Secretary of State asking advice on payments to Danish ship operators had gone out by special messenger yesterday with changes suggested by Mr. Gaston. Mr. Gaston expressed fear that we might have stepped into something. Pehle thought we should have a conference with Maritime, Justice, and State on releasing funds to Moller. He feels that we have not closed the door to this by our letter and thinks we should see Justice as one of the interested agencies, also Navy. Pehle asked if the group had noticed the story in this morning's paper with regard to transferring Danish boats to American lines and pointed out that there was a rumor that they were going to set up a refugee government in London to handle Danish boats; negotiations with the Maritime Commission are being pressed meanwhile. Truitt is all for the other

- 9 -

side and he has been convinced from the beginning there is nothing we can do for the British in this picture. He always took the view that we would have to look after American shipping interests but as far as British boats are concerned he wasn't interested. Gaston asked if we should have a talk with Stopford today and see what he thinks about this thing. Pehle thought it would be a good thing and mentioned that Maris, from the Embassy, Oscar Cox and some of the people talked to him about it. Gaston pointed out that we had merely asked for information and advice in our letter and we had repeated that we would like the judgment of other agencies and asked for information, adding that (Breckenridge) Long apparently turns this whole thing over to Saugstad. Long talked to Mr. Gaston the other day about handling all this shipping stuff through his office, it being the proper place. He evidently did not like the idea of Gaston talking to Berle although when Gaston mentioned Berle to him he said it was all right but that the information could be obtained from Long's office. Pehle expects the thing to blow up again.

Mr. Kuhn pointed out that a Danish Government had been set up in London in the last month, not a refugee government but something the British have done to recognize their allies. At the beginning Denmark was placed in an entirely different category from Norway, Holland, and Belgium and Kuhn thinks they are now getting ready for something.

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Mr. Gaston said Truitt had said Isbrandtsen had talked for hours with the Maritime Commission but they couldn't get anywhere because Isbrandtsen couldn't make up his mind as to what to do. Pehle thinks the thing to do is to let Sparke make up his mind as he knows the problem. Saugstad told Mr. Gaston that the Danes were pressing and it was very important to get these ships transferred. Gaston told him he thought the question was somewhat different; that we had been supplying these ships through Isbrandtsen and to switch to Moller would be to recognize him as the boss from now on. Pehle said he thought the Maritime Commission's attitude on this was stupid as the negotiations are just between some American ship owners who are glad to have the boats and the Danish interests are going to get some money out of chartering them, but they haven't gone any place with the British and until the British agree that these Danish boats are going to sail under their flag they won't get any place. These boats will travel in the Far East and in hemisphere trade. Maritime says they are going to ask the British to release the Danish vessels and the British aren't going to get anything out of it. Kuhn pointed out that Norwegian ships fly the British flag now in British service and Pehle added that Norway is an ally with a refugee government set up in London working right with the British and with their funds in the Bank of England, etc. The Danish Minister is in a delicate position but in this particular

- 11 -

situation he feels that after the war he must be in the position of having protected the Moller interests.

Mr. Gaston told Mr. Haas we had a telegram from Marshall who gave out a statement to the papers saying that the Secretary of the Treasury was grossly ignorant about the price of wool and Haas said we were working on a reply to slap him down.

Mr. Buckley said that in Mr. Young's absence he was seeing a fellow named Kraus. Mr. Gaston produced a report on Mr. Kraus describing him as a mental case who has made statements that he might try to see the Secretary in order to get him to correct world affairs. Kraus is a man of apparently some intellectual and educational background who has become a bit cracked. Buckley thought maybe he had better not see him but Sullivan suggested that we might as well see him now, with somebody else around such as a Secret Service man to be introduced as his assistant. Cairns said that we had done the same thing with another man who subsequently published a pamphlet on the subject and said obviously a Secret Service agent was sitting there posing as an assistant. Gaston thought Kraus might be intelligent enough to resent that and believed he might be all right until he got excited. Buckley said Kraus was going to publish whatever he had this afternoon and just wanted to talk to somebody about it and Gaston suggested Buckley tell him it was interesting and should be published. Buckley said

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he would like to have somebody with him and Gaston suggested an active man from Coe's office. Coe said he would have Eddy there.

Mr. Buckley said he had listened to the Greek Minister for an hour yesterday afternoon and learned nothing more but said the Minister was very realistic and knew there weren't any more P-40's but that he wanted thirty fighting planes. He was told that his problem was with Sumner Welles and Buckley thought Berle should be apprised of the situation as the Greek Minister was sure to call on the State Department this morning. Buckley pointed out that Murray, Chief of the Near East Division in State, is trying to make good with the Greeks but he has some wild ideas like taking fifteen back from the Chinese and another fifteen from the British, and added that we could tell State what the understanding was as to the purchase of these fill-in orders that are to come along. The Greeks gave a figure not to exceed thirty-five unless some unusual situation developed about which they had to talk to us, such as the Boeing proposition. Gaston asked whether any progress had been made with the Army on the company's putting the tag on some of its planes but Buckley had not heard.

Kuhn said the Secretary is getting a lot of hostile mail on his remark that he had mentally written off the British war debt and said he thought it called for a letter saying that the

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Secretary himself has no power to write off the debt but was simply expressing a personal opinion that he did not think we could collect. All other aspects of his testimony seem to be ignored.

Gaston said he had noticed in Mrs. Forbush's last weekly review that there was a preponderance of letters not merely against the Lend-Lease Bill but definitely pro-German and signed with a majority of German names. Kuhn said when the letters were anonymous you could often see the German formation of the letters. He added that about forty anonymous letters were received daily, ten of which were suspiciously Germanic and ten of which were pretty fair letters of comment. He considers it to be not serious. .

Mr. Schwarz suggested that Mr. Gaston might want to take a look at Pearson and Allen who discuss propaganda in general, going back to George Creel. Gaston commented that the columnists were not helping Treasury-State relations any.

Mr. Thompson revealed that Mr. Duffy took his oath on February 1st and the papers came in yesterday so he is now a full-fledged collector. Thompson suggested that Mr. Gaston prepare a letter for the Secretary to Mrs. McAdoo similar to the one for Mrs. Peoples. Gaston said he had done so and sent them to Miss Chauncey yesterday.

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Mr. Gaston invited Mr. Pehle to come in when he got hold of Stopford and said he could contact Mr. Bernstein at the same time. Pehle suggested Smith too and asked if Atherton had called to which Mr. Gaston said no. Pehle commented that they were surely on the ball over at State with millions of dollars slipping away. Gaston said he would call Atherton again.

February 4, 1961

Piles

Mr. Goethrum

At the staff meeting held yesterday morning in Acting Secretary Goethrum's office I mentioned the request which I had from Mrs. Ross for action as to assisting Ind-Gliss in obtaining a libel for the suit. At the same meeting it was agreed that Mr. Telle should address a letter to the Department of State requesting the latter's opinion with respect to the continuation of certain privileges granted Ind-Gliss under our freezing regulations. It was understood that Mr. Goethrum would take as action on Mrs. Ross's inquiry until word might be had from the State Department with respect to the attitude toward Ind-Gliss under present conditions.

At 10 o'clock this morning Mr. Goethrum talked with Mr. Graves regarding the libel question. Mr. Goethrum confirmed the statement which he had made at the meeting yesterday, namely, that the libel in question was suited for shipping to Ind-Gliss, and not to be used in evidence by our own staff. Mr. Goethrum confirmed, however, Mr. Graves' understanding that our staff is now carrying out an important assignment without for Ind-Gliss.

Following the staff meeting this morning Mr. Goethrum was visited by Mr. Bennett of the staff. The latter took with him to Mr. Graves' office the file of correspondence in Mr. Goethrum's possession, regarding it half an hour later. The purpose of this conference was to bring Mr. Graves to take on the proposition under reference, and to discuss the question as to who should be in charge of any provision of libel to Ind-Gliss. Mr. Goethrum spoke with Mr. Graves at 11 a.m. today. It was agreed that if the Department of State will decide to this request, a recommendation should be made to the Acting Secretary of the Treasury that the obtaining and shipping of the libel be handled by the Procurement Division of the Treasury rather than by the staff, since this appears to be a technical matter for which the Procurement Division is better qualified through experience than is the staff.

At 11 o'clock Mr. Goethrum telephoned Mr. Clark, but in the latter's absence talked with Mr. Baker, who is temporarily in charge of the French desk. Mr. Goethrum referred to the memorandum of January 3, and asked Mr. Baker whether, in view of recently changed circumstances, the Department of State desired that the Treasury Department assist Ind-Gliss in obtaining libel. Mr. Goethrum told Mr. Baker of the Treasury's approach to Mr. Albritton yesterday on the subject of Ind-Gliss. Mr. Goethrum explained further that he had held up action on the State Department's memorandum under reference for some days, pending a clarification of the Ind-Gliss situation. Mr. Baker promised to consult Mr. Albritton in the premises and to telephone Mr. Goethrum as to how the State Department now feels upon the question.

February 3, 1941

Mr. Baker called Mr. Cushman back at 6 p.m. on February 3. He had consulted with Mr. Atherton. The State Department idea was that pending a clear knowledge of what is going to take place in Indo-China, from the international political standpoint, it is preferable that all questions of minor importance touching upon Indo-China be received, while those of major importance be held up. When I told Baker that the Treasury was willing to await further advice from the State Department, since this matter is not one in which the Treasury itself has any great interest, Baker was pleased to have us disregard for the present the views of the State Department set forth in its note of January 3 to the Treasury, and to hold the matter in abeyance until further word is received from the State Department. At 8 p.m., Messrs. Atherton, Fols and Hamilton of the State Department met with Acting Secretary of the Treasury Cushman and Messrs. Fols and Cushman to discuss American relations with Indo-China. The above-mentioned plan with respect to nickel fits in with the decisions reached at this conference.



Confidential

Following sent 2/4/41
Coast Guard
Washington D.C.

General Watson White House for
delivery 0900 tomorrow
Wednesday. Will arrive
Washington Monday morning
February tenth. Expect to
testify Tuesday before
Senate Banking and Currency
Committee on debt limit bill.
If convenient would appreciate
being invited to lunch with
President Monday. Having
good resb regards
Morgenthau

February 4, 1941.

Dear Mr. Marshall:

In reply to your telegram of January 31, I will say that a closer study of the wool price situation which we have recently made raises the question whether the criticism of woollen goods prices by Commissioner Henderson and Secretary Morgenthau, to which you refer, does not apply with almost equal force to wool prices.

We are much concerned, for example, with the increase in the price of cloth used in Army uniforms. The wholesale price of fine grade serge uniform suiting rose 12 per cent during 1940, from a low of \$2.426 a yard on February 27 to \$2.723 on December 24. Medium grade serge in the same period rose 18 per cent. We find that prices for certain types of wool in 1940, however, made considerably greater gains than these in a shorter time. As a measure of prices for one type of semi-manufactured wool, the price of wool tops at New York rose to \$1.44 a pound on January 31, 1941, as compared with prices below \$1.00 as recently as last August. During the highly speculative price rises of early 1937 and the fall of 1939, the highest monthly averages for wool tops were \$1.30 in January, 1937 and \$1.21 in October, 1939.

Raw wool prices have shown very extensive price gains. I note, for example, that the average monthly price of Ohio fine combing wool at Boston, as reported by the Department of Labor, rose 29 per cent in four months between August and December. Ohio fine delaine combing in the same period rose 27 per cent, and wholesale prices of various other types increased in those four months around 25 per cent.

I note that the average farm price of wool in your State of Washington, as reported by growers to the Department of Agriculture, rose from 24 cents a pound in August to 33 cents in December, an increase of 37½ per cent.

The average farm price of wool in the United States, which rose 14 per cent between August and December, reached 31.2 cents a pound in the latter month. This was far above the Department of Agriculture's parity price of 23.2 cents in December. It is also above the peak of 28.7 cents reached in October, 1939, and is 3 per cent above the average price in 1929. In contrast, the average price received by producers of all farm products in December was 29 per cent below the 1929

- 2 -

average, and showed a gain of only 5 per cent in the last four months of 1940.

You should understand that the concern expressed by the Secretary was not so much over a level of prices at a particular moment as over rates of increase threatening violent dislocation of the price structure. From this point of view and in the light of the facts mentioned above, his position seems to have been well justified.

Sincerely yours,

(Signed) Herbert E. Gaston

Herbert E. Gaston
Assistant Secretary of the Treasury.

Mr. F. R. Marshall,
Secretary, National Wool Growers Association,
509 McCornick Building,
Salt Lake City, Utah.

HEG/mah

February 4, 1941.

Dear Mr. Marshall:

In reply to your telegram of January 31, I will say that a closer study of the wool price situation which we have recently made raises the question whether the articulation of woolen goods prices by Commissioner Henderson and Secretary Hargrath, to which you refer, does not apply with almost equal force to wool prices.

We are much concerned, for example, with the increase in the price of cloth used in Army uniforms. The wholesale price of fine grade serge uniform suiting rose 12 per cent during 1940, from a low of \$2.426 a yard in February 27 to \$2.723 in December 24. Medium grade serge in the same period rose 16 per cent. No find that prices for certain types of wool in 1940, however, were considerably greater than those in a shorter time. As a measure of prices for one type of well-manufactured wool, the price of wool tops at New York rose to \$1.44 a pound in January 31, 1941, as compared with prices below \$1.00 as recently as last August. During the highly speculative price rises of early 1937 and the fall of 1939, the highest monthly averages for wool tops were \$1.30 in January, 1937 and \$1.21 in October, 1939.

New wool prices have shown very extensive price gains. I note, for example, that the average monthly price of Ohio fine combing wool at Boston, as reported by the Department of Labor, rose 29 per cent in four months between August and December. Ohio fine delustré combing in the same period rose 27 per cent, and wholesale prices of various other types increased in those four months around 25 per cent.

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The average farm price of wool in the United States, which rose 14 per cent between August and December, reached 31.2 cents a pound in the latter month. This was far above the Department of Agriculture's early price of 20.2 cents in December. It is also above the peak of 28.7 cents reached in October, 1939, and is 3 per cent above the average price in 1939. In summary, the average price received by producers of all farm products in December was 29 per cent below the 1939

- 2 -

average, and showed a gain of only 5 per cent in the last four months of 1940.

You should understand that the concern expressed by the Secretary was not so much over a level of prices at a particular moment as over rates of increase threatening violent dislocation of the price structure. From this point of view and in the light of the facts mentioned above, his position seems to have been well justified.

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Assistant Secretary of the Treasury.

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509 McCormick Building,
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HBO/mah

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Raw wool prices have shown very extensive price gains. I note, for example, that the average monthly price of Ohio fine combing wool at Boston, as reported by the Department of Labor, rose 29 per cent in four months between August and December. Ohio fine delaine combing in the same period rose 27 per cent, and wholesale prices of various other types increased in these four months around 25 per cent.

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The average farm price of wool in the United States, which rose 14 per cent between August and December, reached 31.2 cents a pound in the latter month. This was far above the Department of Agriculture's parity price of 23.2 cents in December. It is also above the peak of 28.7 cents reached in October 1939, and is 3 per cent above the average price in 1929. In contrast, the average price received by producers of all farm products in December was 29 per cent below the 1929 average, and showed a gain of only 5 per cent in the last four months of 1940.

Treasury Department

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TELEGRAPH OFFICE

200 FN 147 NL

MF SALT LAKE CITY UTAH JAN 31/41

HON HENRY MORGENTHAU
SECRETARY OF THE TREASURY

1941 FEB 1 AM 9 05

ON JANUARY 15 ON BEHALF OF WOOL GROWING INDUSTRY I WIRED PROTEST YOUR
JANUARY 12 RELEASE IN WHICH YOU CHARGED THERE HAS BEEN AN UNWARRANTED
RISE IN WOOL PRICES I ASKED YOU INVESTIGATE OFFICIAL RECORDS OF COURSE
OF WOOL PRICES WHICH SHOW YOUR CHARGE UNFOUNDED AND THAT YOU THEN MAKE
PUBLIC CORRECTION YOUR REPLY THROUGH MR GASTON IS WHOLLY INADEQUATE AND
UNSATISFACTORY IT REALLY QUOTES MR HENDERSON'S STATEMENT OF JANUARY 6
WHICH RELATED WHOLLY TO PRICE OF WOOLEN GOODS YOU SURELY MUST KNOW THAT
THE RAW WOOL CONTENT OF WOOLEN GOODS IS A SMALL PART OF THEIR COST IN
YOUR ATTEMPT TO CORRECT PRACTICES OF PROCESSORS OF WOOL YOU HAVE UNWITTINGLY

Treasury Department

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TELEGRAPH OFFICE

2POFN / SHEET 2

WORKED A SERIOUS INJURY TO WOOL PRODUCERS ON BEHALF OF NATIONAL
WOOL GROWERS ASSOCIATION I MUST THEREFORE RESPECTFULLY REPEAT MY
ORIGINAL REQUEST THAT IN FAIRNESS YOU MAKE PUBLIC CORRECTION YOUR
ADMITTEDLY ERRONEOUS STATEMENT OF JANUARY 12

F R MARSHALL

825A

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 4, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£27,000
Purchased from commercial concerns	£ 6,000

The Federal Reserve Bank of New York sold £1,000 in registered sterling to a non-reporting bank.

Open market sterling was quoted at 4.03-1/2. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 9,000
Purchased from commercial concerns	£16,000

The only change that took place among the other currencies was a decline in the "non-commercial" Swiss franc; small amounts were traded at .2325. Closing quotations were:

Canadian dollar	17-1/4% discount
Swiss franc (commercial)	.2324
Swiss franc (non-commercial)	.2325
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2375
Brazilian milreis (free)	.0505
Cuban peso	6-13/16% discount
Mexican peso	.2066
Chinese yuan	.05-7/16

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of England shipped \$1,070,000 in gold from England to the Federal, to be earmarked for account of the National Bank of the Kingdom of Yugoslavia.

The Bombay gold price was equivalent to \$34.02, off 3¢. Silver was 1/16¢ lower at the equivalent of 44.81¢.

In London, a price of 23-5/16d was again fixed for both spot and forward silver, equivalent to 42.33¢.

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Hendy and Harman's settlement price for foreign silver was unchanged at 34-5/4¢. The Treasury's purchase price for foreign silver was also unchanged at 35¢.

We made six purchases of silver totaling 500,000 ounces under the Silver Purchase Act. Of this amount 50,000 ounces represented a sale from inventory, and 350,000 ounces consisted of new production from foreign countries, for forward delivery. The remaining 100,000 ounces represented part of a shipment of 823,000 ounces shipped to this country a month ago by the Central Bank of China. So far, we have purchased 550,000 ounces of the Chinese shipment.

The report of January 29 received from the Federal Reserve Bank of New York, giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$8,728,000, an increase of \$446,000 in the short position. Net changes were as follows:

Country	Short Position January 22	Short Position January 29	Change in Short Position*
England**	\$ 53,000	\$ 35,000 (Long)	- \$ 88,000
Europe	3,391,000	3,302,000	+ 11,000
Canada	563,000 (Long)	405,000 (Long)	+ 158,000
Latin America	243,000	204,000	- 39,000
Japan	4,339,000	4,461,000	+ 122,000
Other Asia	922,000	1,244,000	+ 322,000
All others	3,000 (Long)	43,000 (Long)	- 40,000
	<u>\$8,282,000</u>	<u>\$8,728,000</u>	<u>+ \$446,000</u>

*Plus sign (+) indicates increase in short position, or decrease in long position.

Minus sign(-) indicates decrease in short position, or increase in long position.

**Combined position in registered and open market sterling.

The Federal Reserve Bank's report of January 29, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled \$106,056,000, a decline of \$10,194,000 since January 22. Most of the change in deposits took place on the books of the Yokohama Specie Bank's New York agency. The latter's principal dollar liabilities to and dollar claims on Japanese banks in Asia stood as follows on January 29:

	January 29	Change from Jan. 22
Liabilities: Deposits for Japan & Manchuria.....	\$55,813,000	- \$11,850,000
Deposits for China.....	38,604,000	+ 1,558,000
U.S. Treas. bills, comm. paper, etc..	29,134,000	- 1,497,000
Claims : Loans.....	\$54,669,000	+ \$ 7,143,000
Other - mainly Jap. import bills.....	11,078,000	- 7,835,000

The last three categories refer mainly to Japanese banks in Japan and Manchuria. The Federal Reserve Bank was informed by the Yokohama agency that deposits of such banks declined \$11,850,000 mainly owing to funds paid out by order of the head office against exports into Japan. In addition, \$7,835,000 worth of maturing Japanese import bills held by the New York agency were paid off, largely through an increase in loans granted by the agency to the head office.

CONFIDENTIAL

FEDERAL RESERVE BANK
OF NEW YORK

105

WIRE CORRESPONDENCE
TO: CONFIDENTIAL FILES
FROM: L. W. Knobe

DATE February 4, 1941

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

I called Mr. Bolton at 10:05 o'clock a.m. They were having a quiet time there at the moment, he said, "Not very much noise".

I reverted to our conversation of last Friday morning. I had discussed the matter here, I stated, and needless to say we all greatly appreciated his keeping us posted. After I had finished speaking to him on Friday morning, I continued, I looked over our records and found that we had actually already refunded practically the full amount. But even if we had not already made the refund we felt that our decision to make it could not have been affected by the fact that it might require legislation from his end. Naturally we would much prefer not to have any publicity but if, in the circumstances, publicity was unavoidable, we felt we could not help. As I had pointed out to him last Friday, we found ourselves in a delicate situation and felt that we had to go through with the matter as planned.

Mr. Bolton replied that since we had actually made the refunds, "We have got to refund ourselves here in whatever way we can and if without publicity, we shall". What was the "crime" we had committed, he inquired, and I explained at some length the Neutrality Act and its prohibition to solicit and collect funds and contributions for or on behalf of a belligerent government or of any agent or instrumentality thereof. The prohibition was very clear, I said, but unfortunately had been overlooked by us in connection with remittances for their account, which routine-like reached us through the mail and over the counters. We had accidentally stumbled on to the whole thing as a result of a letter under the heading "How to Send Dollars" published on December 3, 1940 in the New York Herald Tribune by one of its readers. In this letter it had been suggested, if I remember correctly upon the advice of a British official, that it would be helpful if contributions were made in dollars in New York rather than in sterling in

FEDERAL RESERVE BANK
OF NEW YORK

105

VICE CORRESPONDENCE
TO: CONFIDENTIAL FILES
FROM: L. W. Knoke

DATE February 4, 1941

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

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I reverted to our conversation of last Friday morning. I had discussed the matter here, I stated, and needless to say we all greatly appreciated his keeping us posted. After I had finished speaking to him on Friday morning, I continued, I looked over our records and found that we had actually already refunded practically the full amount. But even if we had not already made the refund we felt that our decision to make it could not have been affected by the fact that it might require legislation from his end. Naturally we would much prefer not to have any publicity but if, in the circumstances, publicity was unavoidable, we felt we could not help. As I had pointed out to him last Friday, we found ourselves in a delicate situation and felt that we had to go through with the matter as planned.

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in

in London and that such dollar payments could be made to the Federal Reserve Bank of New York for the credit of the account of His Britannic Majesty's Government. I would send him a copy of the Act and complete list of the payments refunded by us. It was all quite clear to him, Mr. Bolton replied, "You have acted as an illegal receiver." He would wait until he received our letter and then see what they could do to clear the matter up.

I then referred to Mr. Tong's letter of December 27, 1940 written in Mr. Bolton's absence in reply to my letter to Mr. Bolton of December 3 in regard to the difficulties we were experiencing with the brokers in our market. I stated that we considered the letter final and would not go into the matter any further but before closing our files I would like to make two comments: one was Mr. Tong's statement "I don't think we could contemplate suggesting to our Treasury the payment of a commission which would practically amount to supporting your market, while we had been the cause of putting our own people out of business." What I had suggested in my letter, I said, was a procedure that would not have cost the British Treasury a penny, so my letter could not have been interpreted as a suggestion that the British Treasury assume a burden which it had not already assumed. What I had had in mind was simply a scheme under which our banks passed on to our brokers some of the commission which the British authorities were now paying to American banks in London. Mr. Bolton replied that upon his return he had looked up the correspondence and had marked my letter with a notation similar to what I had just stated. He had not written me however because he thought it was too late. I replied that I did not want to reopen the question but just wanted to get the record straight. As regards Mr. Tong's last paragraph, I said, I would not even want to pass his suggestion on to our banks because I felt that it was no way out and that I had better forget about it. Mr. Bolton replied that he rather regretted the letter and wished they had omitted his return because he would rather have talked to me about it on the telephone. He explained that our brokers had approached us in the matter and that we had felt it

incumbent

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incumbent upon us to explore every possibility. They had been looking into the problem, Mr. Bolton said, in order to see if anything could be done. It was difficult to fit it into the text of the general control. However he had not given up hope yet and would revert to it in a little while. I replied that if there could be a solution to the problem so much the better.

Mr. Bolton stated that there were certain administrative changes being made at the bank which might give him a little more time and in that case he would call me from time to time as in the past.

LWK:KW

RG

COPY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Vichy

DATE: February 4, 1941, noon

NO.: 154

The following is for the Treasury Department from Matthews:

Information has come to me that the Germans have secretly obtained possession of the entire portfolio of security holdings of the Belgian National Bank which had been removed to the Toulouse branch of the Bank of France for safekeeping last spring. I am told in confidence by a high official of the Ministry of Finance that Janssen, the Belgian National Bank Governor, sent instructions to the Bank of France sometime in October to return the securities to Brussels. The greatest secrecy was exercised in carrying out the operation. It is believed that a short time ago the last shipment was made. It appears that neither the Bank of France nor the Ministry of Finance have any data as to the value or composition of this lot of securities. The Bank of France got them in sealed packing cases, and returned them as they had been received.

An estimate of approximately 25,000,000,000 Belgian francs for the value of the Belgian securities is given by Radigues, who was formerly the Belgian Counselor here and the former Belgian Minister of Justice. It is the opinion of Barrett of the Guaranty Trust Company that
this

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this estimate is not unduly high. He thinks that over one-half of the Belgian National Bank holdings consisted of foreign issues, including various American stocks and bonds, Brazilian traction stocks and bonds, and South African diamond shares. You can presumably through Gutt in London obtain precise information as to these securities.

END OF MESSAGE.

LEAHY.

EA:LWW

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ConfidentialP A R A P H R A S E

A telegram (no. 2) of February 4, 1941, from the American Consul General at Batavia reads substantially as follows:

On February 3 the Netherlands delegation delivered to the Japanese delegation a memorandum, a summary of which is as follows:

For the purpose of making clear the position of the Netherlands delegation concerning the economic negotiations going on at present and of avoiding the possibility of a misunderstanding, the Netherlands delegation states again the considerations which are determining the Netherlands Indies economic policy. Although constant care in a spirit of good will is being given to the matter of adjustment and improvement of economic relations and the increase of mutual trade with non-belligerent or neutral countries, it is necessary that the following principles govern the measures taken toward that end. The chief aims of the policy of the Netherlands Indies Government are the progress, welfare and emancipation of the population of the Indies. Steps which are in opposition to the interests of the people or which narrow the extent of their future development should be prevented. The interests of the Netherlands Indies require that the basis for economic relations with foreign countries be

one

CONFIDENTIAL

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one of absolute non-discrimination; the formation of the Netherlands Indies into a self-sustaining economic system within the limits of the Kingdom of the Netherlands shall not be disturbed by the participation of foreign countries in the economic growth of the Netherlands Indies; there shall not be created in any field of economic activity a preponderance of foreign interests; economic activities, including trade, will, so long as the war in which the Netherlands Government is involved goes on, be subjected to unavoidable restrictions in order to safeguard the defense of the Netherlands Indies and to prevent the enemy from advancing indirectly or directly.

The facts do not seem to bear out the statement contained in the Japanese memorandum that the natural resources of the Netherlands Indies have been developed inadequately and that the economic relations between Japan and the Netherlands Indies are of such great importance as to justify the use of the phrase "interdependence". The scattered character and the scarcity of natural resources is the reason why a large part of the outer provinces is thinly populated rather than because of lack of labor, spirit of enterprise or funds. Poor results from a number of (?) to assist mining enterprises and the facts obtained from scientific explorations confirm the above statement.

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statement. Compared with reserves, the output of minerals is high and in the case of minerals which were of low grade, as for instance iron ore, they were exploited when demands arose therefor. Production has been increased to such an extent in almost all fields of tropical agriculture that in order to avoid glutting world markets permanently restrictions were imposed. This does not mean that there is no room for further development. Within the limits mentioned above, bona fide private foreign knowledge and capital are welcomed. However, this should go forward in a rational manner and should be brought about principally for the benefit of and with the assistance of the large population of other sections of the Netherlands Indies. As proof that the Netherlands Indies is not in need of immigration from foreign countries, is the fact that emigration from Java organized by the Government totals 50,000 persons a year and is rapidly increasing. In order to relieve the pressure of the population of Java and other places, all sections of the outer provinces which can be cultivated sufficiently to afford economic returns are required.

As to the importance of trade relations between Japan and the Netherlands Indies, it should be borne in mind that between 1930 and 1939 there was a decrease in
Japan's

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Japan's percentage of the exports of the Netherlands Indies. The increase in Netherlands Indies imports from Japan was made possible by exports to third countries by the Netherlands Indies. There was a still further decline in exports to China and to "Manchukuo". From this it is proven that the Netherlands Indies welfare is dependent upon trade with all the world rather than on mere geographic nearness. Distance is not so important as demands from (?). That there is room for improvement and that there is every reason to further as much as possible normal economic relations is proven by statistics. Therefore, the Netherlands delegation submits proposals as follows: (1) yen balances accruing to Netherlands companies or nationals in Japan be made available for any lawful transactions connected with the economic intercourse between the Netherlands East Indies and Japan; (2) the freedom necessary for undisturbed exercise of their trade be granted Netherlands companies and nationals in Japan; (3) products of the Netherlands East Indies important from an economic standpoint which are now barred from Japan by various measures, including monetary, be bought for use in Japan. In this connection may be mentioned especially sugar, of which Japan and those areas of China and "Manchukuo" which were supplied by Japanese refineries formerly have a shortage.

February 4, 1941.

To: Mr. Cochran
From: L. W. Knoks

As a result of yesterday's dispatch from Tokyo saying that the Japanese Premier had decided to ask Parliament for power to seize and dispose of foreign owned properties in Japan if necessary to protect Japanese properties abroad, I asked Mr. Rosell in this bank to prepare a memorandum on American investments in Japan and Japanese investments in the United States. Copy of this memorandum is attached.

Att.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE: February 3, 1941

TO: Mr. Knoke

SUBJECT: American Investments in Japan
and Japanese Investments in United States

FROM: W. H. Rosell

CONFIDENTIAL

Available data on Japanese investments in the United States and, conversely, American investments in Japan are summarized in the attached table.

On January 22, 1941 short term banking assets held in this district for Japanese account amounted to \$121,000,000. In addition the various Japanese bank agencies in this district reported \$40,000,000 of banking assets due to China, most of which probably was for areas under Japanese control. The total due to Japan, therefore, was about \$161,000,000. It should be noted, however, that some small part of this total represented balances held for the account of Japanese branches of American banks and therefore not actually Japanese property. No reliable figures on Japan's long term investments in this country are available beyond the middle of 1937, for which date the Department of Commerce makes an estimate of \$48,000,000, the bulk of which was in the form of direct participations in American business enterprises. Our investigation of the Yokohama Specie Bank's reports, as you know, led us to believe that the Japanese authorities had accumulated about \$66,000,000 of United States Treasury bonds by the end of 1939. This portfolio has since been liquidated, however, so that Japan's current holdings of American securities are probably not far from the figure for mid-1937. Her total financial stake in this country, including both short and long term investments, can be placed at about \$200,000,000. This would appear to be about the same as our investments in Japan, about one-half of which represents American holdings of Japanese Government and corporate bonds

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payable in dollars. Judging from the totals alone, it would seem that any attempt by Japan to "block" or nationalize our investments could, therefore, be fairly adequately countered by a "freezing" of her assets in this country. It should be noted, however, that while Japan's holdings are primarily in the form of highly liquid assets, our holdings are concentrated in long term securities which could not be disposed of as easily. In this connection you will recall that there have been several indications that the Japanese monetary authorities are contemplating the transfer of their banking assets now in New York to Brazil. If such were accomplished before these accounts were "frozen", Japan's assets in this country could be reduced by something like \$100,000,000, thereby putting the balance decidedly in her favor in the event of a mutual "blocking."

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Japanese Investments in the United States
(In millions of dollars)

<u>Long Term (a)</u>		
Stocks	4	
Bonds	2	
Direct	41	
Miscellaneous	1	
Total Long Term	<u>48</u>	
<u>Short Term (b)</u>		
Banking Funds		<u>161 (c)</u>
Total Investments in U.S.		209

American Investments in Japan
(In millions of dollars)

<u>Long Term</u>		
Dollar Bonds		
(end of 1939)	112	
Direct investments		
(end of 1936)	<u>47</u>	
Total Long Term		159
<u>Short Term (b)</u>		
Banking Funds		<u>70</u>
Total American Investments in Japan		229

- (a) Department of Commerce estimates for the end of June, 1937, the last date for which data are available.
 (b) Second District figures for January 22, 1941.
 (c) Includes \$40,000,000 for China (North China) reported by Japanese bank agencies in New York.

GRAY

MADRID

Dated February 4, 1941

Rec'd 4:46 p.m.

Secretary of State,

Washington.

87, February 4, 4 p.m.

I am informed by a source considered reliable that a representative of the Argentine Junta Nacional de Algodon now in Madrid is negotiating with the Spanish Government for the sale of 100,000 to 120,000 bales of cotton. Payment is to be effected over a period of two years from the proceeds of specified Spanish exports to Argentina.

WEDDELL

NPL

TO THE SECRETARY
OF THE ARMY
OFFICE OF THE

RECEIVED FEB 15 1941

RECEIVED
FEB 15 1941

COPY:aja

RESTRICTED

G-2/2657-220
No. 308

M.I.D., W.D.
February 4, 1941
12:00 M.

SITUATION REPORTI. Western Theater of War.1. Air Force Operations.

A small force of R.A.F. bombers bombed targets in north-west occupied France shortly before dawn on February 3. German planes, flying singly, dropped bombs at several places in London, East Anglia and Kent.

The German communique claimed successful individual attacks on airdromes, factories, storehouses and railroads in south-west England, destroying R.A.F. planes on the ground and securing a direct hit on a hangar.

II. Greek Theater of War.

1. Air. The Greek communique reported that Italian planes bombed the coast of western Peloponnesos but inflicted no casualties or damage.

2. Ground. Both sides report patrol and artillery activity.

III. African and Mediterranean Theaters of War.

1. Air. A Middle East Command communique stated that R.A.F. bombers accomplished heavy raids on Castel Benito, in Libya, destroying seven Italian planes on the ground. Other R.A.F. forces machine-gunned transports on the roads to Sensur, Derna and Bengazi, and attacked the airdrome at Appollanio, destroying three planes on the ground.

The Italian High Command admits bombing of Tirso River Dam, in Sardinia, with no effect.

2. Ground:

Libya. The British continue preparation for advance from Derna.

Eritrea. The British, having occupied Barentu, are pushing the Italian forces towards Cheren.

RESTRICTED

RESTRICTED

Ethiopia. Italian forces in retreat towards Gundar are being pursued. Two frontier posts, on the Dukana front ten miles inside southern Ethiopia, have been occupied by the British.

Italian Somaliland. The penetration of British patrols is being extended and deepened.

Note: 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.

RESTRICTED

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Paraphrase of Code Radiogram
Received at the War Department
at 8:21, February 4, 1941.

London, filed February 4, 1941.

1. On Monday, February 3, planes of the British Coastal Command engaged in usual patrols. During the preceding night a small number of British bombers attempted to bomb a German naval vessel in harbor at Brest but the success of the mission could not be determined because of weather conditions. However, mines were dropped on an invasion port on the coast of France. During the night of February 3-4 all activities of the Bomber Command had to be cancelled.

2. During the night of February 3-4 civilian and military properties in Dover were damaged by ten bombs dropped by one German airplane. Two German planes were over London during the night, seven others ranged over Norfolk and Suffolk and as far inland as Banbury, Bedford, and Nottingham, and eight were plotted over the Bristol Channel. During the preceding day a small number of German planes operating individually mined the Thames Estuary and raided London, Norfolk, Suffolk and Kent. A 2-second burst of cannon fire from a Spitfire fighter was responsible for bringing down a 3-engine Heinkel mine-laying plane over the Estuary. The Heinkel completely disintegrated in mid-air.

3. In the Lyham theater buildings were set on fire and seven

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Italian planes on the ground were destroyed in a severe attack on the Castel Benito airfield, near Tripoli, by Malta-based British planes. British aircraft from Egypt were also very active in Libya. Italian land forces in the vicinity of Elenta and Gagh were successfully machine gunned. Four Italian planes on the ground were destroyed when the Apollonia and Barce airfields were bombed. One Italian plane in the air was destroyed at Cirone. Fifty motor vehicles at El Faide and Marara were destroyed by bombs.

4. British planes were active in other Middle Eastern theaters. Three torpedoes dropped by British naval planes scored direct hits on the dam of the reservoir from which electric current is supplied to the island of Sardinia. Eight planes were used in the attack and one failed to return. The extent of the damage could not be determined. Italian forces in British Somaliland were attacked by British bombers from Aden. A motor transport concentration between Cheran and Amara and another at Bararis were severely damaged by bombs dropped by Sudan-based British planes.

5. Reconnaissance over Malta constituted the only German air operations in the Middle Eastern theaters.

6. Three magnetic mines which were dropped on the Suez Canal between Bitter Lakes and Ismailia by Italian planes on the night of January 29-30 have been exploded by British bombers.

7. On January 15 the British overtook the French vessel

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CAPTAIN PAUL LAMERIE 300 miles northeast of the island of Martinique. Since the French ship was intercepting ~~the~~ the American neutrality zone she has been allowed to proceed on her course. The French ship MENDOZA has now been brought into harbor at Freetown, Sierra Leone. A British mine-sweeping vessel struck a moored mine off the British coast at Falmouth and sank.

SCANLON

Distribution:

Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps
C-3

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DELIVERIES OF AIRPLANES, BY PURCHASERS AND BY TYPE OF PLANE

January 1, 1940 - February 1, 1941

	Bombers	Pursuits	Trainers	Other military planes	Commercial planes	Total
TOTAL ALL PURCHASERS						
Jan. 1 - July 6	589	630	946	106	420	2,691
July 7 - July 20	61	71	96	5	40	273
July 21 - Aug. 3	56	99	131	5	54	345
Aug. 4 - Aug. 17	55	71	139	8	51	324
Aug. 18 - Aug. 31	54	85	131	14	51	337
Sept. 1 - Sept. 14	16	61	172	6	46	300
Sept. 15 - Sept. 28	28	104	171	9	77	389
Oct. 1 - Oct. 13	25	116	206	8	84	439
Oct. 14 - Oct. 26	28	50	184	5	35	302
Oct. 27 - Nov. 9	34	106	199	9	28	376
Nov. 10 - Nov. 23	35	91	96	6	19	257
Nov. 24 - Dec. 7	61	118	179	10	37	405
Dec. 8 - Dec. 21	63	133	146	8	72	382
Dec. 22 - Jan. 4	95	134	173	4	29	435
Jan. 5 - Jan. 18	80	47	168	5	36	406
Jan. 19 - Feb. 1	79	151	324	33	22	609
Subtotal July 7 - Feb. 1	780	1,471	2,491	130	569	5,531
Total Jan. 1, 1940 - Feb. 1, 1941	1,369	2,101	3,437	236	1,079	8,224
ARMY						
Jan. 1 - July 6	34	50	512	55	-	651
July 7 - July 20	8	21	60	2	-	91
July 21 - Aug. 3	11	40	74	4	-	129
Aug. 4 - Aug. 17	7	29	62	1	-	119
Aug. 18 - Aug. 31	4	38	63	0	-	135
Sept. 1 - Sept. 14	4	15	76	1	-	99
Sept. 15 - Sept. 28	4	34	87	-	-	145
Oct. 1 - Oct. 13	6	86	85	-	-	184
Oct. 14 - Oct. 26	6	14	92	-	-	112
Oct. 27 - Nov. 9	6	6	67	-	-	79
Nov. 10 - Nov. 23	4	4	13	2	-	43
Nov. 24 - Dec. 7	4	10	98	-	-	112
Dec. 8 - Dec. 21	1	12	43	-	-	65
Dec. 22 - Jan. 4	3	7	39	-	-	62
Jan. 5 - Jan. 18	6	8	86	-	-	94
Jan. 19 - Feb. 1	1	2	167	-	-	170
Subtotal July 7 - Feb. 1	79	291	1,166	16	-	1,552
Total Jan. 1, 1940 - Feb. 1, 1941	113	341	1,698	61	-	2,213
NAVY						
Jan. 1 - July 6	42	3	92	39	-	176
July 7 - July 20	-	-	12	8	-	24
July 21 - Aug. 3	1	-	13	2	-	16
Aug. 4 - Aug. 17	2	-	1	1	-	4
Aug. 18 - Aug. 31	4	3	3	2	-	16
Sept. 1 - Sept. 14	6	5	14	5	-	31
Sept. 15 - Sept. 28	8	-	26	9	-	43
Sept. 29 - Oct. 12	8	13	28	8	-	52
Oct. 13 - Oct. 26	8	12	5	8	-	33
Oct. 27 - Nov. 9	14	11	28	9	-	60
Nov. 10 - Nov. 23	7	5	38	4	-	56
Nov. 24 - Dec. 7	10	6	42	10	-	78
Dec. 8 - Dec. 21	2	11	49	2	-	64
Dec. 22 - Jan. 4	14	7	27	8	-	52
Jan. 5 - Jan. 18	17	14	79	5	-	115
Jan. 19 - Feb. 1	35	11	111	33	-	192
Subtotal July 7 - Feb. 1	138	99	477	118	-	826
Total Jan. 1, 1940 - Feb. 1, 1941	180	102	569	153	-	1,002
BRITISH EMPIRE AND FRANCE*						
Jan. 1 - July 6	500	364	201	2	10	1,099
July 7 - July 20	55	44	17	2	-	118
July 21 - Aug. 3	42	57	42	-	2	143
Aug. 4 - Aug. 17	44	36	27	-	2	111
Aug. 18 - Aug. 31	25	44	14	-	1	85
Sept. 1 - Sept. 14	5	19	5	-	4	61
Sept. 15 - Sept. 28	11	62	14	-	-	87
Sept. 29 - Oct. 12	13	69	36	-	6	124
Oct. 13 - Oct. 26	13	21	36	-	1	71
Oct. 27 - Nov. 9	13	78	19	-	2	112
Nov. 10 - Nov. 23	28	67	27	-	4	126
Nov. 24 - Dec. 7	47	80	31	-	4	162
Dec. 8 - Dec. 21	44	81	31	-	-	156
Dec. 22 - Jan. 4	74	113	113	-	-	300
Jan. 5 - Jan. 18	57	69	40	-	5	140
Jan. 19 - Feb. 1	53	126	40	-	-	209
Subtotal July 7 - Feb. 1	524	978	468	2	11	2,021
Total Jan. 1, 1940 - Feb. 1, 1941	1,024	1,362	669	4	41	3,120
OTHER						
Jan. 1 - July 6	13	193	119	2	410	737
July 7 - July 20	-	6	7	-	40	53
July 21 - Aug. 3	-	2	2	-	52	56
Aug. 4 - Aug. 17	-	4	29	-	49	84
Aug. 18 - Aug. 31	17	-	30	-	60	99
Sept. 1 - Sept. 14	1	-	37	-	46	89
Sept. 15 - Sept. 28	3	-	44	-	73	120
Sept. 29 - Oct. 12	-	-	61	-	56	119
Oct. 13 - Oct. 26	1	3	48	-	34	83
Oct. 27 - Nov. 9	-	13	47	-	26	91
Nov. 10 - Nov. 23	-	17	6	-	16	39
Nov. 24 - Dec. 7	-	22	13	-	33	68
Dec. 8 - Dec. 21	-	6	9	-	75	90
Dec. 22 - Jan. 4	-	7	7	-	29	44
Jan. 5 - Jan. 18	-	8	16	-	31	53
Jan. 19 - Feb. 1	-	12	8	-	22	38
Subtotal July 7 - Feb. 1	39	103	162	-	608	1,132
Total Jan. 1, 1940 - Feb. 1, 1941	52	296	481	2	1,036	1,869

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

February 5, 1941.

* Deliveries under French contracts were made up to June 30, 1940.

Regraded Unclassified

123
THE WHITE HOUSE
WASHINGTON

SECRET

February 5, 1951.

MEMORANDUM FOR

THE ACTING SECRETARY OF THE TREASURY

Please let me have your
recommendation on this secret
recommendation of the Secretaries
of War and Navy.

F. D. R.

WAR AND NAVY DEPARTMENTS
Washington

SECRET

JAN 30 1941

The President,

The White House.

Dear Mr. President:

The War and Navy Departments have considered the request of President Quezon of the Philippine Commonwealth that funds not yet appropriated but already authorized to be paid the Philippine Commonwealth from sums derived from sugar excise taxes and currency devaluation be provided at this time in order to permit improvement of the defenses of the Philippine Islands. It is understood that the sum in question amounts to approximately \$52,000,000.

The Departments believe that defense measures which could appropriately be undertaken with money primarily intended for the benefit of the Filipinos would have an immediately advantageous effect on the morale of the Philippine Government and people and would, at a later date, be of material assistance in assuring an effective defense of the Philippines. However, as recognized by President Quezon, the most efficient planning and execution of these defense measures can be attained only if they are retained under the control and supervision of the military and naval authorities of the United States. The War and Navy Departments are also of the opinion that these expenditures, if of the types described below, will not have a seriously adverse effect on the national defense policy or program of the United States.

Since the funds under consideration are intended primarily for the benefit of the Philippine people they should be expended for defense items which will either immediately or ultimately belong to the Filipinos themselves. These items include equipment, munitions, installations, and the training of the Philippine Army. Shortages in the equipment and munitions required for forces in the United States and for the British preclude sending additional supplies of this type to the Philippine Islands at this time. However, it is recommended that the Commonwealth Government be permitted to place orders in the United States, delivery dates to be coordinated as most expedient with those of other nations allowed to purchase military supplies in this country. It is desirable to strengthen and enlarge

SECRET

those defense installations in the Philippines which facilitate the operations and defensive capabilities of the present garrison and which will become available to the Philippine Commonwealth if and when United States forces withdraw from the Philippines. These projects include gas and bombproofing, air fields and communications for the Army (estimated to cost approximately 2 million dollars), and development of additional aviation facilities for the Navy (estimated to cost approximately 5 million dollars). The Commanding General, Philippine Department, has recommended that the Philippine Army be called into active service for training under the United States military authorities. No estimate of the cost has yet been obtained. Legal authority for such action is contained in section 2 (a) (12), Act of March 24, 1934. Such training will greatly increase the speed at which the Philippine Army can be prepared for effective defense of the Philippines.

The War and Navy Departments recommend that you authorize the execution of such of the above-discussed measures, in whole or in part, as these departments deem most beneficial to the strengthening of the Philippine defense and that can at the same time be accomplished within the limitation of the funds now authorized for the benefit of the Philippine Commonwealth.

If you approve these recommendations the War and Navy Departments will initiate action to prepare the necessary estimates in anticipation of a request to the Congress to make available the funds already authorized but not yet appropriated for the benefit of the Philippine Commonwealth. It is recommended that a cablegram, in substance as follows, be dispatched to President Quezon of the Philippine Commonwealth:

Your desire to cooperate with the United States in preparing the Philippine Islands for defense, and your suggestion that the necessary expenditures be made from funds collected from sugar excise taxes and resulting from currency devaluation are gratifying to the Government of the United States. The security of the Philippine Islands has been under serious consideration by the War and Navy Departments, and steps are being taken to strengthen their defenses. Certain of the measures contemplated may appropriately be charged to the funds in question. Accordingly an appropriation from these sums will be sought from the Congress to be expended under the supervision and control of the military and naval authorities of the United States for the improvement of the defenses of the Philippine Islands.

Respectfully yours,

Frank Knox
Secretary of the Navy.

Henry L. Stimson
Secretary of War.

REPORT OF MR. GASTON'S 9:30 GROUP MEETING, FEBRUARY 5, 1941:

Cairns had nothing to discuss but said that his broadcast went very well. He asked if there was a meeting in Col. Maxwell's office at 10 o'clock and Gaston checked and found that there was not. Buckley said it was a subcommittee meeting on proclamations, legislation, etc.

Schwarz suggested that the General Wood incident was about closed. Wood charged that the British had misled the Secretary but he didn't know how and Gaston agreed that there was nothing we should do. Schwarz mentioned a rather scurrilous piece by Frank Kent in which he said that the Secretary had not taken advantage of the good financial brains available in the country and was trying to handle the situation himself. Gaston asked Schwarz if he had seen the Marshall letter written by Haas and Schwarz said he was waiting for a copy. Schwarz said he might give a copy to the UP, at Gaston's suggestion, and Gaston said he might pick up a Salt Lake City paper where Marshall's office is located and from whence the story came.

Coe said his office had done a good deal of work on direct investments of the British with Commerce data and said he could start checking and comparing if Peacock had a list to submit. Gaston imagined he was spending all of his time with Phillips and said he expected Peacock when the Secretary returned. Cochran thought we had not better ask him in until the Secretary returned.

- 2 -

Kuhn had nothing to discuss and Gaston said he was sending him a memo which another applicant, Charlie Marshall, had given him. Marshall has worked for David Lawrence for several years and used to be with AP here and ran the Consolidated Press office in New York in the late 20's, building up a considerable leased wire service in New York, principally business news, which went very strong. Afterward they sold out to the AP, their afternoon stock quotations and some of their features and other features to NANA, after which Lawrence disbanded it. Lowell Mellett sent Marshall over to Gaston who suggested he write the memo. Kuhn approves of Graves' scheme to have the top men on financing publicity build up their own publicity organizations in the field and hold in abeyance the employment of subordinate personnel until the men to run it are chosen. Gaston also doubted that we would want to commit ourselves to anybody until the top man is engaged and said he had been totally noncommittal to these men who have come in such as Matt Daiger, Bacrow Lyons and Marshall.

Buckley said he had listened to Kraus for an hour and thirty-five minutes yesterday and that he had left happy after reading his plan which seemed to be a gigantic WPA project for the British Empire. Buckley outlined Kraus' scheme and said that as an economist Kraus was a good psychiatrist. Buckley then said the priorities problem was a very pressing one on machine tools and

- 3 -

cited press reports to the effect that no used machine tools will be delivered after February 15 and no new ones after the 28th.

Buckley said he was having a confab today with the priorities people—Stettinius and Towers, his special consultant, Carl Adams, designated by Stettinius to take up any special problems in the foreign field, Blackie Smith, his counsel whom the Treasury people know very well, and Cliff Hill. Don Nelson is completely out of priorities and Stettinius is vitalizing it, running it as an administrative and not a judicial function and it is beginning to work. Buckley expected to discuss with them a couple of procedural problems which he may want to take up with Gaston because we may want to ask State to circularize the foreign governments and have them come in and discuss machine tool priorities problems. Gaston asked what Nelson was doing and Buckley pointed out that the OPM was divided into three branches—Production under John Biggers, Priorities under Stettinius, and Federal Purchasing under Nelson. Buckley said they had called yesterday afternoon from OPM and asked us to see a new liaison man to be hired by Nelson—liaison between him and foreign governments, particularly the British Purchasing Commission. Gaston said he couldn't do that in the face of the Executive Order placing sole liaison in Young's office, but Buckley said that was only a letter and added that the new liaison man had been spending a lot of time with the British Purchasing Commission without they

- 4 -

or he saying anything to us. Gaston thought that when the Secretary came back we should have Knudsen and Nelson in here and straighten this out. Buckley thought Nelson's man was an intelligent and nice fellow and thought he would have Ballantyne look into the angles of his job, some of which angles are under Nelson and some of which are not. Gaston commented that it looked like a plan for eliminating Phil Young's shop when the lend-lease gets into operation. The liaison man for Nelson, Carl Allen, told Buckley he was convinced he couldn't carry on liaison with the British Purchasing Commission without wrecking the whole system but he is going to keep in touch with Treasury before he files any definitive recommendations. Gaston suggested that if he were such a good man it might be advisable for us to take him over. Buckley said if it got to a critical point before the return of the Secretary we could discuss it with Knudsen and get the thing settled because he is very enthusiastic over what the committee has done. Gaston added we would have to watch the situation closely if it gets to any point of attempted action crossing wires.

Cochran asked if Nelson were staying on and Schwarz said he had denied the resignation story. Gaston heard that he was seriously considering throwing up his hands and going back to Chicago but Buckley said this seemed to have blown over.

Haas had nothing to bring up.

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Pehle mentioned the Belgian ship matter which Gaston previously said he might clear with State and Pehle said it could be done after the meeting. Gaston told the story that on the matter of Isbrandtsen-Moller ships we had an application Saturday from a man named Foley from a law firm representing Moller. Foley came in with Helmbold of the Maritime Commission to ask for permission for Moller to use \$4,000 of the Danish shipping companies' funds to pay the crews of their ships which Isbrandtsen has been paying. Gaston talked to Long about it and we wrote them a letter. Yesterday the Danish Minister came in and after reviewing the situation and the conflict between Isbrandtsen and Maersk Moller, he announced as Pehle entered the room that he was going to pay the February installment of \$2,200 to the crews out of legation funds. Pehle told him he would have to have a license for that and the Minister became excited and demanded instant action. The upshot was that Pehle, at Gaston's direction, asked Isbrandtsen whether he would continue to pay the men and he decided he would pay again this month after which the Minister professed to be very happy over this solution. Gaston said we still had a tangle to straighten out with other departments concerned as to what is going to happen to those ships and which side is going to be favored of the two interests struggling for control of them.

Cochran said yesterday Knoke told him they had made a little study in New York Federal on Japanese assets in this country and

- 6 -

American investments in Japan and Knoke sent Cochran a couple of copies which will be distributed around Treasury this morning. The Japanese Premier recommended legislation or a decree which would permit them to take retaliatory action to seize assets in their country. Cochran also said he had had a talk with Howland Shaw at the State Department yesterday and he said they were very short of applicants for male stenographers to go to foreign countries. Thompson said we are as short as anybody else and had nobody to send over. Cochran said a good many college men had gone into State that way, many having gone out and studied at their posts and added that the examining board favored men who have had field experience even in a clerical capacity. Gaston thought the best way to obtain recruits would be to call attention of some reporters, such as Jerry Klutts, to this problem and they might turn up a lot of young men.

Gaston asked if Cochran had seen Martin Nicholson and he said he had for a minute. Gaston added that he had some interesting impressions on the attitude of the Japanese. Nicholson says there is quite an army of Germans in Tokyo, special assistants in government departments, and most of these bellicose statements out of Japan are products of these advisors and the Japanese put them out in fear and trepidation, the general attitude among Japanese businessmen and government circles being one of great fear of getting

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in trouble with the United States. They are extremely sick of the whole Chinese adventure and it is thought they could be bought off pretty cheap. Cochran said he talked with the Collector in Los Angeles yesterday who had some interesting ideas on German propaganda, etc., on the West Coast.

Sullivan said he had talked with Senator George this morning who is going to try to make an appointment this afternoon to go over the general relief amendment. Practically all the conferees are looking to him for his okay and he is expected to call on Sullivan this afternoon. Sullivan stated that George was capable of absorbing this matter as he is the best lawyer in the Senate and follows all of this sort of thing. He will talk to Stam before seeing Sullivan and if he gives the word that will automatically mean it is all right with Harrison. Legislation to embrace the general plan was initiated last Friday by Tarleau and his office and it will take about a week to draft it. Sullivan said he wished to get an okay before they finished it as it is very complicated. Graves asked if this was that 722 thing and Sullivan said it was and offered to show it to Graves after the meeting.

Graves said he had previously spoken of the opposition of the Philadelphia Congressmen to the establishment of our proposed new mint. Now we have a letter from Senator Adams, of Colorado, voicing his opposition. We are replying thereto and the reply

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should reach Gaston today but there is little we can say at this juncture. Gaston asked if we had an estimate on the new mint and Graves said we had a bill in Congress to establish the mint which requires general legislation and which is pending now. The bill merely authorizes the establishment of an institution and the necessary appropriation and we plan to ask for the appropriation this year, if we get the general legislation. Gaston asked who was selecting the site and Graves said the bill provides that the site will be selected by the Federal Works Agency, subject to the approval of the Secretary of the Treasury. We have a site in mind in Northern Indiana, which is the middle point of our distribution. Graves said that it looks as though we are going to have quite a fight, with considerable doubt as to whether we will win it; if we should conclude, on Mr. Bernard's analysis of the situation, that we will probably lose it we had better not make it at all, Graves suggested. Kuhn asked why there was such opposition and Graves said the two principal mints at Philadelphia and Denver figure they would lose some fraction of their production in those institutions. Graves said that while there would be just as much approval from the new locality on a legislative matter of this kind the objection of a few is sufficient to defeat it. Unless it is of sufficient consequence to get a ruling it has to go by unanimous consent practically. Gaston saw another factor--the more arguments we pose for it as to the logic of central manufacturing

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and distribution the greater is going to be the opposition because they say if you get a mint on the mainline railroad tracks just out of Chicago with all proper distribution facilities they can see that is going to take business away both from Denver and Philadelphia. Graves said that as a practical proposition what we had tried to do was to avoid putting all our eggs in one basket; Philadelphia makes three-fourths of total coinage now and yet we had to ship coin from San Francisco during the last few months to the Eastern Seaboard because Philadelphia could not supply the demand. Our opposition to enlarging Philadelphia and Denver is now a question of vulnerability and we would rather put our plant further from the Seaboard. Thompson said letters had been coming in asking just what the requirements would be for the new location and Graves pointed out they were from people who think maybe they can arrange for the new institution within their respective districts and we are not very concerned about that.

Cochran said the Finnish Legation was happy to tell him yesterday that three separate relief bills for Finland have been introduced at this session—different loan ideas.

Thompson said Surrey had asked him to arrange for the printing of an Internal Revenue Administrative Code and wondered how many copies Sullivan wanted as he didn't have enough money. Sullivan thought 4,000 copies would be almost enough. Gaston asked how

- 10 -

the film being produced on the West Coast was coming on, how income tax is paid, and how to pay it. Schwarz said they ran into a little difficulty and Sullivan said the volunteer was the script writer but there was no producer. Gaston thought we might consider another year making our own film as the Secret Service did and giving lectures with it. Schwarz said that was his original idea—to get the Bureau to contribute some money for that purpose.

SULLIVAN'S CONVERSATION AFTER THE MEETING:

Sullivan: Last night Chuck Kades was over at the house, first I talked to him over the phone. Apparently the Joe Schenck case has blown up. They have just discovered that the dividends which were paid, which Schenck failed to report, were not paid out of earnings but out of capital assets and that blows about \$250,000 of our claim against him of less than \$300,000 out of the window. Milligan is on his way down from New York today and will be in here about 11 o'clock.

Cairns: The general ruling is you can't pay dividends out of capital.

Sullivan: That will result in the corporation's owing us about another million dollars but there is a possibility that that \$5,000,000 loss the corporation took that year which resulted in their having no earnings may be a

- 11 -

phony and that looks like about the only way out. Chuck tells me this case has been hoodooed all the way along, that Sam Clark wasn't interested in the first place and Treasury had a difficult time interesting him in prosecuting. Then Cahill up in New York was hard to sell and he was sold on the main case which involved all of these romantic and adventurous expenses being deducted as business expenses and apparently Kades thinks Cahill was attracted to that part of the case because it would make a lot of headlines-- a lot of blondes as expenses. He doesn't think Cahill will be able to go ahead with the perjury part of the case. Schenck didn't know this was a dividend out of earnings. We are going to be up against the guns tomorrow or the next day. Foley won't be back and neither will the Secretary and we may have to make a decision whichever way we jump, and I will report to you when we hear the outcome of this conference.

Gaston: I will just have to string along with what you and Chuck and Huntington think about it.

Sullivan: I understood from Mr. Kades last night that Mooney and Reed knew this and told Oftedahl who either forgot it or confused it with something else and, of course, we are in a very embarrassing position because the Statute

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of Limitations on refunds runs only to March 15. If this loss of \$5,000,000 that the corporation says it experienced in that year is bona fide then every one of those stockholders who received a dividend is entitled to a refund because they all paid income taxes on that dividend but if the dividend was out of capital assets they were not obligated to pay that tax and the Treasury will have to notify them. I think if we went ahead with the trial of the case and then afterwards acknowledged that this was not a dividend and that he didn't really owe us \$300,000, but really \$50,000 or however much less that was, we would be in an untenable position, but if this loss proves genuine today, I think it is up to us to notify these stockholders so they can petition for refunds on which the statute expires on March 15.

Gaston: Are we under an obligation to notify stockholders?

Sullivan: I think we are where a corporation is pulling one like this—there isn't any legal obligation to.

Cairns: I meant a moral obligation.

Sullivan: We can talk all of that over after we find out the result of today's investigation.

Gaston: I am just wondering whether we can concede that is the case or whether we had just better go ahead with the trial and see what develops.

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Sullivan: We will know by three o'clock this afternoon. Now the corporation officials and Schenck is Chairman of the Board know about this so presumably Schenck himself knows and his attorney knows.

Gaston: That's his defense.

Sullivan: He will come in and say I overpaid \$250,000.

Gaston: And the action against him is not a tax action against him at all but a criminal action, one in which we are not concerned?

Sullivan: That's right. We can ask for a postponement of the case but I don't think we will make any move now and of course we can't have any leak on it or any risk of it until we decide where we are. Case is set for trial Monday the 10th.

February 5, 1941

My dear Senator:

I am glad to answer your question about yesterday's testimony by General Robert E. Wood, who told your Committee that "large companies, unlisted, like Lever Brothers, the American Viscose Corporation, the Dunlop Tire Company plant; cotton plantations, cattle ranches, other real estate, evidently did not appear in Secretary Morgenthau's figures."

General Wood's statement on this point is completely incorrect.

Your Committee may wish to know that the Treasury has made a careful recheck of its figures in the light of General Wood's assertions. This recheck shows that every one of the individual companies named by General Wood was included in Secretary Morgenthau's estimate, already given to your Committee, of \$900,000,000 in British direct investments in this country. Similarly, the Secretary's estimate included all British-owned properties in this country such as cotton plantations, cattle ranches, and other real estate. The Treasury is confident that the figure of \$900,000,000 represented the value of all such assets in this country, owned by British citizens, which can be converted into dollars.

Very truly yours,

(Signed) Herbert E. Gaston

Acting Secretary of the Treasury.

Hon. James F. Byrnes,
United States Senate,
Washington, D. C.

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UNITED STATES SENATE
Committee on Appropriations

February 5, 1941.

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

Dear Mr. Secretary:

General R. E. Wood, testifying before the Senate
Foreign Relations Committee on yesterday, stated:

"If we are to throw open the doors of our
treasury to Britain, it seems only fair that all
British resources in this country be liquidated.
Large companies, unlisted, like Lever Brothers,
the American Viscose Corporation, the Dunlop Tire
Company plant, insurance companies, cotton plan-
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I wish you would advise me whether or not
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Very truly yours,

(Signed) James F. Byrnes

JAMES F. BYRNES.

JFB:ac

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JFB:sc

MEMORANDUM

February 5, 1941.

TO: Secretary Morgenthau

FROM: Mr. Sullivan

Attached hereto is a revision of the suggested plan for amending Section 722 of the Second Revenue Act of 1940. The revisions were made after conferences with Mr. Stam which resulted in agreement between his staff and Mr. Tarleau and Mr. Blough.

The following are the differences between the memorandum of January 22, 1941 and the memorandum of February 3, 1941, regarding the proposed relief under the Excess Profits Tax Act of 1940.

Paragraph 4—Incorporation of partnership or sole proprietorship. The old memorandum limited relief to cases where there was no change of identity as a result of the incorporation. Under this requirement all of the partners would have had to become shareholders. The new memorandum does not contain this limitation, so that relief may, if it turns out to be feasible, be granted even when all the partners do not continue as shareholders of the corporation.

Paragraph 8—Consolidated returns of casualty insurance companies. The old memorandum stated that the consolidated return requirement be re-examined to ascertain if casualty insurance companies may be permitted to file consolidated returns with non-insurance companies. The new memorandum states affirmatively that such an insurance company should be permitted to join in a consolidated return with a non-insurance company.

General relief—The old memorandum provided that no relief should be granted for income derived in large part from personal services. The new memorandum does not contain this limitation, but the effect of its removal will not result in granting relief in such cases, in view of the fact that neither the general relief provision nor the specific relief provisions provide for relief for such corporations.

The old memorandum provided for appeal from the Commissioner's decision respecting the general relief provision to a three-member division of the Board of Tax Appeals. The new memorandum provides for appeal to the Board of Tax Appeals, but does not contain the requirement that the appeal be heard by a three-member division of the Board. The new memorandum states that Section 721, and the other relief provisions as well, shall be optional with the taxpayer. This point is not covered in the old memorandum.

JLS

Proposed plan for granting additional relief
under the Excess-Profits Tax Act of 1940

The proposals outlined below are suggested as a method of providing additional relief under the Excess-Profits Tax Act of 1940. The proposals are to be inserted in lieu of Section 722 of the present law, but in addition to the provisions of Section 721.

I. Specific Relief

1. New corporations and corporations with fluctuating earnings

To provide relief for corporations with fluctuating earnings and for newly or recently organized corporations, taxpayers should be permitted to carry forward for two years the unused excess-profits credit of any excess profits taxable year.

2. Growing corporations

To provide a more equitable average earnings credit in the case of growing corporations, the following alternative method of computing base period earnings should be permitted in addition to the present averaging method: Ascertain the average of 1936 and 1937 earnings, and the average of 1938 and 1939 earnings; subtract the first average from the second, divide the difference by two and add the result to the average of 1938 and 1939 earnings. The resulting sum shall constitute the base period earnings, except that a figure in excess of the largest income of any year during the base period may not be used.

3. Abnormal deductions in base period

To aid those corporations which have reduced earnings in the base period because of unusual deduction items not eliminated under present provisions, it is suggested that abnormal deductions in the base period—either those abnormal in kind or abnormal in amount (by reference to the average of the corresponding item in the four previous years)—should be eliminated in the computation of base period earnings.

4. Incorporation of partnership or sole proprietorship

To permit the average earnings credit of a corporation formed during the base period as a result of the incorporation of a partnership or sole proprietorship to reflect the earnings of such predecessor, the base period earnings of the corporation should be computed by reference

- 2 -

to the earnings of the partnership or proprietorship instead of the present hypothetical 8 percent of invested capital provided in the present law. This provision should be limited to cases in which such incorporation occurs in a tax-free exchange.

5. Capitalization of items previously deducted as expenses

To prevent the hardships that may occur by reason of the deduction in prior years for income tax purposes of certain expenditures whose capitalization would have benefited the taxpayer under the excess-profits tax, the taxpayer should be permitted to re-examine prior years and make the desired changes. Thus, if the taxpayer had erroneously deducted an expenditure which should have been capitalized, or having an option to deduct or capitalize the expenditure, had chosen to deduct it, it should be permitted to revise the earlier income tax treatment and capitalize the expenditure if so desired. Any additional income tax due as a result of such change, plus interest thereon, would have to be paid. In the case of expenditures for advertising and good will, the capitalization of the portion properly attributable to capital should be limited to expenditures made in the base period in view of the short life of such expenditures.

6. Correction of erroneous results previously reached under the income tax

To prevent the hardships that may occur by reason of erroneous treatment of items with respect to the income tax in prior years in cases where such items have a bearing upon the excess-profits tax, it is suggested that taxpayers be permitted to re-examine the results reached under the income tax in prior years and to take positions with respect to the excess-profits tax inconsistent with those results if the earlier treatment was erroneous. In such cases, however, the additional income tax which would have been due if the treatment in the prior income tax year were likewise altered must be paid, together with interest thereon. Correspondingly, if the inconsistent position is taken by the Government any refund owing to the taxpayer, plus interest, must be paid.

7. Abnormal income in taxable year

To prevent the undue tax that would result from the receipt in one taxable year of an abnormal item of income attributable in whole or in part to other years, it is suggested that such abnormal items--either those abnormal in kind or abnormal in amount (by reference to the average of the corresponding item in the prior four years)--be spread over the years to which they are attributable and taxed according to the method now utilized in similar cases in Section 721.

- 3 -

8. Consolidated returns of casualty insurance companies

The present restrictions affecting inclusion of insurance companies in consolidated returns should be modified to permit casualty insurance companies (those insurance companies which are taxed under Section 204 of the Internal Revenue Code) to file consolidated returns with affiliated non-insurance companies.

9. Gain on involuntary conversion of property

As capital gains are eliminated from excess profits income, and as gain on the involuntary conversion of property (such as insurance paid on the loss of a ship in excess of the tax basis of the ship) is similar to capital gain, such gain (if it is ruled not to be capital gain) likewise should be excluded from excess profits income.

II. General Relief

To provide relief in unanticipated cases not covered by the above specific relief provisions, a general relief provision should be inserted along the following lines:

If the taxpayer establishes that the base period earnings as computed under present provisions are less than the earnings which would normally have been experienced by the taxpayer during the base period, and also shows the adjustments necessary, such adjustments should then be made, provided they do not otherwise conflict with any principle respecting the computation of the average earnings credit contained in existing provisions. The ascertainment of the earnings which would normally have been experienced shall be made in the light of the type and manner of business engaged in by the taxpayer as of the beginning of its first excess-profits tax taxable year.

The following limitations should be made applicable to the general relief provision:

(a) No relief should be granted (A) for low base period income due to (1) high prices of materials, labor, capital and other agents of production, (2) low selling price of the product, or (3) low physical volume of sales owing to low demand by the buyers of the product for the output of the taxpayer; (B) for capital investments made at relatively low price levels or at bargain prices; (C) for the development of intangibles by the taxpayer which other taxpayers may have secured through purchase; (D) for borrowed capital; (E) for the time and manner of organization; (F) for any factor already covered by a specific relief provision.

- 4 -

(b) No relief should be granted unless the corporation is paying an excess-profits tax equal to at least 5 percent of its normal-tax net income and unless the relief granted would result in a diminution of excess-profits tax by at least 10 percent. The relief granted should not reduce the excess-profits tax below such 5 percent figure, and the reduction allowed by reason of such relief should be reduced by 10 percent of the tax computed without such reduction.

(c) A taxpayer must compute his tax without the benefit of the general relief provision and must petition the Commissioner for such relief by way of a claim for refund.

(d) A taxpayer may appeal from the Commissioner's decision respecting the general relief provision only to the Board of Tax Appeals. The decision of the Board regarding the claim for general relief shall be final. Procedural steps should be adopted to coordinate the consideration of the relief and non-relief phases of the excess-profits tax, and the consideration of the income tax and the excess-profits tax.

Limitations (b) and (c) should also be applicable to the specific relief provision regarding the capitalization of advertising and good will expenditures. Limitation (d) should also be applicable to that specific relief provision, to the present Section 721 provision, (which, like the other relief provisions, would be made optional with the taxpayer and not mandatory) and to the specific relief provisions respecting abnormal deductions and abnormal income.

HSM

PLAIN

London

Dated February 5, 1941

Rec'd 11:50 a. m.

Secretary of State,
Washington.

436, Fifth.

FOR TREASURY.

Publication of two votes of credit to be presented to Parliament indicates that a supplementary vote of £600 million for the current fiscal year will bring total votes of credit (which provide funds for war expenditure) to £3,300 million, the previous votes having been reported in the Embassy's telegrams No. 635 of March 13, No. 2076 of July 9, and No. 3457 of October 17. This supplementary vote is more than and presented sooner than was anticipated, the total votes for war expenditure exceeding by £500 million the estimate in the July supplementary budget reported in the Embassy's telegram No. 2353 of July 23. At the same time a vote of £1,000 million is to be presented towards war expenditure in the fiscal year 1941-42. With non-war expenditure covered by ordinary appropriations of £667 million, the

hem -2- No. 436, February 5, from London

the probable year's total expenditure will be £3,967 million. Revenue for the present year is coming in well and will probably exceed the estimate of £1,360 million but a deficit of approximately £2,600 million must be expected. Savings (that is net intake from loans of various sorts) yielded about £922 million up to January 25 and if maintained in the next 9 weeks at the present weekly rate will yield a total of about £1,138 million towards the £2,600 million deficit. With the remaining £1,462 million financed by increases in the floating debt plus liquidation of gold stocks in hand at the beginning of the year the necessity of increased taxation and of savings voluntary or otherwise, is manifest. No further budget appears contemplated before April when new and heavy burdens are expected. Commentators continue to ignore any relief to the budget position inherent in the Lease Lend Bill! Nevertheless the need for further savings efforts as well as taxation increases is more than obvious on economic as well as budgetary grounds, especially when account is taken of the reinvestment of the proceeds of vested securities, a large proportion of which doubtless goes to swell the "savings" totals as reported.

JOHNSON

WSB

HSM

152

PLAIN

Stockholm

Dated February 5, 1941

Rec'd 5 a.m., 6th

Secretary of State,
Washington.

75, Fifth.

Negotiations between Swedish and German delegates in Berlin resulted agreement providing for trade between Sweden and Belgium and Netherlands during 1941. With Netherlands trade will total 24 million crowns and with Belgium 6 million crowns each way. These figures are maximum limits which it may prove difficult fulfill inasmuch as both Netherlands and Belgium to large extent lack suitable exchange commodities and since Germany unwilling to transfer the favorable balance on Swedish-German clearing to cover exports to other countries occupied by Germany which Sweden requested. Exports to Netherlands will include 12 million crowns worth lumber products and in return Sweden will obtain radio equipment, farm produce. Shipments to these countries will be made via Kiel Canal as soon as open for traffic meanwhile ships are routed around Denmark.

Germany and Sweden have agreed to a 12 percent increase in prices of lumber exported to Germany during 1941 and a quota of 50 million reichsmarks has been set up. Sweden hopeful this allocation may subsequently be increased as Germany in need of lumber. Russian shipments normally received by Germany from Archangel have been interrupted by war.

Sweden and Germany have made arrangements to resume service and interest on Swedish tranche 7 percent nitrate loan 1925 in default since May 1, 1940. Payments to Swedish investors will be made through the German-Swedish clearing.

INFORM TREASURY, COMMERCE.

STERLING

EMB

Copy:aja

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: February 5, 1941, 9 a.m.

NO.: 396

After stating that the Reich's currency circulation (apparently including Renten bank notes and coins) has increased from 13.3 billion marks on September 1, 1939, to 15.8 billion marks on January 15, 1940. Reinhardt asserts that this increase by 2.5 billion marks must be regarded as "completely normal" and attributes it to the following three factors: (1) the introduction of the Reichsmark currency in the incorporated former Polish provinces; (2) larger amounts of cash held by the various units of the Reich's armed forces; and (3) increased turnover and income.

It should be pointed out, as regards the currency circulation figures which Reinhardt quoted, that they do not take account of the sharp increase during the last week of August 1939 just before hostilities against Poland started as well as the peak in the currency circulation of the Reich reached on the last day of 1940. These two dates represent the highest and lowest points of the currency circulation of the Reich in the present war. The amounts were 10.9 billion for the first date, and 16.7 billion for the second, which represents an increase, for the first 16 months of the war, of 5.8 billion marks.

Please inform Commerce and Treasury of the foregoing.
EA:LWW MORRIS.

HSM

GRAY

Berlin

Dated February 5, 1941

Rec'd 12:30 p.m.

Secretary of State,

Washington.

396, February 5, 9 a.m. (SECTION ONE)

My telegram 27, January 6, 6 p.m.

In a review of the public debt of the National Socialist regime during the past eight years published in the last issue of the DEUTSCHE STEUER ZEITUNG. Herr Fritz Reinhardt, Assistant Finance Minister made public figures relating to the Reich's wartime tax receipts and indebtedness which have not been released in the regular returns of the Treasury or in Reinhardt's previous articles.

In addition to reiterating his previous estimate of 27 billion marks for the Reich's tax receipts and of 30 billion marks for revenues from all sources except loans in the fiscal year ending March 31, 1941, Reinhardt gives preliminary figures for the yield of the income turn over and property taxes. The income tax is expected to furnish 8 billion marks in 1940/41 as against 7 billion marks in 1939/40 and 5.3 billion marks in 1938/39. The yield of the turn over tax is given at 3.8 billion compared with 3.7 billion and 3.3 billion marks respectively in the preceding year. As respects receipts from the property tax Reinhardt claims an increase from 417 million marks in 1939/40 to 500 million marks in 1940/41.

Furthermore Reinhardt forecasts the development of the Reich's war finances in 1941/42 by stating that "all indications point to the

further

-2-

further increase of tax revenues to 30 billion marks in the fiscal year 1941" and that the wartime contribution of German communes and other miscellaneous revenue items will yield an additional 4 billion marks.

In regard to the Reich's wartime indebtedness after pointing to the reduction from 4-1/2 per cent to 3-1/2 per cent during the past year in the rate at which the Treasury is able to borrow in the market Reinhardt places the Reich's total indebtedness including tax certificates at 79 billion marks at the end of 1940. This compares with 69.7 billion marks at the end of September 1940.

MORRIS

RR

PARAPHRASE of telegram from BERLIN, no. 396, dated February 5, 1941

Secretary of State,

Washington.

396, February 5, 9 a.m.

After stating that the Reich's currency circulation (apparently including Renten bank notes and coins) has increased from 13.3 billion marks on September 1, 1939, to 15.8 billion marks on January 15, 1940, Reinhardt asserts that this increase by 2.5 billion marks must be regarded as "completely normal" and attributes it to the following three factors: (1) the introduction of the Reichsmark currency in the incorporated former Polish provinces; (2) larger amounts of cash held by the various units of the Reich's armed forces; and (3) increased turnover and income.

It should be pointed out with respect to Reinhardt's quoted figures of currency circulation that they do not take into account the sharp increase during the last week of August 1939, just before hostilities opened against Poland; nor do they take into account the peak in the currency circulation of the Reich reached December 31, 1940. The Reich's currency circulation totalled 10,900,000,000 marks during the last week of August 1939, the lowest point during the period of the present war, and 16,700,000,000 marks on December 31, 1940, the highest point. In other words, the currency circulation during the first sixteen months of the war increased 5,800,000,000 marks.

MORRIS

DGA:GHE:MT
2/6/41

Copy:alm

EH

GRAY

Berlin

Dated February 5, 1941

Rec'd 10:30 p.m.

Secretary of State,
Washington.

404, February 5, 6 p.m.

My 342, January 30, 6 p.m. and 396, February 5 9 a.m.

FOR TREASURY FROM HEATH.

A statement of the Reich's entire disclosed indebtedness at the end of October has not yet appeared (figures for short term indebtedness had previously been issued through November). According to this the Reich's total disclosed indebtedness increased by 4.16 billion marks to 73.82 billion marks during October. This was the highest amount borrowed in any month since the beginning of the war with the exception of May when a total of 5.05 billion marks was borrowed followed however by a relatively low increase in debt of only 1.56 billion marks in June.

Of the total increase in October 1.96 billion marks was in the form of short term indebtedness (see my No. 120, January 11, 3 p.m.) and 2.20 billion marks in long term indebtedness which stood at 39.86 billion marks at the end
of

EH -2- 404, February 5, 6 p.m. from Berlin.

of October. The amount of 4% Treasury certificates issued increased by 1.17 billion marks; series 6 was closed with 2 billion marks issued and .55 billion marks of series 7 was sold in October. LI-loans in the amount of 1.09 billion marks were taken by savings banks and insurance institutions during October of which 0.88 billion marks was at 4% interest and 0.21 billion marks older issues at $4\frac{1}{2}\%$. 42.6 billion marks of 1934 $4\frac{1}{2}\%$ bonds were given as compensation to owners of former Czech loans. These increases in indebtedness were partially offset by the reduction of 25.5 million marks of long term bonds (including 20.7 million marks of the $4\frac{1}{2}\%$ of 1938) and in addition of revalorisation bonds in the amount of 78.2 million marks which had been drawn in the summer.

State Secretary Reinhardt stated in a survey of the financial situation published on January 30 that the "present" indebtedness was 79 billion marks. It is assumed that by "present" he meant the end of December in which case the 4 billion marks debt increase in October was abnormally large and was followed by smaller borrowings during the last two months of the year.

MORRIS

EMB

RANCHO DE LA OSA
SASABE, ARIZONAHIGHER-LOW DISTANCE
RANCHO DE LA OSA
TUCSON, ARIZONA

2/5/41

Dear Herbert:

Have just read P.M.
for Feb. 3^d. Their account of
how the Argentine loaned Spain
a billion pesetas is interesting
if true. I doubt it. Please check
with Merle Cochran and let
me know the results when I
return.

Sincerely,

Henry

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 5, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£72,000
Purchased from commercial concerns	£ 8,000

The Federal Reserve Bank of New York sold £15,000 in registered sterling to a non-reporting bank.

Open market sterling remained at 4.03-1/2 until late afternoon; it closed at 4.03-1/4. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 7,000
Purchased from commercial concerns	£ 8,000

Closing quotations for the other currencies were:

Canadian dollar	17-1/8% discount
Swiss franc (commercial)	.2324
Swiss franc (non-commercial)	.2324
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2375
Brazilian milreis (free)	.0505
Cuban peso	6-7/8% discount
Mexican peso	.2066
Chinese yuan	.05-3/8

There were no gold transactions consummated by us today.

No new gold engagements were reported.

The Bombay gold price was equivalent to \$34.00, off 2¢. Silver was priced at the equivalent of 44.67¢, off 1/8¢. In London, a price of 23-5/16d was again fixed for spot and forward silver, equivalent to 42.33¢.

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

We made five purchases of silver totaling 500,000 ounces under the Silver Purchase Act. Of this amount, 200,000 ounces represented a sale from inventory, and the remaining 300,000 ounces consisted of new production from foreign countries, for forward delivery.

CONFIDENTIAL

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, February 5, 1941.

TENTATIVE LESSONS BULLETIN
No. 84
G-2/2657-235

NOTICE

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

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MISCELLANEOUS OBSERVATIONS
OF THE GERMAN ARMYSOURCE

The information in this bulletin is based upon reports made by American official observers during late November and December, 1940.

CONTENTS

1. GLIDERS
2. THE 105-mm. ANTIAIRCRAFT GUN
3. THE VOLKSTAGEN
4. COMMENT ON GERMAN COMPANY OFFICERS
5. COMMENT ON OPERATIONS AT DUNKIRK

CONFIDENTIAL

CONFIDENTIAL1. GLIDERS¹

Confidential Swiss sources state that one of the key elements in the German plan for invasion of Great Britain is a large personnel-carrying glider which presumably would be used from great heights. It would glide to specific destinations under favorable wind conditions for the purpose of landing troops. While the Swiss sources feel certain of the existence of such a plan, they seem to doubt its feasibility.

2. THE 105-mm. ANTI-AIRCRAFT GUN

In TENTATIVE LESSONS BULLETIN No. 79, Section 7c, an American official observer was quoted as follows:

"The 102-mm. anti-aircraft gun is new, and it appears to have the all-purpose characteristics of the standard 88-mm. weapon. It has a mechanical loading device, and it is mobile."

The same observer now reports:

"Conversation with a German anti-aircraft officer and observation of various types of anti-aircraft ammunition manufactured at the Bochumer Verein indicate with reasonable certainty, although not with official confirmation, that this caliber is 105-mm. instead of 102-mm. This tentative conclusion has been strengthened by conversations with other officers, including the man who originally stated that the caliber of the gun was 102-mm."

3. THE VOLKSWAGEN²

An official German technical source reports that the Volkswagen, popular four-passenger automobile modified for military use, will replace the motorcycle in the German Army. In spite of the large number of motorcycles and motorcycle-trained personnel in the army,

1. The use of gliders in the attack upon Eben Emael was reported by one source and quoted in TENTATIVE LESSONS BULLETIN, No. 28, Section 2e(1), as follows: "Surprise landings were made by parachutists and troops in gliders, either on top of the fortification or within its walls. All troops so landed were probably provided with flame throwers and other pioneer equipment. . . A photograph showed six parachutes and ten gliders inside the fort. The gliders were large; they carried from ten to twenty men each. Apparently they were towed up to a certain height by power-driven aircraft and then released."
2. Characteristics of the Volkswagen are listed in detail in SPECIAL BULLETIN No. 27, Section 2b(12).

CONFIDENTIAL

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the unsatisfactory performance of these vehicles for military transportation has prompted the change.

A great many military Volkswagen have recently been seen on the streets of Berlin, and the number seems to be constantly increasing. The change is probably being made gradually, and as motor-cycles become worn out they are replaced with Volkswagen.

4. COMMENT ON GERMAN COMPANY OFFICERS

A general officer of the German Army makes the following comment:

"Before the campaign in the West, we underestimated the wonderful leadership of our 22-year old company commanders. They acted without hesitation where older men would have paused for long consideration and heavy artillery reinforcements. Time and again we found these young commanders calling for a few 88-mm. antiaircraft guns, a handful of antitank guns, and a platoon of pioneers to assist them in taking a famous fortress and then actually capturing it with no delay and relatively few losses.

"The enthusiastic leadership of youth was one of the great features of our advance in the West."

5. COMMENT ON OPERATIONS AT DUNKIRK

The following remarks were made by a German general:

"You ask about British leadership at Dunkirk. The British had only ten infantry divisions and one Panzer division in Flanders. They were flanked by the Belgians and the French, so we cannot say much about their higher leadership. If, by lower leadership, one means individual bravery and willingness of an entire organization to sacrifice itself, the British were good. They are brave and stubborn.

"I believe it is possible that the British had air superiority over the Dunkirk area for two or three days. If I remember correctly, during the short period while our air bases were moving up, the number of British planes was uncomfortable.

"From a strictly military point of view, one might say that our success was due to strategic surprise of an enemy who had deliberately adopted the defensive to force us to repeat the experience of the World War. Had we been so foolish, it would have cost us two million men. They seemed to think from the first days of operations that we were going to repeat the old von Schlieffen plan. Moving their best troops to Flanders to meet the expected hammer-head, they had only third line troops to meet our main blow, which came through Luxembourg."

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G-2/2657-220
No. 309

M.I.D., W.D.
February 5, 1941
12:00 M.

SITUATION REPORTI. Western Theater of War.1. Air Force Operations.

A British communique states that R.A.F. bombers attacked the docks at Brest and Dusseldorf, in the industrial area. According to the communique there was little German activity during the day. Two bombers were shot down in the Thames Estuary and one fighter off the coast of Kent.

A British news source stated R.A.F. raids were taking place today over territory in which the Germans are preparing for an invasion of England.

The German High Command stated that successful attacks had been accomplished on vital war objectives and airdromes in east England.

II. Greek Theater of War.1. Air. No report of operations.

2. Ground. Artillery and patrol activity reported by the Italians. The Greeks claim capture of important Italian positions.

III. African and Mediterranean Theaters of War.

1. Air. According to a Cairo communique (Middle East Command), R.A.F. bombers raided Berka airdrome at Bengazi, where bombs were dropped on aircraft dispersed on the ground, starting large fires. Successful attacks on the railway station at Barce are claimed. Successful attacks are reported on transport columns and troops, in which casualties occurred and considerable destruction of motor vehicles.

At Eritrea R.A.F. planes supported the Army in their advance.

A German communique of February 5 stated German bombers attacked two British airports on the Island of Malta. Hangars and barracks were destroyed and a munitions dump exploded.

2. Ground:

Libya. British advance elements entered Cyrene on February 4. The capture of this town isolates Apollonia, an Italian air

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and seaplane base to the northeast.

Eritrea. British troops are reported nearing Cheren. The Italian retirement continues.

Ethiopia. The British advance on the Metemma—Gondar road continues. Italian forces in southern Ethiopia have withdrawn to the east of Lake Stephanie, about 30 miles from the border.

Italian Somaliland. Intensive British patrol activity continues.

Note: 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.

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Paraphrase of Code Radiogram Received
at the War Department 9:21,
February 5, 1941.

London, filed 14:52, February 5, 1941.

1. On Tuesday, February 4, an occupied airfield in France was bombed by British planes. During the night of February 3-4 mines were planted at two ports on the coast of France. Water-front installations, merchant shipping, a German cruiser and the power station at Brest were attacked by a small force of British planes made up of aircraft from both the Coastal and the Bomber Commands. Another French airfield was the objective of another small group of mixed-types planes. Results could not be determined because of adverse weather.

2. During the night of February 4-5, 26 German planes were active over London. A British night fighter shot down one of the attackers. During the same night German raids were made on southeastern Britain, the Midlands and the Bristol Channel and mines were planted in the Humber River region. During the preceding day German planes attacked merchant shipping in the English Channel, the Estuary of the Thames, the Straits of Dover and along the coastline of Norfolk and Suffolk. Five German planes were shot down and there are no reports of damage to British shipping.

3. In the Libya theater two Italian planes and 36 motor vehicles were destroyed when British fighter planes from Egypt attacked retreating Italian troops at a motor transport just west

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of Bares. The Bares railroad station and the Bares airfield, near Bengazi, were successfully attacked by British bombers. A convoy of motor transports at Sirte (halfway between Bengazi and Tripoli. 6-2) and Axis vessels off the coast near this place were attacked by British planes.

4. British fighter planes destroyed 11 Italian planes and no RAF planes were lost in air operations in the Kenya area. British planes attacked the Gura airfield in Eritrea and raided a motor transport concentration at Tola where one Italian plane was destroyed.

5. Axis planes engaged in two operations in the Middle East. The town of Garile on the western frontier of Italian Somaliland was bombed and the town of Tuni on the Gulf of Buba in Libya was unsuccessfully attacked by three Axis planes.

6. On January 31 during the daylight raid on Southampton a refinery operated by the Standard Oil Company was attacked by machine gun fire and hit by an 850-kilogram high explosive bomb and a number of incendiaries dropped from a German bomber which dived to within 50 feet of the ground. While the refinery was somewhat crippled it has not been necessary to cease operations entirely. After the all-clear signal had been sounded one woman was killed and eleven were seriously injured.

SCANLON

Distribution:

Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff

WPD
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AC
G-3

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168

Paraphrase of Code Radiogram
Received at the War Department
at 12:43, February 6, 1941

London, filed 17:30, February 6, 1941.

1. On Wednesday, February 6, British fighter planes escorted planes of the Coastal Command and medium bombers in attacks on German merchant vessels in the English Channel and on the airfield at St. Omer, France, from which a force of German night bombers operate. In addition, a force of British fighter planes made a sweep over northern France and the city of Calais. No British planes were lost in these operations and five German planes were shot down. During the preceding night 187 British bombers from both the Coastal and the Bomber Commands were used in a number of highly successful attacks. Merchant shipping at Cherbourg was severely bombed as were airfields and ports along the coast of Belgium and France. Industrial installations at Dusseldorf were attacked and a total of 21 tons of bombs were dropped on the dockyards at Brest. At Bordeaux an airfield where German Focke-Wulf bombers are based was heavily attacked.

2. During the night of February 5-6 German planes planted mines in the Humber river and the Thames Estuary. Night attacks were also carried out against Birmingham, London, Lowestoft, Mildenhall, Rochester and Sheppey Island. The number of airplanes lost and the damage done by these raids are not yet known. During the preceding day only slight damage resulted from the three German

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raids against Aberdeen, Kent and the Norfolk-Suffolk area. There were no British aircraft casualties and seven German planes were destroyed. It is now known that 160 German planes were active against England during the night of February 4-5 and that 100 were used during the preceding day.

3. British bombers from the Sudan are responsible for the destruction of 10 Axis planes in attacks on the airfields at Asaga (?), Echer (?), and Gura, all in Eritrea. Troops and motor transports retreating in the direction of Gondar, Ethiopia, and Asmara, Eritrea, were bombed by British planes. No British planes were lost in these operations. The cities of Dessie in eastern Ethiopia and Macalle in central Eritrea were bombed by British planes from Aden. At the latter place four Italian planes were destroyed and three were damaged. In the Libyan theater two Axis planes were destroyed during British bombing attacks on Benina, Berka, and Bares. Motor transports and troops retreating toward Benghazi suffered heavy losses when they were machine gunned and bombed by the Royal Air Force. Kenya-based British planes machine gunned and bombed the town of Badana (?).

4. During the night of February 4-5 the Malta dockyards, the Calafra escoplane base and the towns of Luqa and Hal Far suffered small damage from three attacks by sizeable forces of German Junkers 88's. German aircraft losses were three confirmed and one probable.

CONFIDENTIAL

5. The German raid against Grantham on the night of February 4-5 caused some damage to an ammunition and gun manufacturing plant.

6. It is officially stated that a great many reports predicting an invasion attempt in the near future are now being circulated in England. Very probably, a number of these are being deliberately circulated. However, there are some new indications that invasion preparations are going forward continuously on the Continent but there is no trustworthy evidence as to when the attempt may be expected.

7. The German cruiser of the ADMIRAL HIPPER class, which has been in Brest recently, is no longer there and it is not known where she is at present.

8. According to latest estimates German divisions in Rumania total 12. Two or three of these are motorized and three or four are armored.

SCANLON

Distribution:

Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps
G-2

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G-2/2657-220
No. 310

M.I.D., W.D.
February 6, 1941
12:00 M.

SITUATION REPORTI. Western Theater of War.

Air: The R.A.F. conducted a rather extensive "sweep" of the invasion coast during daylight of the 5th. The Air Ministry announced the loss of seven fighter planes in the operation.

The German High Command stated that widespread attacks on military objectives in England caused numerous fires while other planes inflicted extensive damage on British shipping.

II. Greek Theater of War.

Air: No activity reported.

Ground: The Greeks report patrol and artillery activity and claim to have repulsed an Italian tank attack.

III. African and Mediterranean Theaters of War.

Air: The Italian Communiques stated that local action by Italian planes resulted in three British Blenheims being shot down. Mechanized forces in North Africa were under attack by Italian planes.

The British Communique stated that R.A.F. planes were keeping the retreating Italians under constant attack.

Ground:

Libya: The British are moving westward from beyond Cirene, as the Italians retreat towards Bengasi.

Eritrea: British forces moving eastward are within 35 miles of Asmara.

Abyssinia: British sources report an advance eastward toward Gondar and consolidation of captured positions inside the southern boundary.

Italian Somaliland. The Italian position at Belas Gogani (Belesgugani), 45 miles east of the Kenya frontier, has been captured.

Note: 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.

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REPORT OF MR. GASTON'S 9:30 MEETING, FEBRUARY 6, 1941

Gaston asked whether the group was working on another letter on the insurance matter and Kuhn said he had asked Coo about the borax mines and the insurance companies being included in the list of British holdings and added that in Gaston's last letter he had said the figure of 900 million included all mines and insurance companies. Hiram Johnson asked about the borax mines in California and they have been included.

Sullivan said they had not completed the investigation (Schenck) yesterday afternoon as discussed with Gaston by Cairns and himself the previous day, adding that he didn't expect to know the result until late today. Thinks we should arrange for a continuance in that case of at least a week. Cairns expressed some doubts about this and expressed a desire to talk to Sullivan about it today.

Graves had nothing to discuss.

Cochran called attention to an item in the papers this morning about the Belgians attaching French gold in reprisal for the shipment of Belgian gold from Dakar. Gaston asked if he thought the action covered more than the gold shipped to Dakar and Pehle said there was much more than is needed with which Cochran agreed and added that it seemed the \$260,000,000 they specified was more than was sent out of France to Dakar. However, the French have more than 260 million in New York and it is thought the Germans might take similar action. Pehle said they had done this with the Rumanians and Cochran pointed out that it was through the Bank of France. Gaston mentioned that the Germans had some Polish gold also and Cochran said it was in France and instead of taking care of it the way

- 2 -

they wanted it taken care of they put it on a ship and sent it to Dakar and they may try to get it back. Part of the Belgian gold has been taken up through Northern Africa and on across to Marseilles and then the Germans have gotten hold of it, and that is why the Belgians are coming back on France for it. Cochran added that on securities Switzerland was buying almost as many as they are selling now. He said the Swiss must have around 2 billion dollars in securities and cash here.

Pehle suggested that Buckley and some others might be interested in the Indochinese matter of yesterday. Gaston explained that we had discussed two different propositions: A letter which Bell signed on January 31, which included a list of materials for Indochina for which they were asking funds, and the verdict or general policy of the State Department -- Atherton, Feis and Hamilton had been here -- was that we would let them have a little stuff for Indochina so as not to feel that they are being cut off or that we are taking drastic action against them while these negotiations are proceeding there for the next two weeks. However, State didn't want anything of very great importance to go so they wanted us to single out the minor items and release funds for those purposes. And then as to the other letter which asked, as to the two Indochina banks which have general licenses, whether we should leave those bank licenses open, the consensus seemed to be that it would be a pretty good idea to revoke those general licenses and at the same time let State advise the French that we would pursue a lenient or liberal attitude in granting licenses for the use of those funds, and particularly that we would, even though it was under the proclamation, treat the

- 3 -

proceeds of the rubber sales as free funds, but their answer was not final on that. They are going to submit a memo to Hull to get his approval.

Pehle said that last night they went over all the applications and selected about sixteen of them amounting to about \$100,000. None of these seem to be subject to export control and include materials like asphalt, craft paper, malt and extracts, hops, and pharmaceutical products, none of which seem strategically important and yet enough to let the flow continue. Gaston said State suggested during the conversations that it would be a good idea to submit to Joe Green the specific items. However, these are not items subject to license so there would be no particular point to submitting them to Joe Green. Gaston asked them what was their idea where the policy decisions rested on export control and mentioned that we consulted Maxwell at times. State said it was rather vague -- there was no sharp division of authority and Gaston suggested maybe they could put it this way: Where it involved questions of international relations and the policies we wanted to pursue, perhaps Joe Green was the right place, and when it was just a matter of conserving supplies, maybe Maxwell was the right place, and they thought that was about the size of it.

Buckley wondered if his office might not be permitted to arrange on these things to send them to OPM, that is, on things not already subject to export control and even on some that are. We don't always get a very good answer from Maxwell's staff, particularly on things not subject to export control. On the other hand, Averell Harriman

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and Anderson have a pretty competent staff under them on which they can call for any particular item. Gaston asked if this wouldn't confuse the situation of Foreign Funds and Pehle said it only amounted to \$7,000 and didn't consider it worth bothering with. If they are exportable products they can go to Japan and it doesn't make much sense to get another hand in the picture. Gaston suggested that if we noticed a movement of some commodity that is going to be bad, although not under the export control, it seemed to him the logical thing for us to do would be to get what information we have -- we don't need to make an exhaustive study of exports -- but get what information we have and submit it to Maxwell and ask how about it, what is the policy? Is it all right to let this stuff flow to the Orient? Buckley thought this went back to the problem before the President as to whether to look to Maxwell for decision or whether to look to Foreign Funds. Gaston said decisions had to stay here on the foreign funds but at the same time we cannot pursue policies contrary to what other departments of the government are doing. Pehle said this was not crucial in Foreign Funds because there is not an appreciable amount of exports except to Martinique where we work closely with State. They consult largely on the oil situation and on Indochina where we are now beginning to close in and Pehle thought that in the next few months there wouldn't be many exports.

Gaston said that certainly foreign funds control went beyond export control. When it comes to Japan, Martinique, Russia, etc., the questions raised are totally distinct from export control questions and we are obliged to take them up with State but we may on some of these commodities have questions we want to raise with Maxwell. For instance, if rubber

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tires or some particular kind of machinery is not under export control and we think they should look into the question as to whether it ought to be exported, then we should send Maxwell a memo. Pehle doubted whether we would have the background but Gaston thought that was really in Coe's shop who should look into it on suggestion from Foreign Funds. Pehle said that if Japan were under the control, for example, there would be a different picture and we would be right in the middle of this big export problem to Japan. As it is the export problem in foreign funds control has never been particularly serious. On Japan we have no control except export control and Defense has been consulted through Buckley's office usually on machine tool cases and we have been working with the French in guiding the disposition of them. Gaston stated that there was a license requirement for machine tools with which Pehle agreed but added that Bernhard, the second-hand dealer in New York, has been selling machine tools right and left, which was not a question of export but merely disposing of them or diverting them to domestic uses of which we don't approve at the best price he could get. We have been able to step into that picture also on copper, aluminum, etc., for the French. Buckley stated that on Indochina the only reason for foreign funds getting OPM's viewpoint is because if they are referred to Maxwell he will simply do it, because in certain things such as steel and fabricated tires we can exercise control on funds so the Japanese cannot use Chinese funds -- they've got to use their limited dollars for export. Pehle said that State indicated that anything of any importance isn't going out as we are sitting on all that stuff, including railway tires and a lot of steel.

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Buckley commented that in Maxwell's shop if they got any kind of a memo on a new item, they immediately want to put it under export control without much study. About two or three weeks ago the Secretary sent over a memo to Leon Henderson on tallow asking for information and it turned up at the export meeting as a recommendation from the Treasury for export control. Gaston thought we had this pretty well ironed out but maybe somebody might have time to dictate a tentative memo on this whole matter on these interrelations -- Foreign Funds, Phil Young's office, Joe Green, State, Export Control and OPM.

Klaus said Wiley had the flu and was staying in bed a couple of days. Buckley asked if we had had any reaction from the Secretary on Knox's press conference yesterday on the Chinese planes. Gaston said not yet and guessed he had better read it; he saw the bulletins and heads on the Greek thing and asked if anybody had seen the Greek's statement this morning saying they had not turned them down but merely asked their government for advice. Gaston suggested that Knox may have fallen off the end of the limb. Buckley said the Chinese story was almost exactly right and Kuhn wondered if Knox wasn't putting that out to call attention to the antiquity of some of our own planes as a publicity stunt. Schwarz said the press reported he talked freely. Kuhn pointed out that Knox had come out with a story about the aircraft carrier *Illustrious* which certainly has been kept a military secret by the British -- Knox told where it was, how many men had been killed, etc. Buckley thought the Greek statement might have some advantage but that he wasn't so sure about the Chinese. Gaston thought there was nothing we could do about it and Schwarz commented that it was Knox's business while Buckley added that his facts were correct except as to the Greeks.

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Coe cited the fact that the Germans, in addition to getting the Belgian gold, are also taking the securities, including a lot of American securities -- \$800,000,000 worth, including a mixture of Belgian securities being held in France, some of which are obligations of American companies. While we have no figures on this the Germans will soon have a rich kitty of this stuff to send over here. Gaston asked what had happened to our project in the early days of the invasion when we tried to work out a plan by which the Belgians would list this stuff. Cochran said this might have been done in some cases but we have no indication of it. Pehle said this seemed to include the whole Belgian National Bank portfolio of securities which had been in France and now Johnson, who still is the Governor of the National Bank of Belgium, has returned to Belgium from France and has ordered these securities returned. Gaston asked if we shouldn't be doing something about trying to get lists of this stuff, it being mostly registered. Pehle said some of it is registered and Cochran wondered if it couldn't be gotten through Johnson now. Pehle said no, not unless it was gotten from London. Gaston suggested London and perhaps the American corporations. Pehle said this had been considered on a broader basis earlier in the game and it hadn't been thought feasible. The American corporation won't normally know unless it is registered in a Belgian name and in that case they could not do anything anyway. Gaston asked if the presumption could not be established that any securities imported are of ownership of invaded countries and

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Pehle pointed out that we had, in fact, done that. We have an import control and all securities coming in have to come through the Federal Reserve and they have to prove who has held them for the last year and a half. Coe asked how much of it we get our hands on through the Federal Reserve and Pehle indicated not a great deal because, as with all controls, if they know they have to go through the control they bring it in through the diplomatic pouch because if it comes through the Federal Reserve they have to go through great detail to prove who owns it. It is during this crucial period when it comes through the diplomatic pouch that they can get some unreliable broker to sell it for them. Gaston asked if we could not improve our surveillance over the brokers through the Federal Reserve. Pehle said in that connection we had not found any cases. Klaus said there was a man in Revenue who was up in New York socially a couple of weeks ago and knows something about this but is not going back to New York for a week or so. Gaston said he remembered the memo and Pehle said that was the first lead he had seen on the selling of securities smuggled in and added that there was a man in the Treasury who has some information or can lead us to some. Klaus said we could call him in and send him up to New York on official business -- he is a lawyer in the reorganization section. Gaston suggested Elmer Irey come over with him and Klaus said he would call them over and the lawyer could interview his friend in New York and come back with the story, adding that he was one of Wenchell's men. Gaston asked if Cairns wanted to speak to Wenchell about it and suggested we get him over here and see what can be done. Buckley pointed out that SEC works on foreign sales and suggested that we might be able to work with them to get some

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list that is under Purcell. Pehle said we had talked to SEC many times about this thing and it was an outgrowth of that that we put on export control. The trouble came up in examining accounts and as long as we've got this big loophole in the diplomatic pouch a lot of that stuff can slide through. Buckley asked if we did not have cooperative agreements with the South American countries on this stuff, airlines, etc., and thought this was one of the best sources. Gaston said there were two airlines functioning, a German and an Italian. Pehle said we would explore this matter further to see what, if anything, we can do toward getting the Belgian list from the Belgian people in London. Cochran said our people apparently have not had any contact with London but if this lawyer was coming from Revenue we might get it. Klaus said to some extent we might get the actual names of the shares in Belgium and Gaston commented that we could not do a thing with the South American problem in this state of affairs. Pehle said the securities coming in from South America have to go through the control and added that there was very little coming in from that source. Coe was not sure the Germans would sell these as they seem to have plenty of dollars and Pehle also thought they might hold them. Buckley said they could sell them in South America without ever coming up here and Pehle also mentioned the Zurich Stock Exchange where there is a regular market for such securities.

Thompson said that following the Secretary's admonition to relax this week he was going to play golf this afternoon. Gaston asked him about a letter from the Secretaries of War and Navy on funds for Philippine defense and was told that Heffelfinger was working it out.

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It is a matter that has been before the Bureau before and Bell has had it up but nothing very definite has ever been decided over in the Budget Bureau on it.

February 6, 1941

Files

Mr. Soong

Dr. Arthur H. Young, the American Financial Adviser to the Minister of Finance of China, dropped in to see me at 12 o'clock today. He inquired as to the possibility of our extending our control of funds to take in all foreign assets on this market. I found out, however, that his prime interest was to see whether we had gone into the question of possibly freezing Chinese and Japanese funds after Dr. Soong's visit last week.

I told Young that since Soong's visit to me I had also had a call from Sir Frederick Phillips and Stopford and that they had communicated to me a message from London on the Chinese question. I had not mentioned to Phillips that Soong had called on me, and Phillips had not told me whether he had discussed the British views with Soong. Young said the whole affair was still in a very informal stage. Rogers is continuing in London for the present. Soong and Young plan to remain in Washington until the matter is settled.

From Young I gained the very definite idea that he is opposed to the British plan of a special sterling agreement with China. He is of the opinion that the British arrangement of this type with Japan has not yet been consummated. He thinks that such an Anglo-Japanese agreement would have a definite influence on China. He stated that there had been no plan on China's part to consummate such an arrangement with Great Britain, and had only heard of a British idea in this direction since the new financial transactions have arisen involving the stabilization funds. Young thought that controls placed by Great Britain and the United States would be ineffective so far as China is concerned unless they were extended beyond Japan. He is evidently quite concerned in helping Shanghai retain as much importance as possible as an international monetary center. He explained in some detail the extensive operations which have in the past taken place over Shanghai while New York and London were sleeping. To me it seemed a little too much to think that such operations could be carried on in the same fashion considering the situation between Japan and China, and particularly the problems which confront Shanghai as a result.

Dr. Young was not pressing us for action, but through his inquiry with respect to freezing was obviously endeavoring to obtain the latest information with respect to negotiations. I told him that with the Secretary and Mr. White absent this week, and with Under Secretary Ball only on part-time duty, I doubted whether anything very definite would be done in the Treasury this week.

WAR DEPARTMENT
OFFICE OF THE CHIEF OF STAFF
WASHINGTON

February 6, 1941.

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

Dear Mr. Morgenthau:

Thank you very much for the following reports,
which you sent me this date:

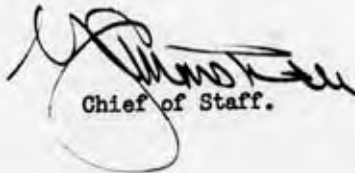
Part I - Airplanes

Deliveries of and New Orders for Airplanes,
June 9, 1940 - February 1, 1941; Unfilled
Orders and Estimated Deliveries on February 1,
1941.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane
Engines, June 9, 1940 - February 1, 1941;
Unfilled Orders and Estimated Deliveries
on February 1, 1941.

Faithfully yours,



Chief of Staff.

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE February 6, 1941

TO Files

SUBJECT: Banco di Napoli Trust Company

FROM J. W. McKeon

Recently I have noticed considerable activity in the account of the Banco di Napoli Trust Company, New York, with this bank, and on checking back have found that since January 2, 1941 Banco di Napoli has transferred to the Corn Exchange Bank Trust Company of New York, for credit to their account, \$3,900,000.

I called this to Mr. Knoke's attention and, at his suggestion, yesterday I visited the Corn Exchange Bank Trust Company and discussed with Mr. D. B. Sherer, President, Mr. Ralph Peters, Jr., First Vice President, and Mr. E. B. MacKenzie, Vice President, the activity of the Banco di Napoli Trust Company, New York, account with them. They were all very helpful and promised to give me any cooperation necessary.

Today I spoke on the telephone with Mr. MacKenzie and he told me that since the first of the year deposits to the account of the Banco di Napoli Trust Company, New York, amounted to approximately \$4,000,000, and that Corn Exchange has paid out to them during the same period \$3,300,000 in cash. It is interesting to note that at all times they have requested old bills. Mr. MacKenzie said that there had not been any sizable deposits from any other banking institutions for account of the Banco di Napoli Trust Company.

I referred to the Emergency Banking Regulation No. 23 of March 12, 1933 and told Mr. MacKenzie that it is my understanding that the above regulation is still in force.

JWMCK:BOC

COPY:aja

HSM

GRAY

Berlin

Dated February 6, 1941

Rec'd 11:18 a. m.

Secretary of State,
Washington.

415, February 6, noon.

My 45, January 7, 3 p. m.

FOR TREASURY FROM HEATH.

According to the statement for January 31, 1941, the Reichsbank's investments showed an increase slightly below average during the last week of the month. While as was expected both investments and note circulation fell considerably below the totals of the year end which is always the peak point they were nevertheless considerably above the November 1940 figures. During the first three weeks of January the reduction of investment holdings and miscellaneous assets, note circulation and sight deposits had been unusually large reflecting the extremely liquid condition of the money market in January following the considerably tighter situation in December. The total of investment holdings and miscellaneous assets declined by 2048 million marks during the first three weeks of January.

The

hsm -2- No. 415, February 6, noon, from Berlin

The Reichsbank's investment holdings on January 31, 1941 stood at 14908 million marks (commercial and Treasury bills 14503 million marks; collateral loans 28 million marks; eligible securities 28 million marks; other securities 349 million marks) as compared with 13,924 million marks a week earlier, 15846 million marks a month earlier and 14036 million marks on November 30. Miscellaneous assets which include the operating credit to the Reich had declined to 1447 million marks from 1600 million marks a week earlier 1726 million marks a month earlier and 1870 million marks on November 30.

On January 31 there were 13694 million marks and Reichsbank notes in circulation as compared with 12865 million marks a week earlier 14033 million marks on December 30 and 13198 million marks on November 30. During this two-month period there have been unusually large variations in sight deposits. On January 31 they stood at 1726 million marks as compared with 1832 million marks a week earlier, 2561 million marks on December 31 and 1406 million marks on November 30.

MORRIS

WSB

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 6, 1941.

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£30,000
Purchased from commercial concerns	£27,000

Open market sterling remained at 4.03-1/4. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 4,000
Purchased from commercial concerns	£ 3,000

The Argentine free peso, which has been quoted in the neighborhood of .2375 since January 22, opened at that level this morning. During the day, however, it weakened, and finally closed at .2360.

Closing quotations for the other currencies were:

Canadian dollar	17-1/8% discount
Swiss franc (commercial)	.2323-1/2
Swiss franc (non-commercial)	.2325
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Brazilian milreis (free)	.0505
Cuban peso	6-13/16% discount
Mexican peso	.2066
Chinese yuan	.05-7/16

We sold \$998,000 in gold to the Central Bank of the Uruguayan Republic, which was added to its earmarked account.

No new gold engagements were reported.

No gold or silver prices were received from Bombay today.

A price of 23-5/16d was again fixed in London for spot and forward silver, equivalent to 42.33¢.

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

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We made two purchases of silver totaling 150,000 ounces under the Silver Purchase Act. One of these, amounting to 50,000 ounces, consisted of new production from foreign countries, for forward delivery. The other 100,000 ounces represented part of a shipment of 822,000 ounces sent to this country a month ago by the Central Bank of China.

**CONFIDENTIAL**

REPORT OF MR GASTON'S 9:30 MEETING, FEBRUARY 7, 1941

Sullivan said he had talked to Senator George this morning and was told the Senator had been unable to do anything on the general relief amendment but hoped to tonight or tomorrow and certainly by Monday morning, so we will then be free to go ahead on that. The draft of the amendment is practically finished but the problem is to get agreement of the conferees and then between the committees. There are two amendments to the Public Debt Act that will probably be offered as committee amendments from the floor, one suggested by the Post Office Department and the other by the Treasury Department and that is what Sullivan has to see Doughton about this morning. Gaston asked whether the Post Office amendment had to do with the five-dollar stamp and Sullivan said it did not but was to enable them to hire more help than they are now restricted to by law for Class 3 and Class 4 postoffices.

Thompson said he had nothing but said we were getting space lined up for the public debt operations for the new group Mr. Graves is getting together. He said they would probably be put in the Washington Building as that seemed to be the best place. Gaston said he had cleared a couple of appointments yesterday and suggested we had better let Guy Helvering know about it. Gaston expected to clear a couple more in a day or two and told Mr. Sullivan as to Kansas Burke had the public back of him and everybody is willing to have him. Burke has been in communication with Helvering and has wanted to delay until after the 22nd when there is to be a meeting in Kansas; Helvering does not think he should wait. Ed Flynn said it was all right with him and to work

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it out in our own way as to the time. Sullivan said he had no objections as that was the Commissioner's own state and he knows it thoroughly. Gaston said Helvering wanted to tell Burke that he's got to accept the appointment right away as soon as we can put it through. Gaston brought up the vacancy for Collector of Tacoma. The new Senator, Wallgren, has agreed to Bone's new selection which is Clark Squire, a newspaper man, political editor of the Seattle Star, and Flynn says okay with him. We are still waiting on two Internal Revenue Collectorships at Toledo and Milwaukee and no decision has been made there yet. Thompson added that there were several Customs cases dragging on such as Duluth.

Schwarz called attention to a Wall Street Journal story this morning which says that Senator Byrd is drafting a bill which would place the Secretary of the Treasury on the directorates of all Federal lending agencies. Gaston said the Coast Guard magazine has an article by a Coast Guard enlisted man which reads a good deal like German propaganda to him and he thought he had better speak to Waesche about it. Schwarz asked who was running it since Miller went with the Marines and Gaston said Ed Lloyd was in Annapolis doing the editing and that the publication was a mess.

Coe had nothing to discuss. Cairns asked if Gaston had spoken to Schwarz about the possibility of dramatizing the Treasury and

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Gaston said he had not. Cairns pointed out that CBS dramatized one of the government departments every Saturday night. He said he had been asked if the Treasury wanted to get in on it and Schwarz said we would want to.

Kuhn had nothing except that Gaston was the subject of an admiring editorial in the Herald-Tribune this morning on his Gen. Wood letter.

Buckley said he would be delighted to receive from any one who can find out the contents of this victory Don Nelson is supposed to have won, according to the morning papers' reports on OPM. Gaston suggested Chick look into it. Buckley said the export control business was getting more complicated because Leon Henderson's office seems to be coming into the picture more strongly lately on recommending that different articles be placed under it without too much regard for supply. Buckley wondered if he could ask Haas or somebody Gaston would designate to do a little investigating before he went before these subcommittee meetings so that when they talk about oils or fats he would have a little background. He said he was on the subcommittee which drafts all new proclamations and executive orders and recommends that new things go under export control. He said otherwise he just went cold. Gaston suggested Haas do this and thought it a good idea. Haas thought it should be done because if Henderson wants some help we should help him. Gaston asked if Henderson was represented on that committee and Buckley said not directly. Gaston thought he was the one agency of the Government that should be represented and Buckley thought so a lot more than Treasury, adding the only reason he was on it was because he raised hell one

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time and they asked him to serve. Gaston, commenting on the question of restricting exports, said you have the matter of defense need which is Army, Navy and Defense Commission, and then international relations angle, which is State, and then the internal economic angle, price and demand, etc. He thought the committee ought to represent four agencies. Haas thought Henderson should have somebody on the committee. Buckley said the way they did now was to invite Henderson to send somebody when he proposes something but that he was not regularly represented. He pointed to the danger of Maxwell's anxiety to become the economic defense man. Schwarz mentioned that Hopkins was suggested for this job in this morning's Wall Street Journal. Buckley said if they went an inch Maxwell might suggest a mile and added in some cases he had taken the liberty of suggesting a little more study such as on oils and fats. Buckley said on Greece that his secretary was just finishing a memo bringing it up to date and wanted to speak to Gaston about it after meeting. Gaston supposed Ballantyne had told him about Jim Nicely of the Guaranty Trust who is director of purchases. It has just been arranged with Guaranty Trust to secure his services for another six months and they have permanently assigned him to Washington to follow through on all details of purchasing and it is expected Buckley will see quite a bit of Nicely. Gaston queried Cairns as to whether he had talked with Fred Eaton about amending the law so as to permit strategic materials to come in free and asked if he had found what his ideas were and whether he had left a draft. Cairns said he had and that he had told Nicely we would inform him whether or not it would work out administratively and whether or not it would accomplish his objectives.

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He also told him we did not pass on the tariff policy. He talked with him on just those two points and Gaston thought we should suggest to him that he consult on tariff policy angles. Sullivan thought if we made a suggestion like that to him it will get to that crowd that we are in favor of it but Gaston said he was afraid he is making the assumption it is cleared when we pass on the administrative angles. Cairns said he had made it clear that we were not passing on policy and said he had also talked with Secretary Jones and he said he would take up this matter with Clayton.

Haas said he had nothing but remarked that Marshall was crossing letters with us still and asked whether we should work up a reply to his latest. Gaston thought we should hold on to the reply until we hear from the other letter and Haas agreed, as to reply now would just encourage more letters.

Cochran said he had mentioned to Coe this morning the little item in the Wall Street Journal's Friday column about Professor Southard's investigation in New York and the long article in the New York Times to the effect that Washington is backing Belgium in its attachment of French gold, referring to what State, Federal Reserve and Treasury said. Bernstein contacted Logan yesterday and asked if we should do anything about it but Cochran did not feel it was our matter. Schwarz pointed out that it was a court case now and Gaston thought we should keep quiet.

Pehle had nothing to discuss but Gaston said that Max Truitt called him up yesterday afternoon to inform him that we would probably soon get

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requests for funds for supplying and outfitting the Danish ships, the Maersk Line and the Lauritzen Line. Gaston said they had been dealing with Maersk-Moller on the Moller ships and their plan involves chartering to five American steamship companies -- United Fruit, U. S. Lines, Grace Line, Isthmian Line, and Moore-McCormick. Truitt emphasized that they were all American citizens as provided by the Shipping Act of 1916 and that the routes which they will ply have all been determined to be essential. Gaston said he had asked who was carrying the policy on this matter of foreign ships and Truitt had told him the committee under the chairmanship of the Attorney General had been dissolved but that the President had asked the Attorney General personally to follow the thing through and see that something was done. The Attorney General reported at the last Cabinet meeting that progress was made and the President was very much encouraged. Pehle thought we would be right in the middle of it and asked if we knew who was working on it for the Attorney General. Cairns said he did not know and Pehle said if we could find that out then we would have a chance to let Justice know what the real picture is here and tell them we had written to State about it and we were not going to do anything until we had heard from State and been advised all agencies had been consulted. Gaston said there had been consultations with Hackworth and Long in State and thought we had heard at one time that a man named Smith was handling this matter. Pehle said L. M. C. Smith had been handling some of these matters

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but didn't know about this one. Cairns thought he could call up and ask and Pehle suggested Mr. Gaston bring Long up to date and tell him Truitt called and what he said, and say that although we have temporarily settled this other thing, the ships are going to continue to require payments and that this thing would get hot if Maritime gets any place. Gaston said Truitt had mentioned two unsettled points -- (1) whether the British will guarantee that during the period of the charter there will be no molestation of these ships on these runs, and (2) the insurance matter which they think it useless to take up until the other matter is cleared with the British. Pehle thought they hadn't gotten any place and all negotiations were so much guff because the real issue all the way through is are the British letting them sail, and if they do, plenty of lines would like to use the boats. He mentioned an article in the paper referring to those negotiations saying Helmbold had been in the Maritime office. Gaston asked if the proposal was to fly the Danish flag and Pehle pointed out that there was no present law under which these ships could be chartered to these American lines and fly the American flag. Pehle said the difficulty under Danish law is they could not transfer without consulting the Danish Government and they haven't consented so they all continue to fly the Danish flag and, therefore, when they get out of these coastal waters and the British haven't agreed, they might pick them up. Buckley asked who had been dealing with the British and Pehle replied 'Nobody'

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which Buckley thought was silly. He added that the British had sent something up on the Belgian tankers matter to Pehle who said he had passed it stating that the British did not have any difficulty with the Esso-Belgium and the Ampetco. Gaston said this involved Standard Oil of New Jersey and Pehle said the background on it was that Standard of New Jersey got us to transfer the ships from a Belgian subsidiary to the Panamanian flag in a hurry one day and he assumed what happened is that the British and the Belgians and Standard had a talk and made a deal which gave the British one of the boats. Buckley said the British gave him a letter yesterday referring to an earlier letter he had sent to Pehle and that they were still dissatisfied and thought he should get them over again. Pehle said these were not the same boats as these were all cleared and Gaston said that was a Gulf Oil deal -- another deal. Commenting on this one, Gaston said we have got something on those Gulf ships but the other deal was the one of changing the four tankers to Panama registry from Belgian registry. He said the two big ones of Standard recently left the Virgin Islands and were picked up by the British and taken to Trinidad. He said they had just entered into a contract with regard to the Esso-Belgium and the Ampetco retransferring them to a Belgian Congo Corporation and the contract provides one of those two is to go into the service of the British. Buckley said that was a different one from the one he had in mind and Schwarz asked if this Danish deal was for the South American run. Gaston said it was for various runs, South America, the Orient and South Africa.

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Klaus said he had nothing important except yesterday he made a promise to consider the possibilities of drawing up a black list of securities based on the idea that when the withholding tax returns come in, the project that we are engaged in might require going over those returns and, if we go over it for that purpose, we can go over it for the purpose of finding out who is paying people abroad for securities, dividends, interest, etc., and that might tie in generally with the possibility of following the whole problem through. It is subject to all kinds of conditions as to whether we can work it out and Klaus promised to read Bernstein's files on the subject and talk to him afterwards. He added that it would involve some work in Internal Revenue but not in his part. He thinks it is possible to draw up a list but it would not be 100 percent, only the large returns.

Graves had no matters to discuss.

STRICTLY CONFIDENTIAL

*See 1/31/41 - Hopkins
Cable as attached to
meeting at 4:10 p*

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February 7, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

WJG

Sir Frederick Phillips, Mr. Purvis, Herbert Fels and Merle Cochran met with me on Thursday, February 6, at 10:30 A.M. Purvis had come in Wednesday evening on his return from Montreal, Ottawa and New York. I explained to Sir Frederick that the Hopkins cablegram had only been handed to you after your return from the Cabinet on Friday and that therefore you had not had time to send for him to include him in the discussion. I explained that you were still disturbed about the episode and would like to know as fully as possible just what happened. Sir Frederick seemed rather uneasy and said very little. Purvis undertook the explanation. He had received no further light on the matter from London and was forced to conclude that Hopkins had talked to the wrong person, that is, to someone who was not fully informed. Then again it was possible that the cable he had sent January 18 on a quite different matter had become confused with his cable of January 22, which explained the arrangement with Jesse Jones, the Army and the Navy, which you had succeeded in concluding that day. He added, however, that his cable of January 22 had been quite precise and it was difficult for him to see how it could have been misunderstood. He said he would allow me to read the January 22 cable and also the cable of January 31, which was sent after the discussion of the Hopkins cable of that day.

Ballantyne came in at 12:30 with the two cables. He said he was practically committing lese majeste in allowing me to see them and he took them back with him. They bore out completely, however, what Purvis had said. Ballantyne's real purpose in coming over, at Purvis' direction, was to tell me something which Purvis couldn't very well say in Sir Frederick's presence. This was that Sir Frederick had failed to keep Sir Kingsley Wood fully informed and in fact had confused the whole matter in his cables to the Treasury. Ballantyne said Sir Frederick would have been quite willing to explain this to me if it had not been for the presence of the others, Merle Cochran and Herbert Fels.

In the 10:30 meeting, in response to my questions, Purvis said he believed the arrangement with Jesse Jones showed every prospect of working out satisfactorily except for the one feature of the effort to realize something from the sale of British capital investments in American plants. Jones was raising so many questions and there were

- 2 -

so many inherent difficulties that there didn't seem much prospect of accomplishing anything worthwhile in this direction before February 28. Agreement had been reached, with respect to the 883 million of American type orders, not to attempt to place the full orders immediately but the amount would be reduced by placing minimum orders and options for the remainder. One specific difficulty had arisen regarding the Erlichen 20 millimeter guns; two contractors were involved and Jones wished to give orders of only a thousand to each while the contractors were insisting on a minimum of two thousand in order to make provision for construction. Otherwise the plan seems to be moving well and McCloy for the Army particularly is hard at work on the ordnance part of it. The problem now is mainly one that has to be worked out between Army and Navy and Jesse Jones.

Purvis has arranged with the Guaranty Trust to guarantee Jim Nicely's services to him for another six months and Nicely has come to Washington to make his permanent headquarters here so as to follow up all details of the purchase program.

WCS

RANCHO DE LA OSA
SASABE, ARIZONA

Feb 3, 1941 200

ONE-FOUR DISTANCE
RANCHO DE LA OSA
SASABE, ARIZONA

Dear Herbert:

Please send for Arthur Purvis

and Sir Fred. Phillips and have Merle
Urban present, also Herbert Feis.

1. Please explain to Sir Fred that
I did not invite him to ^{be} present
my office after Cabinet as I had
only expected to discuss Greek plans,
when I was handicapped from Hopkins.

2. I want a full explanation
from Purvis and Phillips just
what really happened. Someone
pulled an awful bone. Was it
Hopkins, Sir Kingsley Wood ~~and~~
or was it the British in Washington.
The more I think about it the
worse it looks. Please try and

get to the bottom of it and if possible have an answer for me when I return.

I have not yet relaxed but hope to soon.

Sincerely,

Henry

P. S. Please put this letter in my personal files.

RANCHO DE LA OSA
SABABE, ARIZONA

2/3/41

Dear Herbert:

Please ask Arthur Purvis to have on hand for me when I return the secret figures on airplanes production in England plus losses etc. He will know what I want. Tell him I would like it as of Jan. 31st

Sincerely,

H. M. J.

This request was shown to Ballantyne
Thursday Feb 6. - H. M. J.



THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

February 7, 1941

MEMORANDUM FOR THE FILES:

Subject: Conference with the President at the
White House, February 7.

Upon arriving at the office this morning, I was advised that my appointment with the President was for 11:45. I immediately called the White House to inform General Watson that I had requested no appointment and wondered what it was all about. He said that he did not know what the conference was for, but the President had instructed him to call Jerry Frank, Commissioners Pike and Eicher, and Leo Crowley, and me for this conference. The President knew that I was supposed to be on leave but had said that if I were in town, he wanted me to attend.

After waiting for an hour and ten minutes, we got in to see the President about 12:55. After talking about the possibilities of Paesamaquoddy and the Niagara River for additional electric power, he said that he had a memorandum on his desk, from whom he did not say, that went into the Giannini matter and he would like to see the various Government agencies get together on it and settle same. He said there is hardly a day goes by that he does not hear about this matter and he could not see why it had not been settled.

I asked him what the memorandum covered, whether it was the SEC problem or did it involve the Treasury. He stated that he thought it was largely the SEC. I told him that the Treasury matter had been largely settled with the Bank of America except for one small item concerning the loss on real estate and I thought that would be settled within the course of the next few days. Leo Crowley said there is one other matter, and that is the matter of branches. I replied that even that, so far as the Treasury is concerned, is settled, for we have turned down all the applications for additional branches. (I found, when I returned to the Treasury, that six subsequent applications have been received which are still pending.)

Jerry Frank spoke up and said that he thought the five people in the room were pretty much in agreement with the Government's policy with respect to Transamerica and the Bank of America, the only ones in the Government not in agreement with this group were Jesse Jones and Marriner Eccles. He said that he thought if Transamerica had a good lawyer, this whole matter could be settled within the course of six weeks. He has told them that the SEC would be willing to sit down with representatives

of Transamerica, stipulate the facts, and the Commission could render a decision on the basis of those facts. It might work out that they would have to admit certain things which are facts and the decision might have the effect of giving that organization a public spanking, but it would not hurt them. He said that the Commission had spent more time on this case than any other they have ever had, and he did not feel that the matter could be settled without a decision of the Commission, and if it were settled without a decision, he thought it would hurt the Commission's reputation and probably would interfere with its future operations. The President said that he did not want the Commission to settle the matter without a decision. He agreed with Jerry on this point but said that he did want them to get together and see if it could not be worked out as he was getting tired of hearing about it. Jerry said that he had conferred with Ed Flynn last week on the matter and suggested to him that he tell the Giannini interests to get themselves a good lawyer, like Cushing or Flagler, who could negotiate a settlement of the matter. He was sure that it could be worked out along the lines he had suggested.

The President suggested that the group of five people present sort of form themselves into a committee to work out the problem. I said we would be glad to help all we could, but it appears to me to be clearly an SEC problem and that the Treasury had nothing to do with it. We had settled our matter with this group, which was separate and distinct from the SEC action. Jerry Frank agreed that it was entirely a Commission matter but said if they got into any difficulties, they would be glad to consult with Leo Crowley and me. He then turned to the other two members of the Commission present, who agreed. I did not raise any objections to this, but I question whether the Treasury should even be consulted on this SEC action against Transamerica.

sub B

February 7, 1941.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Gaston

I brought up the matter of the ice patrol at the Cabinet Meeting today. The President said he was unwilling to have the ice patrol officially abandoned since it would be a good cover for the activities we wish to carry on in the Greenland area this spring. I explained to him that the proposal was to carry on the Arctic exploration work anyway, but the abandonment of the ice patrol would relieve us of any obligation under the International Convention to furnish information to subscribing nations. He thought that the advantage he mentioned outweighed that consideration.



February 7, 1941.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Gaston

I brought up the matter of the ice patrol at the Cabinet Meeting today. The President said he was unwilling to have the ice patrol officially abandoned since it would be a good cover for the activities we wish to carry on in the Greenland area this spring. I explained to him that the proposal was to carry on the Arctic exploration work anyway, but the abandonment of the ice patrol would relieve us of any obligation under the International Convention to furnish information to subscribing nations. He thought that the advantage he mentioned outweighed that consideration.

THE WHITE HOUSE
WASHINGTON

February 1, 1941.

MEMORANDUM FOR
THE SECRETARY OF THE TREASURY

Before this Ice Patrol is
officially abandoned for 1941,
I would like to speak with you
and the Secretary of the Navy
about it.

F. D. R.



TREASURY DEPARTMENT

WASHINGTON

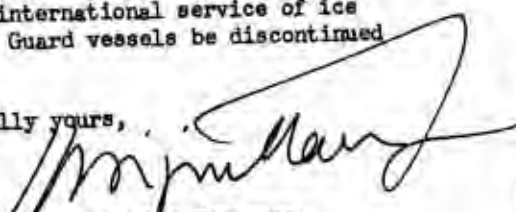
January 30, 1941.

My dear Mr. President:

The Commandant of the Coast Guard, who is Chairman of the Interdepartmental Board on International Service of Ice Observation, Ice Patrol, and Ocean Derelict Destruction in the North Atlantic Ocean, has advised me that the Board at a meeting held on January 21, 1941, unanimously recommended that, in view of existing international conditions and disruption to normal maritime commerce and practices in the North Atlantic, the conduct of the international service of ice observation and ice patrol be discontinued for the present. This recommendation was decided upon after careful consideration of the various factors bearing upon the conduct of this international service.

I concur in the recommendation of the Board, and deem it wise that the maintenance of an international service of ice observation and ice patrol by Coast Guard vessels be discontinued for the present.

Faithfully yours,


Secretary of the Treasury.

The President,
The White House.

Inclosure
(Board recommendation)

The White House

Approved: _____
1941.



HEADQUARTERS

RECEIVED FOR THE SECRETARY, U. S. COAST GUARD
AND RETURN TO THE CO-512

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

22 January, 1941.

The Honorable,
The Secretary of the Treasury.

Sir:

At a meeting held on 21 January, 1941, of the Interdepartmental Board on International Service of Ice Observation and Ice Patrol in the North Atlantic Ocean, it was unanimously recommended that the maintenance of the international service of ice observation and ice patrol by the United States Coast Guard be discontinued for the present in view of the existing international situation. This recommendation was arrived at after the Board had carefully considered existing conditions in the North Atlantic and the various factors bearing upon the conduct of this international service by the Coast Guard.

The International Ice Observation and Ice Patrol Service is carried on by the United States Government pursuant to Article 37 of the International Convention on Safety of Life at Sea, signed at London on May 31, 1929. Customarily, three Coast Guard cutters are assigned to this duty during the period running generally from March to July, to determine the location of icebergs in the North Atlantic in the vicinity of the Grand Banks and to broadcast warnings to marine commerce traversing that region and to suggest safe routes for shipping to follow to avoid icebergs. In addition, studies are made of oceanographic conditions prevailing in that area, and meteorological observations are taken.

The efficient and effective conduct of the duty is dependent, to a large extent, upon the cooperation of North Atlantic marine commerce in furnishing advice by radio of ice sighted, and of sea water temperatures. This cooperation was not available during the 1940 season since shipping refrained from the use of their radio while in the North Atlantic, and the routes followed by shipping were those dictated by military considerations rather than the customarily prescribed North Atlantic Lane Routes. Since cooperation of North Atlantic marine commerce in the transmission of radio reports of ice sighted, weather conditions, and sea water temperatures can not be expected in the present crisis, and since any attempt by a single Coast Guard cutter on patrol at one time to determine the location of ice throughout the entire Grand Banks region would be impracticable, the maintenance of the Ice Patrol

would not afford a fully reliable means for ice intelligence, nor an entirely safe guidance for shipping. Furthermore, any routes which might be suggested by the Ice Patrol would be subservient to those dictated by military necessities. These and other considerations entered into the views governing the Board's action.

The recommendation of the Board upon this matter is respectfully submitted to you for communication to the President if you should concur. I may say that, in view of this international service being performed pursuant to an International Convention, a representative of the State Department attended the meeting to afford counsel and advice to the Board in respect to the international aspects involved.

Very truly yours,



R. R. WAESCHE,
Rear Admiral, U.S.C.G.,
Commandant, U.S. Coast Guard,
Chairman, Interdepartmental Board.

RANCHO DE LA OSA
SASABE, ARIZONA

210

PHONE-LONG DISTANCE
RANCHO DE LA OSA
TUCSON, ARIZONA

approx 2/7/41
Called Cochran
Made 12:55 a.m. Feb. 8.
Off 12:55 a.m. Feb 9

Dear Herbert:

Please ask Merle

Cochran to ask Pinson if he
could tell us how much money
Hitler has spent each year for
rearming since he has been in office
also how much money Mussolini
has spent in the same period.
ask White & Haa's groups if
they have anything on this
subject and to check what has
been written on it.

I would like something on
this next week please.
Sincerely, Henry

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE 2-7-41

TO Secretary Morgenthau

FROM Mr. Bell

There was a meeting at the State Department on February 7, 1941 attended by representatives of State, Treasury, Federal Reserve Board, Export-Import Bank and Rockefeller's unit, Robert Loree of the Guaranty Trust Company, Charles Spencer of the First National Bank of Boston, and Randolph Burgess and Lancaster of the National City Bank. The meeting was held for the purpose of considering some of the points that had been troubling the private banks in connection with the proposed creation of the Inter-American Bank and, in particular, the problem of possible competition by the Inter-American Bank in fields where private banks now function.

Mr. Berle outlined the various alternative ways of dealing with this question. He said that the proposal made by the private banks (copy of which Burgess left with the Treasury 10 days ago) involving a change in the proposed Charter of the Inter-American Bank was not satisfactory because it involved going back to each of the American Republics to have the Convention signed again. The advantages and disadvantages of having Congress by legislation instruct the American Director how to act on this problem was also considered. State and Treasury felt that this course would be disadvantageous because of rigidity in the powers of the Bank, the possibility of other countries adopting this method of making reservations to the Convention, and because it was an unusual practice for a director to be instructed by legislation how he was to act.

The other alternative considered was for the Executive departments to write a letter to the Congressional committees to the effect that should the Bank be established the American Director would seek to have the By-Laws of the Bank amended so as to provide expressly that loans of less than two years could not be made to the nationals of participating governments unless the government or a central bank or perhaps some other acceptable bank guaranteed the loan. The thing which troubled the private bankers was the possibility under the existing By-Laws of loans up to two years being made to nationals without anyone else guaranteeing such loans. Of course, with respect to loans of more than a two-year period there will be no change in the existing provisions of the By-Laws requiring governmental guarantee if the loan is made to a national.

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It seems to us, as well as to the other interested agencies, that there is no objection whatever to this method of handling the problem and if you agree we can so advise State informally and a letter will then be prepared by representatives of the interested departments and the private banks describing to the Congressional committees the changes in the By-Laws of the Inter-American Bank which the American Director would propose upon the organization of the bank. The bankers stated that if the Administration were willing to take this action the proposal for the Inter-American Bank would then be satisfactory to the six or seven New York and Boston banks that they represent. The bankers also agreed to use their good offices to oppose any suggestions for changes that might be made by any other banks.

sub

Miss. Shaver

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SECRET

FEB 7 1941

My dear Mr. President,

Reference is made to your note of February 5, 1941, requesting a recommendation with respect to the recommendation by the Secretary of War and Navy which is contained in their letter of January 30, 1941 for the appropriation of certain moneys amounting to approximately \$52,000,000 to the Philippine Islands to be used for defense purposes.

Apparently the funds referred to by the Secretaries of War and Navy are those authorized to be appropriated to the Philippine Government under Section 303 of the Sugar Act of 1937 and in the Act approved June 19, 1934, relating to Philippine currency reserves on deposit in the United States.

Under the Act approved June 19, 1934, the Secretary of the Treasury was authorized and directed, when the funds therefor are made available, to establish on the books of the Treasury a credit in favor of the Treasury of the Philippine Islands for \$23,642,750.76, being an amount equal to the increase in value (resulting from the revaluation of the weight of the gold dollar) of the gold equivalent at the opening of business on January 21, 1934, of the balances maintained at that time in banks in the continental United States by the Government of the Philippine Islands for its Gold Standard Fund and its Treasury Certificate fund less the interest received by it on such balances.

An estimate for an appropriation payable out of the increment on gold for payment to the Philippine Government in accordance with the Act approved June 19, 1934, was transmitted to the Speaker of the House of Representatives on April 19, 1935. No appropriation, however, was made by the Congress. In 1936 a bill was introduced in the Senate to repeal the Act of June 19, 1934. This bill was favorably reported out by the Senate Committee on Banking and Currency and was passed by the Senate on May 18, 1936. The House of Representatives failed to act on the bill prior to the expiration of the 74th Congress. A new bill for the repeal of the Act of June 19, 1934, was introduced in the Senate in January 1937 and favorably reported upon and was passed by the Senate on August 6, 1937. The House of Representatives failed to act on the bill prior to the expiration of the 75th Congress. A bill for the repeal of the Act of June 19, 1934 was also introduced in the Senate during the 76th Congress and was favorably reported upon by the Committee on Banking and Currency but no further action upon the bill was taken.

the other funds involved in the recommendation of the Secretaries of War and Navy amount to approximately \$27,400,000, as of January 31, 1941. These funds are covered by section 503 of the Sugar Act of 1937, approved September 1, 1937, which authorizes the appropriation to the Philippine Government of an amount equal to the amount of taxes collected or secured on sugar produced from sugar cane grown in the Philippines, manufactured or brought into the United States on or prior to June 30, 1941, less the cost of collecting such taxes. The Sugar Act of 1937 provided for the transfer of these funds to the Philippine Government after the purpose of financing a program of economic adjustment in the Philippines, the transfer to be made under such terms and conditions as the President of the United States may prescribe subject to a provision that no part of such funds shall be paid directly or indirectly for the production or processing of sugar cane in the Philippine Islands.

Subsequently, under Public No. 300, 76th Congress, approved August 7, 1939, which amended the act to provide for the complete independence of the Philippine Islands, etc., approved March 24, 1934, it is provided that the proceeds of excise taxes and import taxes collected on or after January 1, 1939, and secured prior to July 4, 1946, and required to be held in separate or special funds and paid into the treasury of the Philippines, together with any moneys hereafter appropriated in accordance with the authorization contained in section 503 of the Sugar Act of 1937 by virtue of accruals of excise and import taxes prior to July 4, 1946, "shall be held as separate funds and paid into the treasury of the Philippines to be used for the purpose of meeting new or additional expenditures which will be necessary in adjusting Philippine economy to a position independent of trade preferences in the United States and in preparing the Philippines for the assumption of the responsibilities of an independent state; Provided, however, That the portion of such funds expended by the Government of the Commonwealth of the Philippines shall be budgeted, appropriated, and accounted for separately from other moneys of that Government." It is also provided that if the President of the United States finds that the Philippine Government has failed or is about to fail to comply with the above requirements and certain other requirements imposed in connection with these funds, he shall direct the Secretary of the Treasury to withhold or discontinue, during any period or periods of time specified by the President further payments in whole or in part. It is further provided that nothing contained in this legislation shall be construed as obligating the United States to continue for any period of time any or all of the excise or import taxes imposed by the United States which form the basis for the amounts appropriated to the Philippine Government.

As these funds have accrued, the Treasury has submitted from time to time estimates to the Bureau of the Budget for an appropriation to enable the Treasury to pay them to the Philippine Government as provided in the above mentioned legislation, but no estimates have been presented to the Congress for the necessary appropriation.

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In addition to the above mentioned items the Philippine Government had the following balances in its accounts with the Treasury on January 31, 1941. The balances with the Treasurer of the United States include the Philippine currency reserves.

With the Treasurer of the United States:	
Treasurer of Philippine Islands (Cash Deposit)	\$55,000,000.00
Treasurer of Philippine Islands (Demand Deposit)	45,047,699.23
With the Secretary of the Treasury:	
Treasurer of Philippine Islands, General Fund Account (Cash Deposit)	32,878,005.72
Treasurer of Philippines, General Fund Account, lot of August 7, 1939	<u>19,652,014.30</u>
Total	\$146,977,799.25

There were also certain balances available in Treasury appropriation accounts subject to transfer to the Philippine Government on January 31, 1941, as follows:

Philippine Trust Fund (Internal Revenue)	\$ 608,747.04
Philippine Trust Fund Coconut Oil Tax (Internal Revenue)	3,881,015.84
Philippine Trust Fund (Customs Duties)	2,246.47
Philippine Trust Fund (Import Duties)	2,811.20
Philippine Trust Fund (Tonnage Tax)	<u>22,130.00</u>
Total	\$4,516,950.65

The Treasury sees no objection to the form of the proposed telegram suggested by the Secretaries of War and Navy to be dispatched by you to President Quezon of the Philippine Commonwealth if you decide to recommend to the Congress the appropriation of the money referred to be used in preparing the Philippine Islands for defense. It is assumed that you will also obtain recommendations from the Bureau of the Budget and the Secretary of the Interior with respect to the appropriation and use of the funds for the purposes indicated by the Secretaries of War and Navy.

The letter dated January 30, 1941 from the Secretary of the Navy and the Secretary of War is returned herewith.

Faithfully,

(Signed) D. V. *Wells*

The President,
The White House

Acting Secy.

Enclosure

WHL:mr 2-6-41

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THE WHITE HOUSE
WASHINGTON

SECRET

February 5, 1951.

MEMORANDUM FOR

THE ACTING SECRETARY OF THE TREASURY

Please let me have your
recommendation on this secret
recommendation of the Secretaries
of War and Navy.

F. D. R.

WAR AND NAVY DEPARTMENTS
Washington

SECRET

JAN 30 1941

The President,

The White House.

Dear Mr. President:

The War and Navy Departments have considered the request of President Quezon of the Philippine Commonwealth that funds not yet appropriated but already authorized to be paid the Philippine Commonwealth from sums derived from sugar excise taxes and currency devaluation be provided at this time in order to permit improvement of the defenses of the Philippine Islands. It is understood that the sum in question amounts to approximately \$52,000,000.

The Departments believe that defense measures which could appropriately be undertaken with money primarily intended for the benefit of the Filipinos would have an immediately advantageous effect on the morale of the Philippine Government and people and would, at a later date, be of material assistance in assuring an effective defense of the Philippines. However, as recognized by President Quezon, the most efficient planning and execution of these defense measures can be attained only if they are retained under the control and supervision of the military and naval authorities of the United States. The War and Navy Departments are also of the opinion that these expenditures, if of the types described below, will not have a seriously adverse effect on the national defense policy or program of the United States.

Since the funds under consideration are intended primarily for the benefit of the Philippine people they should be expended for defense items which will either immediately or ultimately belong to the Filipinos themselves. These items include equipment, munitions, installations, and the training of the Philippine Army. Shortages in the equipment and munitions required for forces in the United States and for the British preclude sending additional supplies of this type to the Philippine Islands at this time. However, it is recommended that the Commonwealth Government be permitted to place orders in the United States, delivery dates to be coordinated as most expedient with those of other nations allowed to purchase military supplies in this country. It is desirable to strengthen and enlarge

SECRET

those defense installations in the Philippines which facilitate the operations and defensive capabilities of the present garrison and which will become available to the Philippine Commonwealth if and when United States forces withdraw from the Philippines. These projects include gas and bombproofing, air fields and communications for the Army (estimated to cost approximately 2 million dollars), and development of additional aviation facilities for the Navy (estimated to cost approximately 5 million dollars). The Commanding General, Philippine Department, has recommended that the Philippine Army be called into active service for training under the United States military authorities. No estimate of the cost has yet been obtained. Legal authority for such action is contained in section 2 (a) (12), Act of March 24, 1934. Such training will greatly increase the speed at which the Philippine Army can be prepared for effective defense of the Philippines.

The War and Navy Departments recommend that you authorize the execution of such of the above-discussed measures, in whole or in part, as these departments deem most beneficial to the strengthening of the Philippine defense and that can at the same time be accomplished within the limitation of the funds now authorized for the benefit of the Philippine Commonwealth.

If you approve these recommendations the War and Navy Departments will initiate action to prepare the necessary estimates in anticipation of a request to the Congress to make available the funds already authorized but not yet appropriated for the benefit of the Philippine Commonwealth. It is recommended that a cablegram, in substance as follows, be dispatched to President Quezon of the Philippine Commonwealth:

Your desire to cooperate with the United States in preparing the Philippine Islands for defense, and your suggestion that the necessary expenditures be made from funds collected from sugar excise taxes and resulting from currency devaluation are gratifying to the Government of the United States. The security of the Philippine Islands has been under serious consideration by the War and Navy Departments, and steps are being taken to strengthen their defenses. Certain of the measures contemplated may appropriately be charged to the funds in question. Accordingly an appropriation from these sums will be sought from the Congress to be expended under the supervision and control of the military and naval authorities of the United States for the improvement of the defenses of the Philippine Islands.

Respectfully yours,

Frank Knox
Secretary of the Navy.

Henry L. Stimson
Secretary of War.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Tehran, Iran.

DATE: February 7, 1941, 4 p.m.

NO. : 7.

There are rumors persisting in Tehran that all dollar accounts held by nationals of foreign countries in American banks will be blocked. The unofficial rate of exchange of the dollar has declined approximately 10% during the past week as a result of these rumors.

Certain local businessmen state that the German Legation is the source of these rumors.

DREYFUS

EMB

EA:VCL

TO THE SECRETARY
TECHNICAL DIVISION
ENCL.

RECEIVED IS 6M 2 43

THE SECRETARY
RECEIVED

No. 182

AMERICAN CONSULATE

Kunming (Yunnanfu), China, February 7, 1941

CONFIDENTIAL

SUBJECT: Exports of Tung Oil from Kunming, 1940.

The Honorable

The Secretary of State,

Washington.

I have the honor to refer to my Despatches No. 30*, No. 88**, and No. 123*** on the above subject, and to enclose for the Department's information complete statistics of export shipments of tung oil from Kunming by the Foo Shing Company in the year 1940. These statistics have been obtained through the courtesy of the local office of the Foo Shing Company.

It will be noted that export shipments from Kunming in 1940 (16,491 metric tons) were approximately double the quantity of such exports in 1939 (8,819 metric tons), notwithstanding the difficulties experienced and the repeated shifts of transport routes made necessary by Japanese attacks on this Province and Japanese pressure on third powers. Average monthly shipments were thus 1,376 tons; only in the months of January, June and July did shipments fall below 1,000 tons.

The marked success of the Foo Shing Company in organizing highway transport to Lashio after the cessation, on June 20, of shipments by rail to Indochina is shown by the rise of outward shipments to 1,242 tons in August and the steady maintenance of monthly exports above the 1,000 ton mark thereafter. Apparently the regular aerial bombardments of Kunming and the Burma Highway, beginning in late September and early October, failed to cause any significant decrease in the quantity of oil shipped by this route.

Stocks of tung oil in Kunming, which had reached a high point of almost 2,500 tons at the beginning of November, were reduced to 1,543.8 tons at the beginning of January, 1941. By February 1, 1941, stocks in Kunming had been further reduced to 903.5 tons.

Respectfully yours,

TROY L. PERKINS
American Consul

* February 12, 1940.

** June 8, 1940.

*** September 25, 1940.

- 2 -

Enclosure:-

- 1/, Statistics of export shipments
of Tung Oil from Kunming.

In sextuplicate to the Department;
original and two copies by air mail.
Copy to Embassy at Peiping.
Copy to Embassy at Chungking.
Two copies to Consulate General, Shanghai.
Copy to Consulate, Rangoon.

869
SCB:EPY

eh:copy

Enclosure to despatch no. 182, dated February 7, 1941
from Consul Troy L. Perkins, Kunming (Yunnanfu), China,
to the Department of State, entitled: "Exports of Tung
Oil from Kunming, 1940".

**Tung Oil Position of Foo Shing
Company, Kunming Office.**

January-December, 1940

(In Kilograms)

<u>Month</u>	<u>Apparent Stocks</u>	<u>Actual Stocks</u>	<u>Receipts</u>	<u>Shipments</u>
January		894,966.0	2,686,865.5	909,206.5
February	2,672,655.0		1,131,534.5	1,053,445.5
March	2,750,744.0		1,363,820.0	2,902,466.5
April	1,212,097.5		1,274,095.0	1,689,008.5
May	797,184.0		1,489,929.5	1,877,923.0
June	409,190.5		2,009,574.5	979,987.0
July	1,438,778.0		1,266,156.5	646,735.5
August	2,058,199.0		1,254,738.0	1,242,234.0
September	2,070,703.0		1,345,623.0	1,624,990.0
October	1,791,336.0		1,758,389.0	1,064,103.0
November	2,485,622.0		796,166.0	1,092,710.0
December	2,189,028.0		1,142,495.4	1,428,251.5
January (1941)	1,902,271.9	1,543,827.9		

Source: Confidential Reports of the Kunming office, Foo Shing Company.

Note : The figures for apparent stocks have been derived by the Consulate from the statistics of stocks on January 1, 1940 and receipts and shipments thereafter. The figures for actual stocks on January 1, 1940 and January 1, 1941 have been taken from Foo Shing's reports. All figures for stocks refer to stocks on the first day of the month named.

sh:copy

Federal Reserve Bank
of New York

223

C ICE CORRESPONDENCE

Date February 7, 1941

to Files

Subject: Banco di Napoli Trust

From J. W. McKeon

Company of New York

In reviewing the weekly foreign exchange reports filed by the Banco di Napoli Trust Company of New York for the weeks ended January 29, 1941 and February 5, 1941, I discovered that, although they had reported sales of domestic bonds for account of foreigners, amounting to \$3,150,000, there was no corresponding increase reported in deposits of foreigners.

I telephoned Mr. Vicidomini, Assistant Vice President of the Banco di Napoli Trust Company and, in his absence, spoke with the treasurer, Mr. I. Marchisio. I discussed with him their sales of domestic bonds for account of foreigners, and he said they were "governments." I asked him several questions about the resulting dollars, and his answers were far from satisfactory. However, he did state that the sale of the bonds was for the account of the Istituto Nazionale per i Cambi con l'Estero.

I gave Mr. Knoke these facts, and he suggested that I continue the investigation. Accordingly, I telephoned Mr. Vicidomini and explained to him that the purpose of my call was associated with the statistical problem of interpreting the weekly foreign exchange reports which we forward to the Treasury, and that a breakdown of the above-mentioned sales of government bonds for account of foreigners would be very helpful to us.

From this point on Mr. Vicidomini was very cooperative. He telephoned later in the afternoon and gave me in detail the payments made against the \$3,150,000 which had been received from the sales of "governments." According to his explanation, approximately \$2,500,000, mostly in cash of small denominations, was paid to Mr. Luigi Podesta, Delegate of the Istituto Nazionale per i Cambi con l'Estero. The balance, which appeared to me to be legitimate commercial transactions, was paid out in various amounts, ranging from \$3,000 to \$300,000.

JWMC:B00

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Buenos Aires, Argentina.

DATE: February 7, 11 a.m.

NO: 111

Reference Department's telegram no. 33, January 27, 7 p.m. and Embassy's telegram 95, January 31, 7 p.m.

Commercial Counselor of British Embassy in Buenos Aires stated that as far as British Embassy is concerned it has no knowledge that any consideration has been given to permit Spain to buy Argentine corn, payment to be made in blocked sterling.

There has been, however, a definite agreement entered into whereby the British Government has agreed to deliver to Spain 50,000 tons of wheat from British stocks purchased in Argentina. The exact manner in which this transaction is to be consummated was not indicated by the official of the British Embassy but it appears reasonable to assume that the shipment of the wheat to Spain will increase Argentina's holdings of blocked sterling.

The transaction outlined above is believed to be the basis of recent press reports.

ARMOUR

RA:JSH

COPY:aJa

WHO

PLAIN

London

Dated February 7, 1941

Rec'd 11:45 a.m.

Secretary of State,
Washington,

465, Seventh.

FOR TREASURY.

When presenting the two votes of credit referred to in the Embassy's telegram no. 436 of February 5, the Chancellor of the Exchequer disclosed that for the past 5 weeks total expenditure averaged £12-1/4 million a day, £10-1/2 million of which was for war purposes (£8 million for the fighting services and £2-1/2 million for Ministries of supply, shipping, food and home security). These figures compare with £5 million (total) and £4 million (war purposes) a year ago and £10.6 million (total) and £9 million (war purposes) in October when the last vote of credit was passed.

He urged prompt payment of direct taxes, promised Treasury vigilance against waste, noted that civilian consumption must be further curtailed and savings considerably increased.

He referred to the subject of "the impending danger of inflation" as "a matter of some present discussion", defined
inflation

MHO

- 2 - 465, February 7, 1941, from London.

inflation as "an unhealthy rise in prices over and beyond the necessities of the case" and stated that "an excessive gap between taxation and savings on the one hand and expenditure on the other is undoubtedly a predisposing cause of inflation and it is obvious the present gap is very great". He went on to say that a superficial study of the figures seems to support the contention that the gap is excessive but that he is "certainly clear that from a true analysis of figures, the danger of the so-called gap has been greatly exaggerated". Outside resources in the Empire and foreign countries and automatic savings (presumably social security funds, war insurance funds, etc.) have been largely drawn on. "But I emphasize that this does not mean that I wish to minimize the danger that prices may rise excessively or that there are other elements in the problem and other sources of danger that need to be carefully watched. I would give the assurance that the government are very much alive to the whole matter, and they will not hesitate to take any practical steps to control the danger should it arise and it is obviously a subject which can be tackled from several angles".

Press comments on the speech include references to a probable broadening of the scope of rationing (TIMES

editorial

MHO

- 2 - 465, February 7, 1941, from London.

editorial) the danger of the probable gap this time next year (TIMES city column), the necessity to surpass the £26 million per week of savings recently recorded (DAILY TELEGRAPH), the need to treble that rate (MANCHESTER GUARDIAN), the advisability of adopting a scheme along the lines suggested by Keynes (FINANCIAL NEWS and MANCHESTER GUARDIAN) and a hint that taxation of increased incomes of individuals may be contemplated (FINANCIAL TIMES).

A timely article in the ECONOMIST estimates next year's expenditure at £5,130 million and revenue on the existing tax basis as £1,700 million leaving a gross gap of £3,400 million - or say £300 million a month. It places the yield of genuine savings in 1941-42 at £100 million a month, and increases in insurance etc. funds at a small sum. Citing Mr. Morgenthau's statements on Tuesday it estimates that dollar assets have been drawn upon over the first sixteen months of war at the average rate of £40 million per month. Accumulation of sterling-area balances it places at £15 million a month. The article concludes: "When all these non-inflationary resources are added together it is very difficult to put their combined prospective total in 1941-42 at more than say £150 million a month

MHO

- 2 - 465, February 7, 1941, from London.

month, or half the gross gap. There thus remains a net gap of a further £150 million a month to be met by increased taxation and induced or compulsory savings - or by inflation. It is this figure that should set the tone for the financial discussions of coming months."

JOHNSON

WSB

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 7, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19, 1940:

	No. of Shares Sold	\$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	\$ Proceeds of Bonds Sold
January 27	62,607	1,558,984	545,000	587,374
28	75,875	2,632,476	406,000	436,810
29	32,269	929,750	194,500	197,398
30	41,524	727,190	208,000	205,431
31	2,673	200,743	614,000	688,700
February 1	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>
	214,948	6,049,143	1,967,500	2,115,713
Gift to Treasury	40	31,275		
Sales from February 22, 1940 to January 25, 1941	<u>4,812,290</u>	<u>145,700,673</u>	<u>11,780,300</u>	<u>10,700,497</u>
TOTAL FEBRUARY 22, 1940 TO FEBRUARY 1, 1941	5,027,278	151,781,091	13,747,800	12,816,210

Miss Foote reported sales of non-vested securities for the week ending January 25 totaled \$500,000.

J. M. S.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 7, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£71,000
Purchased from commercial concerns	£83,000

In the open market, sterling was first quoted at 4.03-1/4. Around noon-time it moved to 4.03 and remained at that level during the afternoon. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£4,000
Purchased from commercial concerns	£7,000

The commercial Swiss franc closed at .2323, as compared with .2323-1/2 last night. Small amounts of Swiss francs available for non-commercial use were traded at .2325.

Closing quotations for the other currencies were:

Canadian dollar	17-1/8% discount
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2362
Brazilian milreis (free)	.0505
Cuban peso	6-13/16% discount
Mexican peso	.2066
Chinese yuan	.05-7/16

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$3,503,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the United States Assay Office.

Today's Bombay gold price was equivalent to \$33.99, representing a decline of 1¢ from Wednesday's quotation. Silver was priced at the equivalent of 44.87¢, up 3/16¢.

In London, a price of 23-1/4d was fixed for spot and forward silver, representing a decline of 1/16d in each case. The dollar equivalent of this price is 42.21¢.

- 2 -

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 50,000 ounces under the Silver Purchase Act. This consisted of new production from foreign countries, for forward delivery.

B.M.P.

CONFIDENTIAL

TO:

232

Miss Chauncey

We have made copies for our files
and I have brought the substance
of this material to the Secretary's
attention in a memorandum dated
February 11.



MR. YOUNG

February 7, 1941

Honorable Jesse Jones
Federal Loan Administrator
Washington, D. C.

Dear Mr. Administrator:

I am enclosing Mr. Stinson's letter to you covering the machine gun facilities. He understands that you will obtain the President's approval.

Very truly yours,



JOHN J. MCCLOY,
Special Assistant to
the Secretary of War

Encl: Ltr. of Secretary of War
dated February 6, 1941

Copy for: Secretary of the Treasury

RECEIVED

FEB 10 1941

Treasury Department
Office of Philip Young

February 6, 1941

Honorable James Jones
Federal Loan Administrator
Washington, D. C.

Dear Mr. Administrator:

Reference is made to my letter of February 6, 1941, relative to the acquisition of certain plant facilities for the manufacture of arms, ammunition and implements of war situated in this country and beneficially owned by the British Government.

In accordance with the plan outlined therein, I designate the plant of the Tennessee Powder Company, Memphis, Tennessee, beneficially owned by the British Government, as being necessary to our national defense.

The site upon which this plant and facilities are located is peculiarly well adapted for expansion to meet the future needs of the Government in the manufacture of powder to United States specifications.

If you are able to arrange for the purchase of this plant, arrangements should be made for its continued operation by the E. I. du Pont de Nemours Company, Incorporated, fulfilling British orders, without prejudice to the priority rights of the United States Government under existing law.

As provided in my letter of February 6, 1941, when requested by you, the War Department will seek appropriations necessary to purchase the facilities above referred to upon the basis of their cost to the Reconstruction Finance Corporation. When such appropriations are available, the War Department will purchase such facilities, notwithstanding any loss or damage thereto from fire, explosion or other catastrophe.

Very truly yours,

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Secretary of War

FEB 10 1941

I APPROVE:

Copy for Secretary of the Treasury

Treasury Department
Office of Public Affairs

CONFIDENTIAL

JJMCC:EB
235

COPY

February 6, 1941

Honorable Jesse Jones
Federal Loan Administrator
Washington, D. C.

Dear Mr. Administrator:

Reference is made to my letter of February 6, 1941, relative to the acquisition of certain plant facilities for the manufacture of arms, ammunition and implements of war situated in this country which have been financed wholly or in part by the British Purchasing Commission.

In accordance with the plan outlined therein, I designate the plants and facilities financed wholly or in part by the British Purchasing Commission in connection with contracts placed by it for the manufacture of machine guns as being necessary to our national defense:

Colt's Patent Firearms Mfg. Co.	.50 cal. machine gun
High Standard Mfg. Co.	.50 cal. machine gun
Kellogg-Hayes Wheel Co.	.50 cal. machine gun
Houde Engineering Corp. (Buffalo Arms Company)	.30 cal. machine gun

The contracts placed by the British Purchasing Commission for machine guns in the plants and facilities of the contractors enumerated above are being terminated and new contracts for supplies with the same manufacturers are being negotiated by our Government. Since the U. S. Government contracts will differ in major respects from those placed by the British Purchasing Commission, particularly in reference to the balancing of equipment to manufacture spare parts in accordance with standard U. S. Army practice, it is essential that the plants and facilities be of our Government's ownership to permit flexibility and control of the types and quantities of the facilities involved.

As provided in my letter of February 6, 1941, when requested by you, the War Department will seek appropriations necessary to purchase the facilities above referred to upon the basis of their cost to the Reconstruction Finance Corporation. When

CONFIDENTIAL

- 2 -

Honorable Jesse Jones

February 6, 1941

such appropriations are available, the War Department will purchase such facilities, notwithstanding any loss or damage thereto from fire, explosion or other catastrophes.

Very truly yours,

(Signed)

Secretary of War

I APPROVE:

Copies to:

Secretary of the Treasury
Under Secretary of War
Chief of Staff
Chief of Ordnance
A. G. of S., G-4
Mr. Clifford J. Durr, RFG
Mr. Luke Lockwood, B. of A., Navy Dept.
Colonel Quinton
Colonel Greenbaum
C & R Section

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FEB 10 1941

Office of Public Affairs
Treasury Department

CONFIDENTIAL

February 6, 1941

Honorable Jesse Jones
Federal Loan Administrator
Washington, D. C.

Dear Mr. Administrator:

Greatly increased plant capacity for the manufacture of arms, ammunition and implements of war is of vital importance to our national defense. The War Department is arranging for expansion of plant capacity as funds are available, but much time elapses between the appropriation of funds and the completion of plants. This is especially true now since there is great strain on construction facilities and on the machine and tool industries.

It is of the utmost importance that all possible steps be taken to anticipate the requirements that will have to be met in the future for the adequate defense of the country. The British have acquired or financed certain facilities in this country for the manufacture of arms, ammunition, and implements of war. Some of the facilities are substantially complete and in operation; others are in advanced stages of construction. Many of them are of great value and importance to our military and defense program. Although under the laws the United States could take over these plants if a more serious crisis should develop, such action might result in the loss of valuable time, by interrupting operations and delaying construction before the United States could get into position for full operation of the facilities. Accordingly, it is important to take steps for the immediate acquisition of these facilities.

I therefore request, subject to the approval of the President, that the Reconstruction Finance Corporation arrange for the acquisition of certain of these British plant facilities. Each plant or facility to be acquired will be specifically designated from time to time by the War Department, with the approval of the President.

In effectuating this program, appropriate arrangements should be made with the British to enable them to meet their own requirements from these facilities, without, of course, affecting

CONFIDENTIAL

- 2 -

Honorable Jesse Jones

2/6/42

the priority rights of the United States. These arrangements would, of course, be applicable only to those facilities from which it is contemplated that the British would continue to receive production. The War Department will be glad to assist in negotiations to accomplish this purpose.

The War Department will, at your request, ask the Congress to make the requisite appropriations to cover the cost of such plant facilities, and will, as soon as such appropriations are available, purchase such facilities as may be acquired in accordance herewith.

Very truly yours,

SIGNED

Secretary of War

I APPROVE:

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FEB 10 1942

CONFIDENTIAL

Treasury Department
Office of Philip Young

February 11, 1941

MEMORANDUM

TO: The Secretary

FROM: Mr. Buckley

Re: Status of Reconstruction Finance Corporation
Purchasing for the British.

The Reconstruction Finance Corporation has been working on two general projects in connection with the British program. These are (1) the placing of direct orders for arms, ammunition, and materiel of war, and (2) the purchase of plant facilities which have been established by the British Purchasing Commission for the production of machine guns and powder. The status of these two projects is as follows:

1. Placing of direct orders for war supplies.

They have been working with the Army and Navy on a procedure under which the Defense Supplies Corporation would place orders for standard United States items. They expect to have this procedure ready for Mr. Jones' approval this morning and will send us a draft as soon as it is ready for presentation to him. The plan is for these contracts to be taken over by the Army or Navy as soon as appropriations are secured under the Lend-Lease Bill.

2. The purchase of British plant facilities.

This involves the taking over by the Defense Plant Corporation of the plant of the Tennessee Powder Company at Memphis, Tennessee, and four plants established by four different manufacturers for the production of machine guns. This has been approved by the War and Navy Departments and by Mr. Jones, who has also secured the approval of the President. The only problem now is to complete the necessary arrangements between the War Department, the Defense Plant Corporation, and the British. Colonel Greenbaum is working on this at the War Department, and it should be completed shortly.

CONFIDENTIAL

Paraphrase of Code Radiogram
Received at the War Department
at 7:52, February 7, 1941

London, filed 13:40, February 7, 1941.

1. On Thursday, February 6, a Norwegian radio station was attacked by one Hudson bomber of the British Coastal Command and patrols were operated by other Hudsons. All other flights on this day and during the preceding night were cancelled because of adverse weather conditions.
2. During the night of February 6-7 a small number of German planes were plotted over the Bristol Channel. It is thought that these planes were engaged in mining operations. Royal Air Force night fighter planes were in the air but were unable to intercept the attackers. During the preceding day British fighter planes were unable to intercept the four German planes engaged in an attack on the Wulverhampton region. During the night of February 5-6, 160 German planes were over England and during the preceding day 215 were plotted.
3. Asseb in southern Eritrea was attacked by Aden-based British bombers. An Italian motor transport concentration was bombed at Asmara, Eritrea, and one Italian plane was destroyed in this vicinity by British planes from the Sudan. Two of six Italian planes engaged by one British Lynxander fighter were shot down. Ten motor transport vehicles were destroyed by Sudan-based British planes at Tele.

CONFIDENTIAL

4. In the Libya theater the Bengasi railroad station was bombed and 200 vehicles in a motor transport convoy were machine gunned. The airfields at Benina, Berka and Marita were attacked by British bombers. After the attack on Bengasi reconnaissance showed that the Italians were making ready to leave the town and that fires had been started at a supply dump and on a vessel in the harbor.

5. Three British planes on the ground were destroyed and three others damaged, and buildings and hangars were hit during the Axis attack on Malta on the night of February 5-6. There have been no reports of Axis air operations in the Middle Eastern theaters since that attack.

6. French sources report that Royal Air Force raids on Levant a few days ago resulted in the destruction of three German U-boats.

7. On February 5 German planes attempted to dive bomb merchant ships in a convoy in the English Channel. Two of the German planes were shot down and there was no damage to the convoy.

SCANLON

Distribution:

Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps
C-3

-3-

CONFIDENTIAL

RESTRICTED

G-2/2657-220
No. 311

M.I.D., W.D.
February 7, 1941
12:00 M.

SITUATION REPORTI. Western Theater of War.

Air: The British Air Ministry announced that heavy raids lasting two hours were made on Channel invasion ports. Despite bad weather pilots reported hits and fires in warehouses and dock areas. German raiders were inactive during the night of the 6th.

Air Commodore Goddard states that British fighter planes and ground defenses have brought down 140 German night raiders since June 1940.

II. Greek Theater of War.

Air: No activity reported.

Ground: Restricted patrol and artillery activity reported.

III. African and Mediterranean Theaters of War.

Air: Official British dispatches state that R.A.F. planes had materially aided the Army of the Nile in the attack on Bengasi. The excellent airport at Bengasi will furnish a "jump-off point" for British raids on Italian soil.

On the Cheren front, the usual preliminary aerial attacks preceding assault tactics have been started by the R.A.F.

Ground:

Libya. The capture of Bengazi has been announced by the High Command of the Army of the Nile. The Italian North African Army is reported fleeing in disorder towards Tripoli. The Italian High Command reports a violent battle in progress south of Bengazi.

Eritrea. Fighting reported around Cheren.

Abyssinia and Italian Somaliland. British report progress in their operations.

Note: 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.

RESTRICTED