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CONFIDENTIAL

THE OFFICE OF THE ALIEN PROPERTY CUSTODIAN

U. S. Treasury Department
Division of Monetary Research

April 1941

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April 1941

FOREWORD

Should the United States at any time be faced again with the necessity of controlling and administering enemy-alien property in this country, the experience of this Government during the first world War would be a helpful guide to policy. With this in mind, the following report on the Office of the Alien Property Custodian has been prepared by Mr. Lawrence Hebbard.

At the peak of his activity in 1919 the Alien Property Custodian was administering over 32,000 trusts valued at more than \$500 million. Successive post-war laws (notably the Winslow Act of 1923 and the Settlement of War Claims Act of 1928) reduced the value of the trusts to \$275 million in 1925 and to \$82 million in 1931. In 1934 the administration of enemy-alien property was transferred to the Department of Justice, which in 1941 still has custody of property -- almost entirely in cash -- valued at \$73 million.

The net cost to the Government of the administration of alien property from 1917 to 1933 was less than \$150,000. During earlier years Congressional appropriations supported the Office but the proceeds of a small administrative fee levied against the trusts yielded an income sufficient to cover almost all the total administrative cost of somewhat more than \$8 million.

The Custodian vigorously located and took control of German and other enemy property in the United States. Where the enemy-alien interest exceeded 50 percent, he managed the companies (except insurance companies, which were regulated by the Secretary of the Treasury). Other property was administered by the Division of Corporation Management or supervised in the form of trusts, usually through agency banks. The original Act had intended that the Custodian be a conservator of enemy property, but during the tenure of office of the first Custodian the Act was amended to permit him to sell patents and other property to American citizens without regard to the wishes of enemy owners.

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Notable among these sales was the transfer of 5,500 patents to the Chemical Foundation for \$270,000. Such scattered evidence as is available, particularly in the Chemical Foundation case, indicates that payments to the enemy-alien owners in general did not represent the full value of their property.

There seems to have been much less irregularity in the seizure of enemy property than in its administration and disposal. The Comptroller General, who investigated the administration of the Office in 1925 by order of the President, reported that accounting procedure had been lax, funds had sometimes been handled illegally or wastefully, reporting to the President had not been accurate, and there had been insufficient appreciation of the trusteeship character of the Office. The Department of Justice is still engaged in attempting to recover funds paid out under allegedly irregular claims.

H. D. White
Director of Monetary Research.

The Office of the Alien Property Custodian

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THE OFFICE OF THE ALIEN PROPERTY CUSTODIAN

I. A Short History of the Office

Provision for an alien property custodian was made in the Trading With the Enemy Act, which was drafted by the Department of Justice and signed October 6, 1917. The Act provided for the delegation by the President of powers to take custody of and to administer enemy-owned cash and other assets in the United States and its territories. A detailed account of this enabling legislation will be found in the next section of this memorandum.

The task of discovering enemy property was pursued with great vigor. An intensive campaign of newspaper advertising was conducted to explain the legal necessity of reporting enemy property, and this was followed by direct correspondence with about 200,000 lawyers, postmasters, and other persons likely to be informed concerning enemy property. The campaign was continued after the armistice, and over 35,000 reports were received by February 1919. The Custodian consequently held more than 32,000 trusts in February 1919, having a value exceeding \$502 million. He estimated the value of some unappraised items at an additional \$200 million.

The original act intended the Custodian to be primarily a conservator of enemy property. He was not permitted to dispose of property except to prevent deterioration of its value. However, the first Custodian, Mr. A. Mitchell Palmer, held the view that the larger German-owned industries -- particularly the chemical interests -- were "hostile industrial armies" in America, to which "no obligation was owed". This attitude was influential in modifying the spirit of the law. An amendment of March 28, 1918 gave the Custodian the power of general sale of properties, and on November 4, 1918 he was given the power to seize patents, trade-marks, and copyrights.

Under the new powers the Custodian proceeded to "capture and destroy the German industrial army on American soil" by disposing of large blocks of enemy property to Americans. By October 1921 over 6,000 patents and 1,000 trade-marks had been sold, of which 4,700 and 873, respectively, had been sold to The Chemical Foundation, (Inc.), which had been formed specifically to buy and hold them. The Chemical Foundation (Inc.) paid about \$270,000 for these acquisitions.

President Harding, on July 1, 1922, asked the third Custodian (Thomas W. Miller) to order the Chemical Foundation to return its patents to the Government. Upon the Foundation's refusal, suit was instituted in the Delaware U. S. District Court, and later carried to the Supreme Court. The Chemical Foundation was sustained in its refusal.

The Justice Department contended in its evidence: that the orders of Frank L. Polk, to whom the President had delegated his power to permit the Custodian to make non-public sales, were prepared by the Chemical Foundation, which misled Polk; that the amendment of November 4, 1918 was rushed through after the armistice with Austria-Hungary on November 3, 1918, and resulted from a fear of the American chemical industry that post-war German competition would kill their monopoly on the market; that E. I. du Pont de Nemours Co. and National Aniline and Chemical Corporation each supplied a patent attorney; that these attorneys were placed in the Patent Office and obtained special permission to work nights and Sundays, compiling a list of patents desired by the American chemical industry; that this list was handed to the Alien Property Custodian, who used it as the basis of sale to the Chemical Foundation; that the 3,880 patents sold in April 1919 had an average life of 8 years; that by 1925 the patents, etc. for which about \$271,000 had been paid were yielding an annual income of over \$300,000.

The so-called Winslow Act was passed on March 4, 1923, providing for the return of all unsold and unlicensed patents, trade-marks, etc., and for the return of all property to the extent of \$10,000 out of each trust, and for the payment, from March 4, 1923, of the income from the trusts (with some deductions) to an extent not exceeding \$10,000 annually per trust.

On April 10, 1925, two days after the resignation of Thomas W. Miller as Custodian, President Coolidge requested an investigation of the Alien Property Custodian's office. The report of the investigation, which was undertaken by the Comptroller General's office, was submitted to the Senate on December 22, 1926. (Sen. Doc. No. 102, 65th Congress, 2nd session.) The report disclosed that: there was no accountant in an administrative position; cash accounts derived from two sets of books disagreed "by several millions of dollars"; funds were handled illegally and wastefully; the annual reports overstated the degree to which the trusts were being wound up; in general the office was not managed with sufficient efficiency. This report is discussed more fully in section IV.

The Settlement of War Claims Act, signed on March 10, 1928, provided for a general repayment of the funds still held by the Custodian (and not under litigation), except that 20 percent of every sum owing to former enemies was to be paid into the special deposit accounts set up for the payment of war claims allowed by the Mixed Claims Commission. The value of the trusts held by the Custodian was consequently reduced from \$263 million in December 1927 to \$82 million in December 1931.

The duties of the Alien Property Custodian were transferred to the Attorney General on June 30, 1934, pursuant to Executive Order No. 6694, dated May 1, 1934. The personnel and functions of the abolished office were transferred to an Alien Property Bureau of the Department of Justice,

created by order of the Attorney General, July 2, 1934. This Bureau is under the direction of the Assistant Attorney General, Claims Division.

By Executive Order No. 8136 of May 15, 1939, all powers vested in the President by the Trading With the Enemy Act were delegated to the Attorney General or to the Assistant Attorney General in charge of the Claims Division.

The 1940 report of the Attorney General showed that 16 cases were pending, involving "questions of citizenship, of jurisdiction, of res judicata, and of fraud. In case this nation should ever again have occasion to seize enemy property, the decisions in these cases will constitute important precedents. It may be remarked that these cases are even now a revealing commentary on the administration of the Trading With the Enemy Act over the years; they show that there were far fewer irregularities in the seizure of property than in connection with its return after the war." In one of the cases, (*Societe Suisse pour Valeurs de Metaux v Cummings*) the Government was suing for \$6,967,000, acquired by the company under claims which were allegedly "false and that their allowance had been secured by the bribery of former Attorney General Harry M. Daugherty, and former Alien Property Custodian, Thomas W. Miller."

II. Authority for and Powers of the Office

1. American Policy Prior to 1917

Before 1917, the United States had taken the attitude that enemy property should be protected. In 30 treaties with foreign powers, entered into between 1778 and 1887, the United States had agreed to the principle that enemy residents be allowed to pursue their business and be protected, or given ample time to liquidate their affairs. One such treaty with Prussia was in effect

when we entered the war. However, at that time all the major belligerents had taken custody of enemy property. (See Annex 1 to this report for further discussion of pre-1917 policy.)

2. Authority Under the Original Trading With the Enemy Act

As was pointed out above, the original act intended the Custodian to be a conservator of enemy property. The salient points of sections 6, 7, 9, 10 and 12 of the original Act were as follows:

Section 6: "The President is authorized to appoint, prescribe the duties of, and fix the salary (not to exceed \$5,000 per annum) of an official to be known as the alien property custodian, who shall be empowered to receive all (enemy) money and property in the United States . . . and to hold, administer, and account for the same under the general direction of the President." A staff was provided for and an annual report required.

Section 7: "Every corporation . . . unincorporated association or company, or trustee . . . issuing shares or certificates representing beneficial interests shall . . . within 60 days . . . transmit to the alien property custodian a full list . . . of every officer, director, or stockholder known . . . (or thought) to be an enemy or ally of enemy . . . together with the amount of stock or shares owned by each such officer, director, or a stockholder, or in which he has any interest." Similar reports were required of all persons holding any property for enemy aliens.

Section 9: Non-enemies who had claims against custodian-held property would be permitted to file these claims, and the President, "with the assent of the owner of said property and of all persons claiming any right, title, or interest therein" could satisfy the claim out of the property held.

Section 10: Enemies were to be allowed to obtain patents. The President could license Americans to use enemy-owned patents, and fix the terms of use. Five percent of the proceeds were to be paid into a trust fund. At the end of the war the owner of the patent could sue for recovery of royalties and these could be paid out of and to the extent of the trust fund established.

Section 12: "All moneys . . . paid to . . . the alien property custodian . . . shall be deposited in the Treasury of the United States, and may be invested and reinvested by the Secretary of the Treasury in United States bonds All other property . . . shall be safely held and administered by (the alien property custodian) . . . and the President is authorized to designate as . . . depositories . . . any banks or trust companies . . . (which) shall be empowered (to hold securities and properties and) to collect any . . . income that may come due. The alien property custodian shall be vested with all of the properties of a common-law trustee . . . (except as regards money) . . . and may manage such property, . . . and make any disposition thereof, by sale or otherwise, . . . if and when necessary to prevent waste and protect such property to the end that the interests of the United States . . . or of such person as may ultimately become entitled thereto, may be preserved and safeguarded."

"It shall be the duty of every corporation, unincorporated association, or company or trustee . . . issuing shares representing beneficial interests . . . to transfer such shares . . . upon its books to the name of the alien property custodian upon demand, accompanied by the presentation of the certificates which represent such shares."

3. Amendments and Orders Enlarging the Authority

a. The President issued an Executive Order (No. 2813) on February 26, 1918, declaring that any demand issued by the Custodian for property, whether delivered in person or by mail, should "forthwith vest in the Alien Property Custodian such right, title, and interest, and estate as may be included within the demand". This made possible the seizure of property which was thought to be enemy-owned, but which had not been delivered up to the Custodian.

b. On March 28, 1918, the Act was amended to allow sales of properties for reasons other than conserving their value. This was done by striking out the clause of Section 12 which provided that sales could be made only ". . . if and when necessary to prevent waste and protect such property, and to the end that the interests of the United States in such property and rights or of such persons as may ultimately become entitled thereto, or to the proceeds thereof, may be preserved and safeguarded".

The amendment placed limitations on the sale, however: ". . . any property sold under this Act . . . shall be sold only to American citizens, at public sale to the highest bidder, . . . unless the President stating the reasons therefor, in the public interest shall otherwise determine".

c. Five days later President Wilson issued an Executive Order (No. 2832, April 2, 1918) permitting the Custodian to make non-public sales of seized merchandise and personal property to the extent of \$10,000 per sale. On July 15, 1918 this power was extended to include securities, real property, options, etc., by Executive Order No. 2914.

d. An amendment to section 7(c) of the Act, approved November 4, 1918, added to the "money or other property" which could be seized, the following:

"patents, copyrights, applications therefor, and rights to apply for the same, trade-marks, choses in action, and rights and claims of every character and description." It further provided that "... the sole relief . . . of any person having any claim to any . . . money or other property . . . delivered to the Alien Property Custodian . . . in the event of sale or other disposition . . . shall be limited to . . . the net proceeds received therefrom . . .". These provisions opened the path for a concerted effort to eliminate all German influence from the chemical industry.

e. By Executive Order No. 3016, dated December 3, 1918, the President assigned to Mr. Frank L. Polk (who was Counsellor for the State Department at that time) his power to permit sales without public notice or public auction. This is important in that it was Mr. Polk who authorized the sales of patents, etc. to The Chemical Foundation (Inc.), by an order of February 26, 1919.

4. Amendments and Orders Reducing the Amount of Property Held by the Custodian

These amendments have been mentioned in the discussion of the history of the office. They were, in review:

- (1) The Winslow Act of March 4, 1923, which provided for the return to former enemies of property to the extent of \$10,000 per trust account.
- (2) The Settlement of War Claims Act of March 10, 1928, which provided for the return of 80 percent of all trusts not involved in litigation.
- (3) The Executive Order (No. 6694) of May 1, 1934, abolishing the office and transferring its duties to the Department of Justice.

III. Distribution of Functions Among Various Government Agencies

Various Government agencies shared with the Alien Property Custodian the task of acquiring, supervising and disposing of enemy property. This involved discovering the enemy property and establishing claim to it, maintaining custody over and managing the various parcels of property, hearing claims against the property, and selling or returning the property.

A Bureau of Investigation of the Custodian's office, cooperating with the Secret Service, postmasters, internal revenue agents, etc. was charged with obtaining information relative to enemy-alien property. Its activities are described more freely in the next section. As was stated above, the Trading With the Enemy Act provided the power to claim the property, and an Executive Order of February 26, 1918 established that any demand delivered in person or by mail "shall forthwith vest in the Alien Property Custodian such right, title and interest, and estate as may be included within the demand".

The property was managed by any of several agencies, depending on its nature. Cash was delivered to the Treasury where it was invested in Government bonds. Ships were delivered to the Shipping Board and to the Navy and Army; they were carried on the Custodian's books, but were not under his control. Insurance companies were regulated by the Secretary of the Treasury from the outbreak of war. Corporations, real estate, securities and miscellaneous properties were under the control of the Custodian and were managed as shown in section IV.

Claims against property were reviewed by the Custodian's office; however, in later years all suits by or against the Government for amounts exceeding \$10,000 were transferred to the Department of Justice.

Sale of property was undertaken by the Custodian's office, under authorization of Section 12 of the Act as described above. The Custodian acted on the advice of a Selling Advisory Committee of five men. All sales had to be public and competitive, except that the President could, with stated reasons, permit private sales. An Executive Order of April 2, 1918 permitted private sales of trusts valued at less than \$10,000. In 1923, when the Winslow Act was passed, this was increased to \$50,000. During 1918 and 1919, the President's powers of permission were delegated to Mr. Frank L. Polk, who authorized the sale of patents to the Chemical Foundation (Inc.).

Return of property was undertaken by order of the President through the office of the Custodian.

IV. Organization and Administration

Although organization could have been improved, irregularities in performance of duties were probably due more to lax administration than faulty organization.

The Custodian was responsible directly to the President and reported annually to him. He could delegate powers. In 1925 he had a staff of about 200 employees; this number decreased as the burden became lighter in later years.

The first Custodian divided his staff into the following bureaus: Investigation, Trusts, Sales, Law, Audits, Administration. In this earlier organization the Bureau of Investigation and the Advisory Sales Committee are of special interest.

The Bureau of Investigation, dropped from later organization, was evidently vigorously administered. It was headed by Francis F. Garvan, and had the task of discovering enemy property which could be taken over. Newspaper publicity

was used to explain the Act, and to show the legal necessity of reporting enemy property to the Custodian. This was effective in the more populous areas. However, about two-thirds of the enemy property discovered was found through writing letters to persons who would most likely have information. A vigorous letter-contact campaign was undertaken, under which a letter was addressed to every lawyer in the country (100,000), selected patent attorneys, every probate judge, every banking institution, every building and loan association (8,000), every real estate title man (2,000), and every postmaster (56,000). Finally, special investigations took place, mostly under Mr. Garvan in New York and using the Secret Service. These were directed at discovering enemy property which had been concealed by special sales of majority holdings in corporations, etc. Joseph H. Choate, Jr., spent 16 months "unearthing and Americanizing the German-owned chemical industry".

As pointed out above, the acquisition of property which had been discovered was accomplished by a demand for the Custodian to deliver the property to him. An Executive Order of February 26, 1918, established that the receipt of the demand was sufficient to vest the title in the Custodian.

The first Custodian maintained an Advisory Sales Committee, consisting of the following five men: George L. Ingraham (who had formerly been a member of the appellate division of the New York Supreme Court); Otto T. Bannard (president of New York Trust Co.); Cleveland H. Dodge; Benjamin H. Griswold (senior partner of Brown Brothers, bankers, Philadelphia); and Ralph Stone (president, Detroit Trust Company). Their duty was to advise the Custodian as to the propriety and profitability of contemplated sales, and to insure fairness in sales. The five men named above became the voting trustees of the Chemical Foundation when it was formed in 1919.

By 1925 the organization had developed into one containing the following divisions or bureaus:

- (1) Division of Administration (Personnel, purchasing, disbursing, etc.)
- (2) General Counsel
- (3) Managing Director (Supervised trusts, and passed on claims for return of small parcels of property.)
- (4) Bureau of Law (General litigation, property titles, etc.)
- (5) Division of Trusts (Administered real estate, securities, etc. held in trust.)
- (6) Division of Claims (Passed on claims for the return of property; claims over \$10,000 were delegated to Justice Department.)
- (7) Division of Corporation Management (Represented the Custodian on the boards of about 100 corporations. See below.)

Particular interest attaches to the Division of Corporation Management and the Division of Trusts. These handled, respectively, the corporations and the securities (and other property) held by the Custodian.

The Division of Corporation Management administered enemy-alien investments where the enemy interest exceeded 15 percent. This amounted to about 500 companies. An additional 100 companies, in which enemy interest was less than 15 percent, were turned over to the trust administrator.

Where the enemy-alien owner had a majority interest the Division assumed control of the corporation. The Custodian appointed directors or managers who were responsible for the general conduct of the enterprise and who were under the supervision of the chief of Corporation Management in Washington. This chief reviewed records of directors' meetings and financial statements. The managers and directors were paid out of the profits of the corporations.

Where the enemy interest lay between 15 percent and 50 percent, the Alien Property Custodian was not represented on the board of directors, except by courtesy of the majority interest. Proxies were issued for the voting of the Custodian's shares.

By 1926, of the 500 companies administered by the Division of Corporation Management, 458 had been disposed of as follows:

Sold	154
Liquidated	110
Returned to owners	112
Still "active"	<u>82</u>
Total	458

The Division of Trusts supervised securities which did not represent an interest of 15 percent or more in one corporation. This division also managed some real estate, and miscellaneous properties. These securities and other properties were placed with depositaries — banks, usually — which were instructed to act as collecting agents for the Alien Property Custodian. They also paid expenses pertinent to the properties held and deducted their own fees from the money they collected. The money delivered to the Alien Property Custodian was deposited with the Treasurer of the United States, and all but a working balance was invested and reinvested in United States Government obligations by the Secretary of the Treasury.

No definite rule for the sale of securities was worked out. As shown above, the original Act made the Custodian a trustee, with power to sell only to protect the principal of a trust, and requiring permission of the enemy owner before sale could be made. Later the power to make general sales was granted, and sales were made without the owner's permission. Sales were made,

generally, if the return on securities was less than 4 percent, but no fixed rule was established. Sales were of three types:

- (a) Private sales, directly to individuals. There seems to have been much irregularity in the manner in which these sales were carried on.
- (b) Sales at public auction. These were sales to liquidate the Custodian's holdings in certain corporations.
- (c) Sales on the stock exchange. Stocks and bonds were transferred from the various depositaries throughout the United States to Harriman and Company, or to Laird, Bissell and Mead, in New York. These companies effected sales, and deposited the receipts in special funds in the name of the Alien Property Custodian.

In 1925 the Comptroller General drew up a new plan of organization. This plan is not available in the published reports, but should be obtainable from the Comptroller General. Its salient points were as follows:

- (1) All legal work was coordinated in one division.
- (2) All management of property was centralized in another division.
- (3) All filing, stenography, etc., was placed in the administrative division.
- (4) The disbursing officer was separated from all other divisions.

This plan grew out of the investigation of the administration of the Custodian's office ordered by the President in April 1925. The investigation disclosed that there were faults both in the organization and the administration of the office.

As far as organization was concerned: (1) There was far too little importance attached to accounting procedure. For example, there was no accountant in an administrative post. Consequently, the accounting methods were lax; errors of "several millions of dollars" occurred. (2) There was generally a lack of

coordination. There was not sufficient centralization for efficient administration. The divisions in Washington did not cooperate, and maintenance of control over the trustee administration scattered over the country was difficult and expensive.

Other faults were seemingly administrative, rather than organizational. There was general laxity in requiring accounts to be kept, in depositing funds with the Treasurer of the United States, in liquidating businesses and winding up their accounts, and in reporting accurately to the President. Some of these practices were made easier by the lack of sufficient organization.

As indicated above, the duties of the Alien Property Custodian were transferred to the Attorney General on June 30, 1934, and the personnel and functions of the abolished office were transferred to an Alien Property Bureau of the Department of Justice, created by order of the Attorney General, July 2, 1934. This Bureau is under the direction of the Assistant Attorney General, Claims Division.

By Executive Order No. 8136 of May 15, 1939, all powers vested in the President by the Trading With the Enemy Act were delegated to the Attorney General or to the Assistant Attorney General in charge of the Claims Division.

V. The Record of Custodianship

1. Administration to 1934

Between 1919 and the abolition of the office in 1934, the trusts administered declined from 32,000, valued at \$500 million (20 percent in cash), to 4,700, valued at about \$66 million (almost entirely in cash).

In 1919 a staff of 500 was utilized, at a cost of \$900,000 per year. During the succeeding years the income from the trusts increased the total sum

Division of Monetary
Research

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for which the Custodian could be held accountable, but repayment and liquidation of some of the properties reduced both the number and value of the trusts held by the custodian. At the same time the staff of employees was decreasing and an increasing fraction of the expenses of the office was met from charges on the trusts, instead of from Congressional appropriations. When the office was abolished in 1934, the staff numbered 70, and was paid entirely out of receipts from the trust-administration fees. No Congressional appropriation was made after November 1, 1927.

The following table shows the important changes which took place between the origin and abolition of the office. Preparation of a satisfactory statement of the complete financial history of the office is complicated by the different reporting forms used by various Custodians.

	<u>1918-1919</u>	<u>1923</u>	<u>1925</u>	<u>1927</u>	<u>1929</u>	<u>1931</u>	<u>1933</u>
Number of trusts administered	32,296	28,400	21,074	not reported	6,593	5,591	4,731
Total value (millions)	\$474	\$310	\$275	\$263	\$150	\$82	\$67
of which cash (millions)	\$87	\$179	\$184	\$184	\$109	\$74	\$64
Number of employees	549 <u>1/</u>	not reported	222	201	186	127	73
Appropriation (thousands)	\$1,366 <u>2/</u>	\$370	\$280 <u>3/</u>	<u>4/</u>	nil	nil	nil

1/ Of which 95 were in the Bureau of Investigation; 52 of these were in Washington.

2/ Of which only \$915 thousand was actually used during calendar 1918.

3/ 1924 appropriation.

4/ After February 1, 1928, all expenses were paid from fees collected for administering the trusts.

It will be noted that the number of trusts administered, and their value, dropped substantially after the Winslow Act (1923) and especially after the Settlement of War Claims Act (1928).

The table on the following page shows the relative importance of the various types of property assigned to the office, up to 1933.

As the trusts were gradually liquidated, cash became the preponderantly important item. It was pointed out in Section III above that the cash was delivered to the Secretary of the Treasury, while most other forms of property remained under the management of the Custodian. The composition of the "cash" fund deposited with the Treasury reflects the manner in which the alien property settlement had been merged into the general war claims settlement by the Act of 1928. As of December, 1933, the fund consisted of the following parts:

	(Millions)
1. Cash in trusts requiring active administration	\$ 8.7
2. Twenty percent withheld under the Settlement of War Claims Act of 1928, from allowed claims:	
(a) Cash held subject to call by the Secretary of the Treasury for deposit into the German special deposit account	15.4
(b) Interest-bearing Treasury certificates evidencing deposits into the German special deposit account	17.6
3. Non-interest-bearing Treasury certificates representing the deposit into the German special deposit account of the estimated German portion of an unallocated interest fund	22.5
Total	\$63.2

The German special deposit fund referred to above was created by section 4 of the Settlement of War Claims Act of 1928. The fund was set up to provide a

Alien Property Custodian:
Trust Property on Hand and Claims Paid on Various Dates
(In million dollars)

	Mar. 4 1919	Mar. 16 1921	Dec. 31 1922	Dec. 31 1923	Dec. 31 1925	Dec. 31 1927	Dec. 31 1929	Dec. 31 1931	Dec. 31 1933
Cash deposited with the Secretary of the Treasury:									
Invested	77	160	172	184	183	109	73	68	4/
Uninvested	10	10	7	0.4	0.5	0.4	0.6	-	
Cash with depositaries	1	1	3	0.3	-	-	-	-	
Stocks	167	88	66	48	42	28	6	2	
Bonds, other than investments made by the Secretary of the Treasury	61	55	46	32	30	10	0.8	0.3	
Mortgages	13	8	5	3	2	0.5	0.1	-	
Notes Receivable	6	2	0.3	0.4	0.2	-	-	-	
Real Estate	10	8	6	4	3	1	0.9	0.6	
Accounts Receivable	41	16	2	0.6	1	0.3	0.1	-	
Miscellaneous incorporated busi- nesses and estates in liquida- tion and remainderman accounts	89	56	4	3	0.5	0.4	0.1	0.1	
TOTAL	474	404	310	275	263	150	82	71	4/
Accounts paid to date	1	129	235	304	352	505	578	not given	
Total property accounted for 3/	475	534	545	579	616	655	659	not given	

- 1/ When Mr. A. Mitchell Palmer resigned. 2/ When Mr. Francis P. Garvan resigned.
3/ The reports for 1919 and 1921 also carry an item of \$34 million, representing enemy vessels
"carried on the books of the Alien Property Custodian (but) not subject to his control".
4/ Including \$4 million in the administrative expense fund — not a trust.

source of payments under the decisions of the Mixed Claims Commission which had been created in 1922. Many payments were due both to and from the governments and nationals of Germany and the United States. It was planned to make a partial settlement of all these types of claims out of the fund.

The fund was to receive payments from:

- (1) 20 percent of each parcel of property returned by the Alien Property Custodian to German nationals. It was estimated that this would amount to about \$40 million.
- (2) The "unallocated interest fund" of about \$20 million. Under the Winslow Act of 1923, the Custodian had been directed to pay out the interest accruing after March 4, 1923 on Custodian-held property. However, except in certain special cases, the interest which had accrued before that date was not subject to claim by the former enemies.
- (3) Congressional appropriations for the payment of claims for seized ships.
- (4) All United States Government receipts from the awards of the Mixed Claims Commission.

These funds were to be paid out according to an elaborate system of priorities. This system provided, in short, that all American death and disability claims, and then 80 percent of other American claims against Germany were to be paid first, followed by the payment to Germany of 50 percent of the ship claims; after this the other 20 percent of American claims were to be paid, and then the Germans would receive the remaining amounts claimed against the unallocated interest fund and the 20 percent of alien property withheld.

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Division of Monetary
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To September 30, 1940, the German special deposit account had received over \$184 million and had paid out \$179 million, leaving \$4,673,855 in the account, of which \$4.5 million was invested in 2-1/4 percent Treasury bonds.

2. Cost of administration

It is interesting to note that the office involved almost no net cost to the Government during the 27 years of its existence. The total expenditures of the office from October 1917 to December 1933 amounted to \$8,085,585.41. During this same period deductions from trusts to cover administrative fees had caused \$7,937,263.33 to be paid into the administrative expense fund — a sum which was smaller than the expenses by less than \$150,000. Consequently, when the office was abolished on June 30, 1934, the Custodian turned over to the Attorney General a fund of \$4,037,278.77 which was only slightly smaller than the \$4,183,935.83 appropriated for the office from its origin in October 1917.

3. Administration since 1934

After 1934, when the functions of the office were transferred to the Department of Justice, the Treasury continued to receive the cash, which it invested for the Alien Property Bureau, and the Bureau managed the securities, real estate, mortgages, accounts receivable, etc.

The funds held by the Treasury in its Alien Property Trust Fund were as follows:

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(September of each year. Million dollars, rounded)

	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>	<u>1938</u>	<u>1939</u>	<u>1940</u>
Treasury Bonds	27	28	30	31	31	21	n11
Participating cer- tificates <u>1/</u>	39	39	39	39	39	39	37
Cash	<u>2/</u>	<u>2/</u>	<u>2/</u>	<u>2/</u>	<u>2/</u>	<u>14</u>	<u>36</u>
Total	68	69	69	70	70	74	73
of which							
Trusts	37	37	37	37	37	38	37
Earnings on investments	31	31	32	32	33	36	35

1/ Representing payments into the German special deposit fund described above.2/ Less than one million dollars.

It will be noted that the accounts were relatively stable until 1939-40, when the Treasury bonds were turned into cash.

The non-cash items have practically all been liquidated by the Alien Property Bureau, so that the only item of importance is less than \$50,000 in real estate. During 1939-40, the Bureau liquidated the following items (in thousands): Stocks \$88; bonds \$7; real estate \$146; mortgages, \$20; promissory notes, \$30.

A complete account of the record of custodianship should include an evaluation of the treatment accorded to the enemy-alien property owners. Without an appraisal of the individual trusts and their settlement, it would be impossible to state definitely the degree to which the enemy investors received less than a "fair" value for the property seized by the Custodian.

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However, there is some evidence (quite apart from the fact that 20 percent of each trust was withheld for the settlement of war claims) that they received considerably less than the "fair" value. This opinion is supported by the contention of the Department of Justice in the Chemical Foundation suit that patents sold for \$270,000 had an annual income-value of more than \$300,000.

ANNEX 1

American Policy Before the Trading With the Enemy Act of 1917

A survey of American treaty policy relative to alien property* was compiled for Senator Knox of Pennsylvania and printed as Senate Document No. 181 of the 69th Congress, Second Session (December 22, 1926). It was presented as an argument for returning property to the Germans, on the ground that we abrogated a hundred years of policy in seizing it.

Some thirty treaties of the United States with other countries are cited, each containing some provision for the war-time protection of foreign merchants or alien property. These treaties were entered into over the period 1778-1887.

In addition, when the United States abrogated its treaty with France in 1798 due to shipping disputes arising out of the Napoleonic war, the Congress legislated that the provisions of the treaty providing protection for the foreigner should remain in force even though the treaty itself was considered non-operative. In part, the Act said:

" . . . aliens resident within the United States . . . shall be allowed, for the recovery, disposal, and removal of their goods and effects, and for their departure, the full time which is . . . stipulated by any treaty"

Of special interest is a treaty with Prussia (1799) which stated in part that:

"If war should arise . . . merchants . . . shall be allowed to remain nine months to collect their debts and settle their affairs, and may depart freely, carrying off all their effects . . . ; and all women and children, scholars of every faculty, cultivators of the earth, artisans, manufacturers, and fishermen, . . . shall be

* The survey was entitled American Policy Relative to Alien Enemy Property,

and was written by Warren F. Martin, former Special Assistant to the Attorney General and J. Reuben Clark, former Solicitor of the State Department.

allowed to continue their respective employments, . . . nor shall their . . . goods be . . . destroyed . . . by the armed force of the enemy; but if anything is necessary to be taken from them for the use of such armed force, the same shall be paid for at a reasonable price.

"And it is declared, that neither the pretense that war dissolves all treaties, nor any other whatever, shall be considered as annulling or suspending this and the next preceding article; but, on the contrary, that the state of war is precisely that for which they are provided"

This treaty was in effect when the United States entered the war against Germany in 1917.

The survey continues:

"In the face of these provisions and in direct opposition thereto — unexcused, as it seems, by any previous legislation on the part of Germany against American citizens resident in Germany that might justify our own action as a matter of retaliation — Congress passed . . . the trading with the enemy act, which provided for the taking over of all German-owned property in the United States."

The survey concludes that the Act was a violation of our tradition and our treaty with Prussia, and that the only reparation could be the immediate return of the property.

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ANNEX 2

The Alien Property Custodians

The Trading With the Enemy Act was approved October 6, 1917. The following persons held the office of Alien Property Custodian during the indicated periods:

A. Mitchell Palmer	October 22, 1917 to March 3, 1919
Francis P. Garvan	March 4, 1919 to March 12, 1921
Thomas W. Miller	March 16, 1921 to April 8, 1925
Frederick C. Hicks	April 10, 1925 to December 14, 1925
Howard Sutherland	December 24, 1925 to - - - 1933*
Urey Woodson	April 24, 1933 to June 30, 1934

On June 30, 1934, the duties of the Alien Property Custodian were transferred to the Attorney General, pursuant to Executive Order No. 6694, dated May 1, 1934. The personnel and functions of the abolished office were transferred to an Alien Property Bureau of the Department of Justice, created by order of the Attorney General, July 2, 1934. This Bureau is under the direction of the Assistant Attorney General, Claims Division. In January, 1941, Mr. Francis J. McNamera was in charge of the Alien Property Bureau.

* Last report covered calendar year January to December 31, 1932.

ANNEX 3

Abstract of the Trading With the Enemy Act of October 6, 1917

Section 1 names the Act.

Section 2 defines the terms "enemy" and "ally of enemy", including corporations in the definition, and defines "trading" to cover many forms of business intercourse.

Section 3 makes it unlawful to:

- (a) Trade with the enemy, or for the enemy, without Presidential license.
- (b) Transport enemies to or from the United States.
- (c) Send or receive letters, except through the mails, to or for or from enemies.

Censorship power is given to the President, and punishment is provided for evasions, codes, etc.

Section 4 permits enemy insurance companies to apply for licenses to continue business. Companies permitted to continue are not permitted to export funds or to establish credits here for the enemy. If a license once given is to be revoked, the President must inform American companies which are doing business with the enemy company; American companies need not fulfill contracts entered into with enemy companies before the outbreak of war.

Enemy companies are forbidden to change their names. The President may prohibit all enemy insurance-company activity if he thinks it necessary.

Section 5 gives the President power to revoke or suspend provisions of the Act; he may delegate power, and may order postponement of future actions likely to violate the Act. The President may regulate foreign exchange

dealings. (On September 24, 1918 the President was also given power to regulate transactions in U. S. bonds and certificates, but not to prohibit their sale.)

Section 6 authorizes the President to appoint an Alien Property Custodian with a salary not over \$5,000, to receive, hold, administer and account for enemy property. Subsidiary employees are authorized under the Civil Service. The President is to cause a detailed report to be made to Congress each January, showing the personal appointments, with salaries, and giving an account of the kinds of property taken into custody, and the disposition of this property.

Section 7 requires companies in the United States to submit lists showing the securities probably held by or for enemies, and such a list may also be required showing such ownership as of February 3, 1917. Persons holding the property of enemies or owing money to enemies are also required to register this fact, and a similar accounting as of February 3, 1917 may be required.

Payments to enemies are unlawful. Enemies may not bring suit during the war, except for actions involved in trading entirely within the United States and under license; but they may defend themselves in court. The fact that a person has been declared an enemy is to be admitted as evidence in suits charging non-fulfillment of contracts.

The President may require any money or property held by or for an enemy to be turned over to the Alien Property Custodian. (An amendment of November 4, 1918 provides further that the Custodian can seize enemy property, and that property represented by securities must be cancelled on the books of the company and replaced with certificates issued to the Custodian. In addition, the enemy can have no claim against the Custodian for more than the proceeds

of the sale of the property.) Debts payable to unlicensed enemies may be paid to the Custodian. The Custodian and his accredited assistants may act for the enemy whose property is held, as though appointed by the enemy.

Section 8 provides that mortgages held against enemies or contracts with enemies may be foreclosed or completed through the Custodian, but any surplus remaining after the fulfillment of such claims shall be held subject to the further order of the President.

A contract made with an enemy and due to be completed during or after the war may be abrogated by an American. The statute of limitations is suspended to protect non-enemies whose obligation to non-enemies is secured by property in an enemy country.

Section 9 provides that the President may, "with the assent of the owner", order the Custodian to pay a non-enemy claimant from enemy property. If such payment is not made, the non-enemy may sue for payment within six months following the end of war, and the property shall not be released by the Custodian until a decision is handed down. Otherwise, Custodian-held property shall not be subject to liens or court orders.

A series of amendments provide that:

- (a) The President may order payment to a non-enemy of a claim against Custodian-held property; the words "with the assent of the owner" are stricken out.
- (b) The President may order repayment to the former enemies of all properties up to \$10,000 per individual and to all persons not originally in enemy territory, or not in former enemy territory after the treaties of peace in Europe. (1923)

(c) Properties not under litigation are to be returned to a much longer and more inclusive list of classes of individuals.

But 20 percent of the payment is to be postponed. (1928)

(d) No such funds can be paid out to subject of former ally countries unless those countries grant similar benefits to United States subjects.

(e) Patents, copyrights, etc., shall be returned, except as sold, licensed, etc. (1923)

Section 10 makes legal the following:

(a) An enemy may apply for patents, etc. If application or fee-payment is impossible immediately following cessation of hostilities, nine months grace may be allowed, if the former enemy country makes the same concession to Americans.

(b) Americans may, with Presidential license, apply for patents, etc., in enemy countries, and pay fees on the same.

(c) The President may license Americans to use enemy processes, patents, trade-marks, etc., at a fee not exceeding \$100, and such license shall be full defense against property infringement suits by the enemy.

(d) Up to 5 percent of the value of or proceeds from such patents, etc., shall be paid to the Alien Property Custodian, to be held in trust for the licensee.

(e) Such licenses are to run the full term stated in the license, or if there is no such term, the full length of the patent (or copyright, etc.) term.

- (f) Owners of patents may, after the war, sue the Treasurer of the United States and the licensee in the district courts, and damages may be paid out of the funds deposited by the licensee with the Treasurer. If the licensee has invested capital on the basis of the license, such license may be continued under a royalty, at the court's discretion.
- (g) An enemy can sue a non-licensee as if no war were in progress.
- (h) Powers of attorney granted by enemies remain valid.
- (i) The President may withhold patents which he deems dangerous to successful prosecution of the war.

Section 11 gives the President power to prohibit imports of whatever goods from whatever countries he deems necessary, if no preference is given to certain importing ports of the United States.

Section 12 provides that money deposited with the Alien Property Custodian shall be deposited with the Treasury of the United States, to be invested in Government bonds or certificates.

Securities may be deposited with designated depository banks, etc., which shall collect dividends, etc., and deposit them in the Treasury. The Alien Property Custodian shall have common-law trustee power to manage such property, and to sell it if necessary to prevent depreciation of its value. After the end of the war the Congress shall determine the disposition of the property except as otherwise provided in this Act.

(An amendment of March 28, 1918 permits sales for reasons other than to maintain the value of property; however, it provides that no property is to be sold except to American citizens, at public sale, after advertisement by

the Custodian, except by special permission of the President. Violations are subject to fines of \$10,000 or ten years imprisonment.)

Section 13 requires that cargo ships carry papers showing they are not violating this Act.

Section 14 allows the President to refuse clearance for vessels thought to be violating the Act. The Collector of Customs shall report all coin and currency export shipments, and their consignees.

Section 15 appropriates \$450,000 to carry out the Act to June 30, 1918.

Section 16 provides personal punishment not exceeding \$10,000 or ten years imprisonment for violations of the Act, and forfeiture to the United States of any property concerned.

Section 17 designates the United States district courts as having jurisdiction.

Section 18 allows the district courts of the Canal Zone and Philippine Islands to have jurisdiction in cases originating in these areas.

Section 19 prohibits foreign-language printing which refers to the war, unless registered with the postmaster, and approved, before mailing. Transport of unapproved literature is prohibited, as is false translation, etc.

(Sections added by amendment.)

Section 20 prohibits lawyer's fees exceeding 3 percent of the sum involved in a case.

Section 21 provides that a naturalized citizen who has been abroad shall not be denied payments if his continued patriotism is established.

Section 22 prohibits returns of money and property to persons who are fugitives from justice of the United States. (1928)

Section 23 directs the Custodian to pay out the income from properties to the person entitled thereto. (1928)

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Division of Monetary
Research

Section 24 directs the Custodian to pay taxes and expenses out of the sum held by him and taxed on incurring special expense, and designates the manner of determining taxes.

Sections 25, 26 and 28 provide for the investment of funds, not paid out under section 9, in certificates issued by the Secretary of the Treasury.

Section 27 directs the Custodian to return to the United States any money paid him by it in purchasing patents, etc. .

Section 29 allows the Custodian, with the approval of the Attorney General, to accept partial payment where seizure of property is still under litigation.

Section 30 declares that property held by the Custodian can be subject to attachment under suits of law.

Section 31 defines what is meant by "member of the former ruling family" of enemy countries.

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, April 1, 1941.
3/31/41

Press Service
No. 24-34

The Secretary of the Treasury announced last evening that the tenders for \$100,000,000, or thereabouts, of 91-day Treasury bills, to be dated April 2 and to mature July 2, 1941, which were offered on March 28, were opened at the Federal Reserve Banks on March 31.

The details of this issue are as follows:

Total applied for - \$290,755,000
Total accepted - 100,571,000

Range of accepted bids:

High - 99.998	Equivalent	to	approximately	0.008	percent
Low - 99.986	"	"	"	0.055	"
Average -	"	"	"	0.055	"
Price - 99.986	"	"	"	0.055	"

(96 percent of the amount bid for at the low price was accepted)

-CoO-

April 1, 1941

Dear Mr. Patterson:

Thank you for your letter of March 28th, addressed to the Secretary of the Treasury, requesting the Procurement Division of the Treasury Department to act as agent of the War Department in the procurement of certain items under the Act of March 11, 1941

This matter has been taken up with the proper persons, and it is my understanding that the Director of the Procurement Division is now carrying on conversations with representatives of the British Purchasing Commission.

Sincerely yours,

/s/ D. W. Bell

Under Secretary of the Treasury

Honorable Robert F. Patterson,
Under Secretary of War,
War Department,
Washington, D. C.

FY:bj
4/1/41

du

CONFIDENTIAL

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WAR DEPARTMENT
OFFICE OF THE ASSISTANT SECRETARY
WASHINGTON, D. C.

MAR 25 1941

The Honorable

The Secretary of the Treasury

Dear Mr. Secretary: ¹⁸

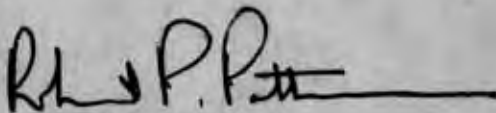
In conformity with the instructions of the President, dated March 19, 1941, to initiate procurement contracts under the Act of March 11, 1941 (Lend-Lease Act), the War Department has received from Mr. Harry Hopkins several lists of supplies urgently needed by the British Government.

Attached hereto is a schedule extracted from these lists containing items which this Department believes can be best handled by the Procurement Division, Treasury Department, as the agent of the War Department. It is, therefore, requested that the procurement of these items be undertaken by the Treasury Department.

Arrangements will be made to supply funds, if and when Congress provides an appropriation, to implement the Lend-Lease Act.

The British Purchasing Commission has carried on negotiations in connection with these items but has not placed orders because of lack of funds. Mr. J. M. Nicely, Director of Supply, British Purchasing Commission, Washington, D. C., is prepared to furnish to the Procurement Division details of the present status of the negotiations.

Sincerely yours,



ROBERT P. PATTERSON
Under Secretary of War.

Enclosure:
Procurement Program No. 2
(British Government)

*Copy to Mr. Kaufman
and Mr. Mack 3/27*

CONFIDENTIAL

PROCUREMENT PROGRAM NO. 2 (BRITISH GOVERNMENT)

Urgent British Needs for Commercial Items

(As of March 18, 1941)

	<u>Approximate Value</u>
(a) Road Building Equipment	\$702,494.00
(b) Agricultural Implements	117,302.00
(c) 69,871 Ball Bearings	36,798.97
(d) 900,000 ft. - 2½" Single Jacket Cotton, rubber lined, fire hose (3 items)	315,000.00
(e) Changes in quantities and Models of Tractors	46,463.70
(f) 50 Spring-tooth harrows	650.00
(g) Spare parts for Agricultural Machines (7 items)	83,969.83
(h) Harvesters and attachments	74,716.12
(i) Aniline Oil, 300,000 lb.	40,125.00

April 1, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Bob Jackson called me up at 2:40 P.M. today to ask our opinion as to starting action immediately for forfeiture of the Italian ships on which sabotage was committed. Section 3 of the Espionage Act provides for forfeiture of any ship on which a conspiracy has been entered into to violate the laws of the United States and the same act makes it a criminal offense to commit sabotage on any vessel, domestic or foreign, in American waters. Bob said he recognized the question was ultimately one for the President to decide and he was going to consult the Department of State. I said that you would be back tomorrow and that I would put the question up to you, but I thought forfeiture action ought to be instituted and that in view of what has appeared in the newspapers on the subject I thought there would be serious criticism if we didn't test the law, since it is on the statute books. The question is, of course, primarily a diplomatic one.

I have, incidentally, furnished to Justice, State and Navy photostatic copies of a letter from the Assistant Collector of Customs at Norfolk and copies of telegrams obtained from Postal Telegraph indicating that the sabotage was ordered by the Italian Naval Attache in Washington. The Captain of one of the Italian ships told Assistant Collector Vipond that this was the meaning of the telegrams, in which a code phrase was used. Three of the ships were under libel and I called this to the attention of the Attorney General since it will undoubtedly add a contempt of court case to the string of prosecutions.

(RS)

TREASURY DEPARTMENT

UNITED STATES CUSTOMS SERVICE

NORFOLK, VA.

March 31, 1941

DEPT. OF THE COLLECTOR
NORFOLK, VA.
COMMUNICATIONS SECTION
FOR THE USE OF THE COLLECTOR

Commodore William R. Johnson
Commissioner of Customs
Treasury Department
Washington, D. C.

VIA SPECIAL DELIVERY

Dear Mr. Johnson:

Confirming telephone conversation with your office, you are advised that P. S. Saglietto, Master of the Italian S.S. S.J. GUISEPPE, called at the office this noon for the purpose of answering certain inquiries regarding his vessel.

When asked about the damage done to the engines and machinery of the S.S. GUISEPPE he stated that he only followed instructions. He advised that about two weeks ago he received from the Italian Naval Attache in Washington a telegram instructing him to place his vessel out of commission. He was also told to read this telegram to the masters of the other four Italian vessels in port, namely, -

Italian S.S. GIUAN
" " GUIDONIA
" " LACONIA
" " VITTORIO

He allowed them to place their own interpretation on these instructions. He states that he gave no instructions for the sabotage of the other vessels other than to read the message to the captains.

Captain Saglietto without hesitation stated that he would furnish us with a copy of the original telegram, which was in code, and received via the Postal Telegraph.

He furnished the customs agent, who accompanied him to his hotel for that purpose, two copies of two telegrams instead of one. It appears that one telegram addressed to Captain P. S. Saglietto under date of March 13 applied only to the vessels GIUAN and GUIDONIA, and a message addressed him under date of March 28 applied to the vessels S.J. GUISEPPE, LACONIA and VITTORIO.

He was recalled to the office to explain why he furnished two telegrams instead of one, and stated that he had not intended to be misleading; that upon the receipt of the first telegram dated March 13 the same day the machinery of the two vessels referred to therein was put out of commission, and upon receipt of the telegram dated March 28, the same day the machinery of the three vessels referred to therein was put out of commission.

Copies of the two telegrams in Italian and their translations are enclosed. Captain Saglietto stated that according to the agreed upon code these telegrams were instructions to dismantle the engines in question.

Respectfully,

M. M. P.
M. M. P.
Assistant Collector.

SERVICE CHARGES OTHERWISE A FULL RATE	
TE	FULL RATE
DAY LETTER	DAY RATE
NIGHT LETTER	NIGHT RATE
WIRE	WIRE RATE
WIRE LETTER	WIRE RATE
WIRE RADIO	WIRE RATE

Postal Telegraph

Machay Radio
Commercial Cable



All America Cable
Canadian Pacific Telegraphs

CHARGE ACCOUNT NUMBER	
CASH NO.	TOLLS
CHECK	
TIME FILED	STANDARD TIME

Form 2

Send the following message, subject to the Company's rules, regulations and rates set forth in its tariffs and on file with regulatory authorities

C O P Y
(MBT)

1941 Mar 28 pm 12 46

WA 112 17

MP WASHINGTON D C 28 1239 P

Captain P. S. Saglietto
HOTEL THOMAS NELSON NFLK

FREGO DIRE AI COMANDANTI DEI PIROSCAFI SANGIUSEPPE GUIDONIA VITTORIN
DI TELEGRAFAMI SITUAZIONE GRADUALE NUMERICA PERSONALE DI BORDO

ADDETTO NAVALE (41)

COPYmba

SERVICE DESIRED OTHERWISE AGE WILL BE SENT AT FULL RATE		
DESTIC	FOREIGN	
DAYE	FULL RATE	
TEEN	CDE RATE	
LETTER	URGENT	
	DEFERRED	
ATION	NIGHT LETTER	
RATE	SHIP RADIO	

Postal Telegraph

Mackay Radio
Commercial Cables



All America Cables
Canadian Pacific Telegraphs

CHARGE ACCOUNT NUMBER	
CASH NO.	TOTAL
CHECK	
TIME FILED	(STANDARD TIME)

and the following message, subject to the Company's rules, regulations and rates set forth in its tariffs and on file with regulatory authorities

C O P Y
(MBT)

MARCH 19, 1941

VA 103 19 MP WASHINGTON DC 19 230 P

CAPTAIN P. S. SAGLIETTO
HOTEL THOMAS NELSON MFLH

DOLENTE NON POTERVI RICEVERE STOP PREGO DIRE COMANDANTI PIROSCAFI
GIUAN ET IACONIA INVIARMI SITUAZIONE GRADUALE NUMERICA PERSONALE
DI BORDO

ADDETTO NAVALE (13)

COFYmba

C O P Y
(MST)

Translation furnished by Captain P. S. Saglietto of telegram received by him via Postal Telegraph, dated at Washington, D. C. March 19, 1941 (WA 103 19 MP WASHINGTON DC 19 239 p):

"Captain P. S. Saglietto, Hotel Thomas Nelson Norfolk

"Sorry not to be able to receive you. Please inform the commanders of the steamers Giuan and Laconia to send to me the situation gradual number men on board"

(Signed) "NAVAL ATTACHE (13)"

C O P Y
(MBT)

Translation furnished by Captain P. S. Saglietto of telegram received by him via Postal Telegraph, dated March 28, 1941, 12-46 p.m. (WA 112 17 MP Washington, D. C., 28 1239 p):

"Captain P. S. Saglietto, Hotel Thomas Nelson, Norfolk

"Please inform the commanders of the steamers San Giuseppe, Guidonia, Vittorin, to telegraph situation gradual number men on board"

(Signed) Naval Attache (41)

April 1, 1941.

MEMORANDUM FOR THE FILES:

Mr. Istorik came in to see me at his own request.

He suggested that the proposal that he was making was sui generis since it involved the removal of refugees to Palestine and therefore could not be used by the British as a precedent for their asking us for loans in other situations. He also suggested that the arrangement could be worked out so that the dollars loaned by the Export-Import Bank would be used to pay for merchandise which would be bought in this country and exported to Palestine, and which merchandise Palestine does not now buy here for lack of dollars. The Palestine importer would then turn over to the Anglo-Palestine Bank and the Palestine Foundation Fund the sterling equivalent. I pointed out to him that this might be considered a mere device in order to comply with requirements of the Export-Import Bank statute and that the real substance of the transaction would remain the same, namely a loan to the Anglo-Palestine Bank and the Palestine Fund.

Istorik seemed to feel that it was somewhat hopeless to expect private interests to make the loan and again repeated his unwillingness to attempt to just go from door to door to raise the money.

In the event that this Government concludes that it is unable to make the loan which he suggests, Istorik hoped that the Secretary would write a letter to Montague Norman telling Mr. Norman that the Secretary had gone over this matter and that he appreciated very much the interest which Montague Norman has taken in the Palestine problem. Istorik felt that such a letter would help him very much in being able to convince Montague Norman that the liquidity of the Anglo-Palestine Bank was a domestic problem for the British Empire and should be dealt with by the British Government and not by the Government of the United States. I did not give Istorik any encouragement along this line.

- 2 -

I told Istorik that when the Secretary returned he would be brought up to date on the proposal and that we would let Istorik know if the Secretary would be able to see him. Istorik said that he expected to be in Washington Saturday or Sunday and stay on for an indefinite period.

A handwritten signature in dark ink, appearing to read "Blumstein", is located in the upper right quadrant of the page.

TOP

Secretary Morgenthau 48

For your information.

This may affect Procurement.

I understand the British

here are investigating this
deplorable situation.

Philip Young is familiar with it.

5 April 1941

cox

Handwritten signature

MR. COX

WAR DEPARTMENT
OFFICE OF THE QUARTERMASTER GENERAL
WASHINGTON

IN REPLY REFER TO _____

April 1, 1941

MEMORANDUM TO: ⁴ ~~Brig.~~ General R. C. Moore
Deputy Chief of Staff

SUBJECT: Procurement of Urgent British Needs for Supplies
and Equipment (Lend-Lease Act)

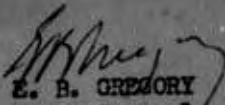
1. By direction of the Under Secretary of War dated March 25, 1941 Subject: Procurement of Urgent British Needs for Supplies and Equipment (Lend-Lease Act), this office is issuing conditional letters of intent covering a number of items of equipment for which the British Purchasing Commission had previously been negotiating. Among these items are the following:

<u>Item</u>	<u>Approx. Value</u>
1,200 Truck chassis	\$2,009,600
800 Chassis	1,548,480
500 Dump bodies	206,450
200 Semi-trailers	167,900
300 Trailers	252,000

2. In the process of the negotiations with the contractors, it has been indicated that these items are probably intended for sale to municipalities and also to civilians in Britain by the International Harvester Company of Great Britain. Apparently at one time the International Harvester Company made its purchases in this country direct from its parent company and procured exchange in the normal manner. At some later date the International Harvester Company of Great Britain was told to clear its purchases through the Ministry of Agriculture in Great Britain and these were then placed in this country by the British Purchasing Commission. Upon receipt of the goods in Great Britain, International Harvester Company paid British pounds sterling to the British Ministry of Agriculture and took possession of the material. In other words, the British Ministry of Agriculture and the British Purchasing Commission in the United States were acting as a part of the exchange control mechanism. Now, due to the urgency in taking over these contracts, either by intent or inadvertently, these items have been included among those to be financed by the Act of March 11, 1941, (Lend-Lease Act).

3. It is the understanding of this office that certain other items

of a similar nature will follow from time to time and it is possible that items that are being procured by other branches of the War Department or by the Treasury may also be of this nature.


E. B. GREGORY
Major General
The Quartermaster General

WAR DEPARTMENT
OFFICE OF THE QUARTERMASTER GENERAL
WASHINGTON

IN REPLY REFER TO _____

April 1, 1941

MEMORANDUM TO: ^{N2} ~~Brig.~~ General R. C. Moore
Deputy Chief of Staff

SUBJECT: Procurement of Urgent British Needs for Supplies
and Equipment (Lesse-Lend Act)

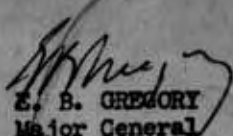
1. By direction of the Under Secretary of War dated March 25, 1941 Subject: Procurement of Urgent British Needs for Supplies and Equipment (Lesse-Lend Act), this office is issuing conditional letters of intent covering a number of items of equipment for which the British Purchasing Commission had previously been negotiating. Among these items are the following:

<u>Item</u>	<u>Approx. Value</u>
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300 Trailers	252,000

2. In the process of the negotiations with the contractors, it has been indicated that these items are probably intended for sale to municipalities and also to civilians in Britain by the International Harvester Company of Great Britain. Apparently at one time the International Harvester Company made its purchases in this country direct from its parent company and procured exchange in the normal manner. At some later date the International Harvester Company of Great Britain was told to clear its purchases through the Ministry of Agriculture in Great Britain and these were then placed in this country by the British Purchasing Commission. Upon receipt of the goods in Great Britain, International Harvester Company paid British pounds sterling to the British Ministry of Agriculture and took possession of the material. In other words, the British Ministry of Agriculture and the British Purchasing Commission in the United States were acting as a part of the exchange control mechanism. Now, due to the urgency in taking over these contracts, either by intent or inadvertently, these items have been included among those to be financed by the Act of March 11, 1941, (Lesse-Lend Act).

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of a similar nature will follow from time to time and it is possible that items that are being procured by other branches of the War Department or by the Treasury may also be of this nature.


E. B. GREGORY
Major General
The Quartermaster General

April 1, 1941

MEMORANDUM

To: Mr. Hopkins

From: Mr. Young

Re: Mr. Wallace Clark

Concerning your memorandum of March 19th with attached letter from Mr. John M. Curmody, dated March 6, 1941, with respect to Wallace Clark, I am of the opinion that there will be no place for the type of work which Mr. Clark does in the lease-lend program at the present time.

If lease-lend should expand in the future to include national control of production as a part of economic defense, there might be some demand for Mr. Clark's services.

I have talked with Mr. Clark on several occasions and have had an opportunity to go over the types of charts and tables that he uses. This sort of a set-up within the lease-lend agency would definitely tend to duplicate the job that OPM is doing.

(Initialed) P.Y.

FY:bj

April 1, 1941

MEMORANDUM

To: Mr. Hopkins

From: Mr. Young

Re: Mr. Wallace Clark

Concerning your memorandum of March 19th with attached letter from Mr. John M. Carmody, dated March 6, 1941, with respect to Wallace Clark, I am of the opinion that there will be no place for the type of work which Mr. Clark does in the lease-lend program at the present time.

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I have talked with Mr. Clark on several occasions and have had an opportunity to go over the types of charts and tables that he uses. This sort of a set-up within the lease-lend agency would definitely tend to duplicate the job that OPM is doing.

(Initialed) F.Y.

FT:bj

Copy for Mrs. Klotz

April 1, 1941

MEMORANDUM

To: Mr. Hopkins

From: Mr. Young

Re: Mr. Mason Britton

Concerning your memorandum of March 19th with respect to Averill Harriman's recommendation of Mason Britton, I may say that I have known Mr. Britton and worked with him intermittently for the past eight months. He is a machine tool expert and knows machine tool production problems.

On the whole, I have no reason to believe that he has not done a good job for OFN and the time may come when the lease-lend agency might find him useful. My present reaction is definitely that he can help the operations of the lease-lend agency more by staying in OFN than he could by becoming a part of such agency.

(Initialed) F.Y.

FY:bj

To:

55

Miss Chauncey

C. Kuhn says this was an idea of Mr. Sullivan's after a talk with the Secretary. The Secretary saw this, and commented favorably to Mr. Sullivan on it. Some of it was subsequently used in the Secretary's Statement on Taxes. The remainder is being held for use when the right time comes.

MR. KUHN

Suggested Statement by the Secretary, on Economy

When I appeared before the Committee on Ways and Means on January 29, I said that our whole economy and effort should be concentrated on national defense. May I begin today by repeating two sentences from my testimony on that occasion? "One step which the Government should take is economy in Federal expenditures. I believe, therefore, that all Federal non-defense expenditures should be reexamined with a magnifying glass to make certain that no more funds are granted than are absolutely essential in the existing circumstances."

Those words were used advisedly, with all the seriousness at my command. I hope you will not think me lacking in seriousness today if I suggest that we now take out our magnifying glass and look, for a few moments, at the non-defense spending of the Government. The President said recently that "speed and speed now" should be the keynote of our national defense effort. I am glad that you have invited me to come here today because I feel that speed and speed now needs to be our watchword also in grappling with this vast problem of the Government's finances.

There is no need to emphasize to a Congressional Committee the size of the financial effort which the country is now making and will continue to make if our objectives are to be attained.

The Congress has been appropriating gigantic funds for defense. They are the most enormous appropriations in the peacetime history of this Republic, and no end to them is in sight. I would not take back one penny of the billions that have been appropriated for defense. The country can bear these expenditures and must bear them because of the overriding necessities of this hour. If any complaint about these expenditures is justified, it is that we are not spending fast enough, that we are not translating appropriations into actual production and outlay as quickly as we should. There can be no stinting of our expenditure upon production and the means of production, upon weapons and the plants that make them, upon army camps and uniforms, upon naval bases and shipyards, upon air bases and all the thousand and one elements of our national security. Nobody can argue for a moment that these expenditures are unnecessary. The country supports them and the country intends to see that they produce results.

There is another objective which guides, and rightly guides, the Government's financial policy. The President expressed it in his message of January 6th on the State of the Union, in which he said, "Certainly this is no time for any of us to stop thinking about the social and economic problems which are the root cause of the social revolution which is today a supreme factor in the world." The President went on to say that the basic things expected by the American people are these:

Equality of opportunity for youth and for others; jobs for those who can work; security for those who need it; the ending of special

privilege for the few; the preservation of civil liberties for all; and the enjoyment of the fruits of scientific progress in a wider and constantly rising standard of living.

Most Americans are whole-heartedly in agreement with these objectives set for them by the President. They would not and should not do without them. They are the irreducible minimum of any democratic effort, and they are just as necessary today, when we are in the midst of a huge defense program, as they were in the days of peace.

But there is another set of expenditures upon which I should like, with your permission, to put the magnifying glass of common sense. These are the expenditures which are neither for purposes of defense or for purposes of relief and security from want. We have been spending freely, lavishly, and to my mind, extravagantly, in recent months in these fields, as if there were no defense program, and as if we could superimpose our huge rearmament effort upon business as usual. There can be no business as usual at such a time as this. There can be no spending as usual either.

Let me take a few examples to show you what I mean. The Senate Appropriations Committee has just advocated a farm bill that will cost 445 million dollars more than the President recommended in his budget last January. It is a bill which, in spite of all our defense spending, calls for 304 million dollars more in appropriations than the similar bill last year.

Now if this were a period of want and distress among our farmers, there might be some reason for this liberality in spending. If this

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were a year of drought or of rock-bottom farm prices, or a year of poverty among our farmers, of the sort we knew all too well several years ago, I could see some justification for what the Senate Appropriations Committee has recommended. But it happens that farm buying power in the year 1939-1940 was as high as in the so-called golden age of 1929, and 72 per cent higher than it was at the bottom of the depression in 1932. You will not mind, I hope, if I speak today straight from the shoulder. I cannot help feeling that this recommended farm bill is an extravagance and a folly, and a detriment to the efficient financing of our defense program.

The budget which came before the Congress in January was the product of many cuts in budget recommendations. That is to say, the colossal figure of \$17,485,000,000 in the budget would have been even bigger by at least a billion dollars and probably more, if the heads of all departments had been able to include some of their most cherished projects and plans. Nevertheless, it will pay us, I think, if we put our magnifying glass for just a moment onto the actual requests made in the January budget.

I notice, for example, an item of 265 million dollars for the Civilian Conservation Corps. This agency, as all of us will acknowledge, has done a wonderful job of enduring value. I know of no better proof that unemployment can be put to civic use than the eight-year record of the C.C.C., which has taken unemployed boys and put them to service for the community.

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But is it not time for us to take stock and see whether these continuing expenditures are justified? After all, the country is bursting, at the moment, with opportunities for unemployed youths. Industry is clamoring for skilled and unskilled men. The Army and the Navy are in need of young men even if they are below the draft age of twenty-one. It seems to me high time for the Congress to examine this particular case of the C.C.C. in the light of the transformation of our country by the defense effort and in the light also of the burdens which the defense effort is imposing.

The budget estimate for Work Relief, to take another example, amounts to more than a billion dollars, although industrial activity in the country is far above the 1929 levels and employment is growing by leaps and bounds. Much of this, undoubtedly, is intended for direct relief, in line with the President's statement that I quoted to you. But much of it, I feel sure, could be pruned drastically, without real detriment to any section of our people, if the Appropriations Committees in the two Houses will use the little magnifying glass which I have offered them.

It is useless for the Government to call upon the American people for sacrifices for defense if the appropriating agencies of the Government have not learned the meaning of the word. It is futile for the Government to call upon the American people to put their savings to work in the interests of defense, if the Government shows no realization of what saving means. I am convinced that the American

people are ready and eager to concentrate on the tremendous job that is before them. I believe that they will respond to courageous leadership whenever that leadership appears. To my mind, it can be shown just as effectively in the field of financial policy as in any other activity of the Congress and the Government.

On several occasions in the past I have suggested that a beginning might be made by joint meetings of the taxing committees and the appropriating committees of the two Houses. This might in other times have seemed like an idle dream. In days like these, it seems to me a more practicable beginning than any other. In other words, I suggest most earnestly that those committees charged with appropriating public funds should do so in the light of the burdens already assumed and the limitations of the public ^{purse} ~~power~~. This is a rich country, the richest in the world. It is better able than any other to bear the colossal cost of the armament effort. It is not going to bankrupt itself in this task of defeating the threat to its free institutions. But no country, not even our own, is rich enough or strong enough to rearm on a vast scale and at the same time continue its former spending habits. That is the purpose, gentlemen, of my coming before you today. The yardstick is clear enough for all to understand. We must spend for defense and we must spend to keep the specter of want away from any section of our people. For other purposes and in all other fields, we must save, and save now.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 1, 1941

TO Mr. Thompson

FROM Mr. Haas

In further response to your request of December 26, 1939, there is submitted herewith for the Division of Research and Statistics a memorandum listing, with brief descriptions, the studies or projects completed or under way, and the names of persons working on each, for the month of February 1941.

DIVISION OF RESEARCH AND STATISTICS

Report of Studies or Projects Completed or Under Way, and the Names of Persons Working on Each, for the month of February 1941

For convenience of reference, the studies listed are grouped under general subject heads.

The names shown for persons working on each project include only those who participated fairly directly, as explained in the introductory note to the corresponding report submitted on December 28, 1939. No attempt has been made to cover also persons whose responsibility in each particular case was mainly in planning, supervising, or consulting.

Financial Analysis

I. Projects or studies completed

1. Reviews of current developments in the high-grade securities markets were prepared, and memoranda were transmitted to the Secretary on February 11 and 21. - Mr. Haas, Mr. Turner, Mr. Purvis

These reviews contained, in addition to analysis of the current situation, the following special studies:

- (a) Perspective of the Government security market (Review of February 11, page 3). - Mr. Turner
- (b) British Government security prices have risen during the War (Review of February 11, page 4). - Mr. Turner
- (c) Changes in levels of yields of Government securities since April 1, 1937 (Review of February 21, page 3). - Mr. Turner
- (d) Mutual savings bank dividends (Review of February 21, pages 4 and 5). - Mr. Turner

2. In connection with the February refunding, a memorandum was prepared on two alternative proposals, and was transmitted to the Secretary on February 24. - Mr. Haas, Mr. Murphy, Mr. Conrad, Mr. Tickton, Mr. Lindow

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3. A table was prepared, and was completed on February 21, of estimated yield bases and probable premiums of suggested issues of Treasury securities with five different maturities, showing estimated yield on a partially tax-exempt basis, and estimated yield on a partially tax-exempt basis plus an assumed tax rate of 16 percent on the coupon, based on closing bids on February 21. - Mr. Conrad
4. A table was prepared, and was completed on February 23, of estimated yield bases and probable premiums on a suggested 2-3/4 percent Treasury bond with four different maturities, assuming various rates of tax in connection with each maturity. - Mr. Conrad
5. A table was prepared, and was completed on February 23, of estimated yield bases and probable premiums on a suggested 2 percent Treasury bond with five different maturities, assuming various rates of tax in connection with each maturity. - Mr. Lindow
6. A table was prepared, and was completed on February 23, of estimated yield bases and probable premiums on a suggested 2 1/4 percent Treasury bond with six different maturities, assuming various rates of tax in connection with each maturity. - Mr. Tickton
7. A table was prepared, and was completed on February 23, showing for fourteen high-grade corporate bond issues as of February 21, prices, yields, and ratings. - Mr. Murphy
8. A table was prepared, and was completed on February 24, of estimated yield bases and probable premiums on a suggested 3/4 percent, 2-year Treasury note, assuming various rates of tax on the coupon. - Mr. Brown
9. Yield rates on United States securities, direct and guaranteed, on the basis of over-the-counter closing quotations were calculated daily. These were summarized each day in a table showing for each issue the closing price and yield that day, the change in price and yield from the preceding day, and the price range since date on which first traded and also for the years 1940 and 1941 to date. A chart for each issue was kept up to date showing recent daily price and yield figures, together with comparative monthly data since 1934, since date of

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issue, or since date first traded. Similar calculations are made daily on the basis of New York Stock Exchange closing quotations on direct and guaranteed bonds of the United States, for use in preparation of the publication "Market Prices and Yields of Outstanding Bonds, Notes, and Bills of the United States", described under Publications in this report. - Mr. Moody, Miss McCoy, Mr. Kroll

10. At the request of the Secretary, arrangements have been made to secure periodically from the British Empire purchasing missions certain information regarding purchases in the United States by the British Empire. - Mr. Haas, Mr. Lindow, Mr. Wagner, Mr. March

- (a) Weekly statements are received covering the itemized purchases by British Empire Governments through the various missions, the itemized purchases made by these Governments with the knowledge of the missions but not through their facilities, and inquiries made through the missions for future purchases. Similar statements are received showing, by itemized contracts, deliveries made with respect to orders placed by the United Kingdom through the missions. The details with respect to orders and deliveries are classified by some twenty-five commodity groups designed especially for the purpose.

These data are reviewed and edited in the Division each week and a report is then prepared summarizing in dollar volume the information on orders and deliveries, by commodity groups. This report consists of eight statements: the first three summarize orders placed by the individual governments of the British Empire for the current week and the totals to date; the next three statements summarize total orders of the British Empire on a historical basis; the last two statements present data on deliveries with respect to orders placed by the United Kingdom through the British missions. These weekly commodity statements were prepared, and were transmitted on February 7, 14, 21 and 28, according to instructions by the Secretary.

- (b) The Division also receives each week the data required to prepare statements giving the details concerning the physical volume of airplane and airplane engine orders in the United States by the British Empire. The material for these statements is contained in a group of work sheets prepared by the

- 4 -

British Purchasing Commission, but it is necessary for the Division to consolidate and coordinate the information contained in the Commission's statements. The finished tables show, by company and by type of plane or engine, the following information: (1) summary of orders, deliveries, and exports; (2) history of orders; (3) history of deliveries; (4) exports, classified by destination; (5) scheduled deliveries of unfilled orders; (6) options: scheduled deliveries; (7) spare parts: orders, deliveries, unfilled orders, and options; and (8) secondhand units: orders, deliveries, and scheduled deliveries of unfilled orders. These aircraft reports were prepared, and were transmitted on February 7, 14, 21 and 28, according to instructions by the Secretary.

- (c) A series of six tables has been developed at the request of the Secretary to show each week the disposition of airframes and engines inspected in the United States by the British Empire, and the status of airframes and engines on hand in the United States. One table develops by company and by model the number of units on hand. A second table analyzes the status of these units, and a third table presents the physical location of the units awaiting export. Separate tables are required for airframes and for engines. The group of tables on engines was prepared, and was transmitted on February 17, 24, and 27, according to instructions by the Secretary. The group of tables on airframes was prepared, and was transmitted on February 27, according to instructions by the Secretary.
- (d) Reports are prepared each week showing commitments by the British Empire Governments for capital expenditures in the United States and for extraordinary charges designed to expedite deliveries. The data for these statements are provided by the British Purchasing Commission but the tables actually are prepared in the Division. Tables showing capital commitments were prepared, and were transmitted on February 7, 14, 21, and 28, according to instructions by the Secretary.
- (e) A new series of analytical tables has been prepared on British Empire orders of iron and steel. The new statements, which are prepared monthly, consist of nine tables. Six of these cover iron and steel,

- 5 -

except ferro-alloys and drop forgings, and are classified by product. One table covers ferro-alloys and silicon metals, and also is classified by product. The next two tables cover drop forgings and are classified by manufacturer. The report for January 31 is now in process.

- (f) Arrangements have been made to receive information on a physical volume basis for the orders, deliveries, and dates of scheduled deliveries on unfilled orders, and proposed delivery schedules on options, with respect to several other important commodities. At present work is progressing on the preparation of a series of tables on each of the following commodities: (1) explosives and propellants; (2) chemicals; (3) shells and bombs; (4) small arms ammunition; (5) ordnance; (6) small arms (fully automatic); (7) sub-machine guns, revolvers and rifles; (8) tanks and tank equipment; (9) non-ferrous metals; (10) motor vehicles; (11) small boats and ships; and (12) marine engines. For each of these commodities the following tables are being prepared: (a) current delivery status of orders; (b) history of orders; (c) history of deliveries; (d) scheduled deliveries on unfilled orders; (e) delivery schedules of options (if any). The data in these tables are broken down by particular products, particular models in each case, and particular manufacturers.
- (g) Certain financial information is prepared from time to time concerning the orders placed in the United States by the British Empire. A monthly report shows the value of orders placed, the value of payments made, and the value of unpaid commitments, together with the forecast of future payments on these commitments. This table was prepared as of February 1, and was transmitted to Mr. Young on February 20.
- (h) All prospective orders in the United States by the British Government are required at present to be cleared by the Secretary of the Treasury before they may be placed. In this connection, the Division has certain responsibilities. Each application for Treasury clearance is audited by the Division immediately upon receipt by the Treasury Department. A table is prepared daily showing the dollar value of clearances for the current week. Finally, a weekly table is prepared showing the dollar value of clearances by weeks, classified by commodity groups. These weekly tables were prepared, and were transmitted on February 10, 20, and 25 to Mr. Young for the Secretary.

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11. At the request of the Secretary, arrangements have been made to secure periodically certain information regarding purchases in the United States by the Netherlands Purchasing Commission, and by Lindeteves, Inc. - Mr. Haas, Mr. Lindow, Mr. Wagner, Mr. March

- (a) Weekly statements are received covering the itemized purchases by the Netherlands Purchasing Commission in the United States, and the volume of deliveries made thereon. Similar statements are received concerning the activities of Lindeteves, Inc., a large private commercial organization operating in the Dutch East Indies. The details with respect to orders and deliveries for these purchasing agencies are classified by the same twenty-five commodity groups used for reporting orders placed in the United States by the British Empire.

These data are reviewed and edited in the Division each week. Reports are then prepared for each of these agencies summarizing the information on orders and deliveries, classified by commodity groups. These reports consist of three statements: the first shows the history of orders placed; the second shows the history of deliveries made on these orders; and the third shows the current delivery status of orders. These weekly commodity statements covering orders of the Netherlands Purchasing Commission were prepared, and were transmitted on February 14 and 18, in accordance with instructions by the Secretary. Similar statements for Lindeteves, Inc., were prepared, and were transmitted on February 6, 10, and 21, also according to instructions by the Secretary.

- (b) Statements summarizing future requirements in the United States by the Netherlands Government were prepared by the Netherlands Purchasing Commission with the assistance of the Division, and were submitted during February. These statements showed in dollar values estimated future requirements with respect to all commodities, and estimated delivery requirements in terms of physical quantities for all important individual products. Upon request of Mr. Young, a table was prepared summarizing the dollar value of these requirements by commodity groups, classifying 1941 and 1942 separately. This was transmitted on February 24, 1941. Subsequently, a similar table was prepared concerning the urgent

- 7 -

requirements only. The data for this table were obtained from a list of statements prepared by the Netherlands Purchasing Commission and submitted to the President's Liaison Committee. This table was transmitted on February 26.

12. At the request of the Secretary on May 23, arrangements were made for securing weekly until September 11, and after that fortnightly, from more than forty airplane and airplane engine manufacturers data on deliveries, new orders, unfilled orders, and estimated deliveries by months on the unfilled orders. Analytical tables are prepared every other week showing this information by type of plane or engine and by class of purchaser. Reports for the fortnights ended February 1 and 15, were transmitted on February 10 and 19, respectively, according to instructions by the Secretary. - Mr. Haas, Mr. Tickton, Mr. D. J. Leahy
13. At the request of Under Secretary Bell, various memoranda and charts were prepared for use in the Friday discussion group, considering matters of general interest in connection with defense financing. - Mr. Haas, Mr. Murphy, Mr. O'Donnell, Mr. Daggit

The material presented during the month included the following:

- (a) An analysis was made of recent price movements illustrated by two wall charts. The first showed the weekly average movements of the index of 16 industrial raw materials and of the index of 12 foodstuffs since December 1939; and the daily movements of the index of the 16 industrial raw materials and of the index of 12 foodstuffs since November 1940, both the weekly and daily indexes on the basis that August 1939=100. On the same chart were shown also the percentage price changes for 28 individual commodities: 16 industrial raw materials and 12 foodstuffs from the August 1940 low to January 22 and to February 5, 1941.

The second chart showed the monthly movements of the NICE cost-of-living index compared with the BLS index of 863 commodities from 1935 through 1940. On the same chart were shown the weekly movements of the BLS index of 863 commodities and the BLS index of 28 basic commodities from August 1939 to February 19, 1941. Both of these comparisons were on the basis that 1926=100. (Charts presented at the meeting on February 7.) - Mr. Daggit, Mrs. May

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- (b) An analysis was made of recent price movements illustrated by the two wall charts described above under item (a) brought up to date, and showing for 28 individual commodities: 16 industrial raw materials and 12 foodstuffs, the percentage price changes from the August 1940 low to February 4 and February 11, 1941. (Charts presented at the meeting on February 14.) - Mr. Daggit, Mrs. May
- (c) In connection with a discussion of the equitable aspects of the issuance of tax-exempt securities, two charts were presented. The first compared the differential in yield between high-grade corporate and municipal bonds, and the maximum rate of the Federal individual income tax annually, from 1900 to 1940. The second chart showed in greater detail the more recent movement of the differential, by months, for the calendar year 1940, and for January 1941. (Charts presented at the meeting of February 14.) - Mr. Murphy
- (d) An analysis was made of recent movements of basic commodity prices, domestic and imported, illustrated by a wall chart. This chart showed the weekly and daily movements of an index of 11 imported commodities and of 17 domestic commodities from January 1940 to mid-February 1941, on the basis that August 1939=100. The wall chart also showed the percentage changes for 28 individual commodities: 17 domestic commodities and 11 imported commodities, from the August 1940 low to February 13, and to February 20, 1941.

A second wall chart showed the volume of retail trade on the basis that 1929=100, for department store sales, variety store sales, and rural chain store and mail order sales, for each month of the calendar years 1938, 1939, 1940, and for the first half of January 1941.

A third chart showed the earnings of factory workers and the cost of living, on the basis that 1935-39=100, quarterly, from 1936 to 1941. (Charts presented at the meeting on February 28.) - Mr. Daggit, Mrs. May

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- (e) A description was given of the revenue estimates and techniques of estimating which have been used in the past year in the determination of the net revenue affect to the Federal Government (a) if the interest from the future issues of Federal securities is made taxable, and (b) if the interest from future issues of all governmental securities is made taxable. (Presented at the meeting on February 23.) - Mr. O'Donnell
14. In response to a request by the Secretary on January 21 that steps be taken to obtain information that will assist in carrying through the defense financing program, a memorandum was prepared, and was transmitted to him on February 17, submitting a proposal for the obtaining of necessary detailed statistics on the holdings of each issue of the public debt and of guaranteed securities by the various classes of holders. A detailed mechanical procedure is being drafted for the preparation of the punch cards and tabulation of the statistics when received. - Mr. Haas, Mr. Tickton, Mr. Reagh, Mr. Brown
15. A proposal of the RFC that the Secretary of the Treasury request that corporation to purchase capital debentures of a bank was examined. - Mr. Murphy, Mr. Purvis, Mr. Barnett
16. At the request of Under Secretary Bell on February 14, in connection with an inquiry from Senator Taft, a memorandum was prepared, and was transmitted to the Under Secretary on the same date, with respect to the tax exemption provisions of United States Government securities, Federal normal income tax rates for individuals and corporations, and the exemption from the Federal income tax of mutual savings banks and mutual building and loan associations. - Mr. Murphy
17. Two tables were prepared and were completed on February 4, on the estimated increased interest cost due to the refunding of Government securities into fully-taxable issues. The first table contained an estimate of the additional interest charge after the entire debt shall have become taxable, showing at minimum and at maximum differentials, the component amounts due to the increase in debt in the fiscal year 1942, to the Defense notes outstanding, to the refunding of outstanding direct issues, and to guaranteed obligations. The second table contained an

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estimate of the increase in interest charge for each fiscal year from 1942 through 1946, showing at minimum and at maximum differentials, the component amounts due to the Defense notes outstanding, to the increase in debt in 1942, and to the refunding of tax-exempt issues. - Mr. Turner, Mr. Conrad, Mr. Purvis, Mr. Barnett

18. At the request of Mr. Broughton on January 27, a memorandum was prepared on the revision of Department Circular No. 596 - "United States Savings Bonds - Series D", and was transmitted to him on February 13. - Mr. Tickton
19. At the request of Under Secretary Bell on February 12, a memorandum, with tables, was prepared on proposed new forms of United States savings bonds, and was transmitted to the Secretary and to the Under Secretary on the same date. - Mr. Murphy, Mr. Turner, Mr. Barnett, Mr. Brown, Mr. Kroll
20. At the request of Under Secretary Bell on February 27, there was transmitted to him on February 27, the original of the memorandum on "Notes of the Meeting with Representatives of the Federal Reserve System Held in the Under Secretary's office on February 26, to discuss plans for United States savings bonds". - Mr. Haas, Mr. Murphy
21. At the request of Under Secretary Bell, there was prepared and transmitted to him for attachment to his letters to the Presidents of the twelve Federal Reserve Banks of February 28, a memorandum, with tables, on the proposed United States savings bond program. - Mr. Haas, Mr. Murphy, Mr. Reagh
22. In connection with the preparation of schedules relating to the several proposed types of United States savings bonds, calculations were made with respect to redemption values, yield rates during the period held, and yield rates during the remaining period to maturity. The tables were used in connection with the memoranda mentioned in this section in items 19, 20, and 21, and for other purposes pertaining to the United States savings bond program. - Mr. Brown, Mr. Kroll
23. At the request of the Secretary on February 18, a memorandum was prepared and was transmitted to him on February 19, with respect to the editorial of the Wall Street Journal on savings banks and the United States savings bond program. - Mr. Murphy, Mr. Turner

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24. A memorandum was prepared and was transmitted to Under Secretary Bell on a new type of investment security proposed by Mr. Rouss. - Mr. Murphy, Mr. Turner
25. At the request of the Secretary on February 14, a memorandum was prepared and was transmitted to him on that date setting forth the details of the proposed refunding of the highway bonds of the State of Arkansas. In response to the Secretary's inquiry on February 19, a memorandum was prepared and was transmitted to him on that date with respect to information received from Mr. Mulligan, Treasurer of the RFC, concerning the progress of the refunding plan. A second memorandum was transmitted to the Secretary on February 19, containing an account of a conversation of Mr. Haas with Mr. Schram of the RFC, in further regard to the plan. - Mr. Haas, Mr. Murphy
26. At the request of Assistant Secretary Sullivan on February 20, a memorandum was prepared on the differential in interest cost on State and municipal securities due to the tax exemption privilege, and was transmitted to him on the same date. - Mr. Murphy, Mr. Lindow
27. At the request of the Secretary on December 1, four charts and two maps were prepared of group banks and their branches, and were transmitted to the First Deputy Comptroller of the Currency on February 3, 9, and 28. - Mr. Tickton, Mrs. Wolkind
28. At the request of Mr. Delano on January 30, a memorandum was prepared and was transmitted to him, classifying the total assets held by banks making income tax returns for the calendar year 1938, according to the tax status of the reporting banks. - Mr. Murphy, Mr. Turner
29. At the request of the Secretary on February 24, a memorandum was prepared and was transmitted to him on that date, with respect to a telephone call from Mr. Purcell of the SEC, regarding new security offerings. - Mr. Haas
30. Work has been suspended on a study of the relationship between the yields and maturities of high-grade securities immediately preceding major bear markets in such securities. - Mr. Turner

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31. A comparison of the relative amplitude of price fluctuations of long-term and short-term securities has been completed and is being used in the weekly analyses of characteristic amplitudes. - Mr. Lindow, Mr. Conrad
32. Since at present the problem changes so rapidly, a study of the effect of the maturity, call period, coupon, premium, and size of the issue on the prices and yields of United States securities has been combined with the work on current pricing of Government bonds. - Mr. Conrad
33. A comparison and contrast of war and depression deficit-financing have been superseded by studies of separate aspects of these subjects. - Mr. Murphy
34. An analysis of factors affecting sales and redemptions of United States savings bonds, as a guide to future experience was used in part in the Secretary's Annual Report for 1940, and in part has been absorbed by the project described in this section as item 14. - Mr. Conrad
35. The review of the "Base Book of Financial Statistics" requested by the Division of Statistical Standards, Bureau of the Budget, has been terminated, since at a conference on February 28, of representatives of the Treasury Department, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation, the project was abandoned. - Mr. Murphy
36. Assistance was given the Legal Division and the Division of Tax Research in the preparation for the General Counsel of examples of the possibilities of tax avoidance by means of tax-exempt securities (for use of Mr. Walker Stone). - Mr. Murphy
37. At the request of the Secretary on February 5, assistance was given on February 7 and 8, in preparing the statement made by the Secretary on February 12, before the Senate Finance Committee on H. R. 2959, a bill to increase the debt limit of the United States, to provide for the Federal taxation of future issues of obligations of the United States and its instrumentalities, and for other purposes. - Mr. Haas, Mr. Murphy

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II. Projects or studies under way

1. Review of war-financing measures in belligerent countries in the present war. - Mr. Murphy, Mr. Matlook
2. At the request of Under Secretary Bell on October 14, a memorandum is being prepared on a memorandum submitted by Mr. John Evans, President of the First National Bank of Denver, Colorado, in reference to United States Government bonds now owned by the Federal Reserve System and its member banks, and suggestions concerning a refunding and change in form which would appear to be in interest of the Treasury Department, the Federal Reserve System, the member banks, the Federal Deposit Insurance Corporation, and the public generally whose money is deposited in member banks. - Mr. Murphy
3. In response to a request by Under Secretary Bell on January 27, comments are being prepared on a memorandum by Mr. George Eddy to Mr. White, in regard to a plan of Mr. N. E. Peterson entitled, "A Means of Financing the Defense Program". - Mr. Turner
4. At the request of Under Secretary Bell replies are being prepared to certain questions asked by the Wagner Committee preparatory to its investigation of banking and monetary conditions pursuant to Senate Resolution 125. - Mr. Haas, Mr. Murphy, Mr. Turner
5. A memorandum is being prepared on the relationship between public debt operations and bank reserves. - Mr. Turner
6. A study is being made of the probable excess reserves in 1941-42. - Mr. Turner
7. A memorandum is being prepared on a negotiable "tap" security. - Mr. Tickton, Mrs. Wolkind
8. At the request of Under Secretary Bell on February 5, an analysis is being made of his plan for investing savings banks' and insurance companies' funds in special 2 percent Treasury certificates. - Mr. Tickton
9. At the request of the Secretary on February 8, a reply is being prepared to a letter from the Acting Secretary of Commerce dated February 4, requesting certain data on outstanding securities of Federal agencies and the amount of governmental securities held by governmental agencies and Federal Reserve Banks for the period 1929-40. - Mr. Conrad

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10. At the request of Under Secretary Bell on February 11, a memorandum is being prepared to the Secretary regarding a letter from Mrs. Sylvia F. Porter, New York Post, dated January 22, suggesting a plan for the distribution of United States Government securities. - Mr. Haas, Mr. Murphy, Mr. Turner
11. A memorandum is being prepared recommending legislation terminating miscellaneous types of tax exemption analagous to the exemption of interest on Federal securities, but unaffected by the Public Debt Act of 1941. - Mr. Matlock
12. A study is being made of the relative interest costs of short- and long-term borrowing. - Mr. Barnett
13. At the request of Mr. Heffelfinger on February 3, there is being reviewed a proposed reply, prepared by the Bureau of Accounts, to a letter from Senator Pat Harrison dated January 9, requesting the Department's views on S. 56, a bill to amend the Social Security Act with respect to grants to States for old-age assistance. - Mr. Murphy, Mr. Reagh
14. At the request of Mr. Heffelfinger on February 3, there is being reviewed a proposed reply, prepared by the Bureau of Accounts, to a letter from Senator Pat Harrison dated January 9, requesting the Department's views on S. 147, a bill to amend the Social Security Act to standardize the amount to be contributed by the United States for old-age assistance. - Mr. Murphy, Mr. Reagh
15. At the request of Mr. Heffelfinger on February 3, there is being reviewed a proposed reply, prepared by the Bureau of Accounts, to a letter from Senator Pat Harrison dated January 9, requesting the Department's views on S. 161, a bill to amend the Social Security Act to provide for a larger Federal payment to the States for old-age assistance. - Mr. Murphy, Mr. Reagh

Revenue Estimates

I. Projects or studies completed

1. The regular monthly statement was prepared for the Bureau of Accounts, showing the latest revised estimates of receipts, by months and by principal sources of revenue, for the period February 1941-June 1942, and was transmitted on February 10. - Mr. Delcher

2. The regular monthly summary comparison of estimated receipts and actual receipts in January 1941 on the daily Treasury statement basis, was prepared. - Mr. Delcher
3. The regular monthly detailed comparison of estimated and actual receipts in January 1941, and for the period July 1940-January 1941, based on the collections classification, was prepared. - Mr. Delcher
4. Preliminary revised estimates of the population of the Continental United States as of the end of each month from July 31, 1941 through June 30, 1942, based on the revised population figures of the 1940 Census, were prepared, and were transmitted on February 1 to Mr. Weber, and on February 5 to Miss Barr. - Mr. Bronfenbrenner
5. At the request of Mr. Maxwell, Bureau of Accounts, on February 24, there was reviewed and returned to him on February 26, a memorandum for Under Secretary Bell reviewing the proposal by the Commissioner of Internal Revenue for discontinuing the segregation of defense tax collections by the Bureau of Internal Revenue. - Mr. Haas, Mr. O'Donnell, Mr. Murphy
6. At the request of the Division of Tax Research on February 6, a review was made, and was transmitted in a memorandum to Mr. Blough on February 17, of table outlines for tabulations of data from partnership returns of income for 1939, submitted by Mr. Atkeson, together with a copy of a suggested reply to Mr. Atkeson. - Mr. O'Donnell
7. In response to two requests from the Division of Tax Research on January 24, a memorandum was prepared, and was transmitted to Mr. Blough on February 19, reviewing table outlines submitted by the Statistics Section of the Bureau of Internal Revenue, for certain tabulations from (1) individual and fiduciary income tax returns for 1938, and (2) partnership income tax returns for 1939. - Mr. Bronfenbrenner
8. At the request of Assistant Secretary Sullivan on February 13, for use in the hearings before the Committee on Ways and Means of the House of Representatives, on the "Public Debt Act of 1941", revenue estimates were prepared, and were transmitted to him on that date, of the eventual increases to be expected when the interest on all indebtedness authorized by the bill shall be subject to Federal income taxes, on the assumption that the interest from State and local governmental securities would remain tax-exempt. - Mr. Bronfenbrenner, Mr. Leahey

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9. In connection with the hearings on the "Excess Profits Tax Amendments of 1941", at the request of Assistant Secretary Sullivan on February 12, revenue estimates were prepared in tabular form, and were transmitted to him on February 24, of the net decrease in corporation excess-profits taxes which would result from (1) a provision to allow taxpayers to carry forward for two years the unused excess-profits credit of any excess-profits taxable year; and (2) a provision to permit corporations which were so-called "growth corporations" to utilize an alternative method of computing their excess-profits tax credit for excess-profits tax purposes. - Mr. Leahey
10. At the request of Assistant Secretary Sullivan on February 20, for use in an address, an estimate was prepared, and was transmitted on February 21 of the eventual net increase in Federal revenues if the interest from future issues of State and local governmental securities also is made taxable. At the same time, there was given him an estimate of the total net increase in revenue of the Federal Government from the provisions of the Public Debt Act of 1941, plus the increase from future issues of State and local governmental securities if made taxable also. - Mr. O'Donnell
11. In connection with the proposed revision of the revenue laws in 1941, at the request of the Division of Tax Research on January 27, an estimate was made of the revenue effects of the adoption of three proposed changes in the individual income tax surtax rate schedules, showing separately the amounts attributable without and with the Defense tax. The estimate was transmitted to Mr. Blough on February 11. - Mr. Bronfenbrenner
12. A review of tentative plans for a WPA statistical project in connection with work on the excess-profits tax, was discontinued upon abandonment of the WPA project. - Mr. T. F. Leahey
13. As one of a series of projects for revising and improving methods of estimating revenues, a study was completed of the gasoline tax. - Mr. Daggit, Mrs. May, Mr. Smith

II. Projects or studies under way

1. At the request of the Division of Tax Research on July 12, an estimate is being made of the additional revenue which would be derived if mutual insurance companies other than life insurance companies taxable under Section 207 of the Internal Revenue Code were made taxable in the same manner as stock insurance companies other than life insurance

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companies taxable under Section 204, and at the same time the exemption under Section 101(11) were restricted to local mutual companies of the assessment type. - Mr. T. F. Leahey

2. At the request of the Division of Tax Research on February 12, a review is being made of table outlines submitted by Mr. Atkeson, Bureau of Internal Revenue, for an advance tabulation from form 1121 for 1940, relating to the excess-profits tax returns. - Mr. Leahey
3. An estimate of miscellaneous internal revenue (excluding capital stock and estate and gift taxes) is in process for the fiscal years 1941 and 1942. - Mr. Daggit, Mrs. May
4. Projects for revising and improving methods of estimating revenues from the following taxes: - Mrs. May, Mr. R. R. Smith
 - (a) Telephone and telegraph, radio and cable facilities, leased wires, etc.
 - (b) Automobile trucks.
 - (c) Tires and inner tubes.
 - (d) Bituminous coal.
 - (e) Distilled spirits, domestic.

Economic Conditions Related to Fiscal
and Revenue Matters

I. Projects or studies completed

1. Memoranda on the business and price situation were prepared, and were transmitted to the Secretary on February 10, 18, and 24. - Mr. Haas, Mr. Daggit, Mrs. May, Mr. Chevraux, Mr. Smith

These memoranda contained in addition to analysis of the current situation the following special studies:

- (a) A study of the current purchasing power of national income compared with the 1929 level, monthly, from January 1937 to date. (Chart in memorandum of February 10. Also described below under Economic Conditions, I, as item 9.) - Mr. Daggit, Mrs. May

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- (b) An analysis of the railway situation, including the volume of freight traffic, the net operating income, and railway equipment purchases, monthly, from January 1939 to date. (Chart in memorandum of February 18. Also described below under Economic Conditions, I, as item 12.) - Mr. Chevreux
 - (c) A comparison of earnings of industrial corporations with the new FRB index of industrial production, 1935-39=100, from 1933 to date. (Chart in memorandum of February 18. Also described below under Economic Conditions, I, as item 11.) - Mr. Daggit
 - (d) A comparison of the movement of prices of imported and domestic commodities, weekly, from January 1940, and daily, from January 1941 to date; and the percentage change for the individual commodities from August 1940 low to 2 selected current dates. (Chart in memoranda of February 18 and 24. Also described below under Economic Conditions, I, as item 8.) - Mr. Daggit, Mrs. May
 - (e) A study of the relation between national income payments, 1929=100, and the FRB index of department store sales, 1923-25=100, annually, from 1932, and monthly, from January 1937 to date. (Chart in memorandum of February 24. Also described below under Economic Conditions, I, as item 10.) - Mr. Daggit
2. Memoranda on employment under the Work Projects Administration were prepared, and were transmitted on February 3, 10, 17, and 26. - Miss Hagedorn
 3. In accordance with arrangements previously made, an estimate of employment in the airplane industry by geographic areas for January, was prepared. - Mr. Tickton
 4. At the request of the Secretary, a table is prepared each week summarizing exports of petroleum products, scrap iron, and scrap steel, from the United States to Japan, the U.S.S.R., Spain, and Great Britain, as indicated by departure permits reported daily by the Office of Merchant Ship Control. The tables were prepared for the weeks ending February 1, 8, 15, and 22. On February 3, 10, 17, and 24, the original and 13 photostats were transmitted to Assistant Secretary Gaston. In addition, each week two photostats were transmitted to Mr. Young, one of which was for Mr. Purvis. - Mr. Tickton, Mr. D. J. Leahy

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5. Compilations were made of daily quotations on selected commodities and daily and weekly figures on selected business indexes, foreign and domestic security transactions, security prices, exchange rates, as well as other data for the Secretary's chart book. - Mr. Chevreux
6. Comments were prepared on the commodity situation as of February 5, 11, 19, and 26, for information in connection with the Friday meetings of February 7, 14, and 28. - Mr. Daggit, Mrs. May
7. At the request of the Secretary on February 12, a summary was made of recent price changes of individual commodities, and was incorporated in a memorandum and charts transmitted to the Secretary on the same date. - Mr. Daggit, Mrs. May
8. A study was made of the movement of the BLS index of 28 basic commodities, comparing the trends of prices of imported and domestic commodities. A new chart showing the combined indexes, weekly from January 1940, and daily, from January 1941 to date; and the percentage change for the individual commodities from the August 1940 low to 2 selected current dates, was used in connection with the business memoranda of February 18 and February 24. This chart was listed under Economic Conditions, I, as item 1(d). - Mr. Daggit, Mrs. May
9. A study was made to determine the current purchasing power of national income compared with the 1929 level. National income payments (the Department of Commerce index, 1929=100, adjusted, expressed as a dollar value on an annual basis) from 1929 to date, were related to the NIOB cost-of-living index, 1929=100. A chart showing monthly figures from January 1937 to date was used in connection with the business memorandum of February 10, and was listed under Economic Conditions, I, as item 1(a). - Mr. Daggit, Mrs. May
10. A study was made of the relation between national income payments (the Department of Commerce index, 1929=100, adjusted, expressed as a dollar value on an annual basis) and the FRB index of department store sales (1923-25=100, adjusted). A chart showing the two series annually from 1932, and monthly, from January 1937 to date, was used in connection with the business memorandum of February 24, and was listed under Economic Conditions, I, as item 1(e). - Mr. Daggit.

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11. A study was made comparing earnings of industrial corporations (computed from Standard Statistics data) with the new FRB index of industrial production, 1935-39=100. A chart showing quarterly figures from 1933 to date was used in connection with the business memorandum of February 18, and was listed under Economic Conditions, I, as item 1(c). - Mr. Daggit
12. An analysis of the railway situation was made showing the volume of freight traffic, the net operating income of the railroads, and railway equipment purchases, monthly, from January 1939 to date. A chart presenting the results of this study was used in connection with the business memorandum of February 18, and was listed under Economic Conditions, I, as item 1(b). - Mr. Chevraux
13. At the request of Assistant Secretary Gaston on February 4, a letter was drafted for reply to a telegram of January 31 from Mr. F. R. Marshall, National Wool Growers Association, comparing the current increase in prices of woolen goods with raw wool price increases and with the increase in prices of all farm products. The draft was transmitted to the Assistant Secretary, and was mailed on February 4. - Mr. Haas, Mr. Daggit
14. At the request of Mr. Buckley on February 10, a memorandum, with tables, was prepared, and was transmitted to him on February 14, with respect to certain comparative export and price data on leather, and shoe prices, as a basis for consideration of export control. - Mr. Daggit, Mrs. May
15. At the request of the Secretary on February 12, there were transmitted to him on February 17, a memorandum prepared by Mr. Ginsburg of the National Defense Commission on the proposed "Emergency Priorities and Rationing Act of 1941", together with a chart prepared in this Division from information supplied by Mr. Ginsburg and Mr. Hamm of the Defense Commission, showing by a specific example of zinc supply and demand in the first half of 1941, "The Need for Power to Ration Civilian Demand in order to Maintain Price Stability". Three photostats of these data and chart were given Miss Chauncey on February 18, for transmittal to the President, the Attorney General, and Mr. Henderson. - Mr. Haas
16. At the request of the Secretary on February 27, a memorandum from Mr. Hamm of the Defense Commission on ocean freight rates was transmitted to the Secretary on February 28. - Mr. Haas

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II. Projects or studies under way

1. An attempt is being made to improve our information on the volume of unfilled orders by working out a composite index of unfilled orders based on data from individual industries. - Mr. Daggit
2. A project is under way concerning forces determining trends of basic commodity prices, which involves a study of (1) the forces determining general commodity prices and (2) the forces determining the prices of individual commodities.

With respect to (1), general commodity prices, an analysis is in process of disparities between demand and production as a basic price factor which, under excessive war demand, might lead to inflation. For use in this analysis two indexes of demand are being constructed: An index of export demand which expresses the exports of manufactured goods in physical volume, and the index of consumer buying in terms of physical volume, which is part of the project on measures of consumer buying listed as item 3 below.

With respect to (2), prices of individual commodities, shipments of a given commodity, or deliveries to consumers, are taken as a measure of demand, to be compared with production. Ten basic commodities have been selected tentatively for study, and this work is in process. - Mr. Daggit, Mrs. May, Mr. Smith, Miss Hagedorn

3. A project on measures of consumer buying is under way, with the object of developing three indices: (a) and (b) two indices to measure the buying power of consumers in terms of physical volume of purchases; and (c) an index to measure changes in total consumer expenditures, in dollar volume. These indices will supplement our present "index of sales", which is designed to measure the "off-take" of manufactured goods into various consumption channels.
 - (a) Studies on a monthly basis have been completed on individual components of the physical volume index of consumer buying power, entitled "Index of consumer demand for a selected group of consumer goods". This index is corrected for the effect of price changes from 1935 to date. Weights have been assembled and the index is ready for final computation and final seasonal adjustment.

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- (b) Further progress has been made on the second physical volume index of consumer buying power, entitled "Index of potential consumer purchasing power". This index is corrected both for the effect of price changes and for the effect of changes in the national income.
- (c) With respect to the "Index of consumer expenditures in dollar value", further progress has been made in developing individual series, in determining their suitability for inclusion and the necessary adjustments. These series have been classified in two broad groups: durable goods and non-durable goods. The purpose of the index is to cover as large as possible a proportion of the purchases of ultimate consumers. - Mr. Daggit, Mrs. May, Mr. Colclough, Mr. Smith
4. A better index of inventories of finished goods is needed as an indication of business maladjustments, with a breakdown as between inventories of finished goods held by manufacturers and those held by others. An attempt to develop such an index is under way. - Mr. Daggit
5. A study of the volume of installment buying and consumer credit has nearly been completed. This study is designed eventually to provide a monthly index of the volume of buying on deferred payments, which at times is an important business factor. It is in abeyance at present, pending publication of a new study by the Department of Commerce. - Mrs. May
6. A project in process is designed to develop an index of industrial production that will indicate week by week the approximate level of the FRB index. It will include a larger number of weekly series than are included in any current business indices, with weightings and seasonal adjustments approximating those in the FRB index. - Mr. Daggit, Mr. Smith
7. Progress was made on a study of the relationship between the New York Times revised index of business activity and the new FRB index of industrial production in an attempt to forecast the weekly level of the FRB index from the New York Times index. - Mr. Daggit, Mrs. May, Mr. Colclough
8. At the request of Under Secretary Bell on January 29, a memorandum for the Secretary is being prepared, illustrated by five charts, on the possibility of a freight car shortage

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in October 1941, when car loadings are at their seasonal peak, and containing a forecast of freight car loadings for October, a forecast of the number of freight cars that may be required, and outlining steps which would alleviate or prevent such a shortage.-Mr. Daggit, Mr. Chevraux

Actuarial Problems

I. Projects or studies completed

1. An actuarial report of the Board of Actuaries of the Civil Service Retirement and Disability Fund on the cost of the provisions of S. 4407, a bill to amend the Civil Service Retirement Act to provide for certain added benefits, was approved and transmitted to the Civil Service Commission on February 3. - Mr. Reagh, Mr. Brown
2. In cooperation with the members of the staff of the Social Security Board, there was completed the final draft of the first annual report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund. The copy, together with letters of transmittal signed by the Secretary of the Treasury and the Chairman of the Social Security Board, was sent to the Secretary of Labor for her signature on February 21. - Mr. Reagh, Mr. Murphy, Mr. Brown
3. At the request of the State Department on February 21, preliminary estimates were prepared of the cost of a proposed amendment to the Foreign Service Retirement Law, and were transmitted in a letter to the State Department on February 28. - Mr. Reagh
4. In response to a request from the Farm Credit Administration on October 10, assistance has been given in devising a retirement system covering field employees in that organization. Several conferences were attended by a member of the staff. - Mr. Reagh
5. A letter addressed to the Honorable Robert Ramspeck, Chairman, Committee on Civil Service, House of Representatives, was prepared for signature of the Administrative Assistant to the Secretary, and was mailed on February 11, stating that inasmuch as the enactment of H.R. 1847, in its present form, would affect the functions of the Treasury Department, the Department would appreciate an opportunity to express its views if the Committee contemplates active consideration of the bill. - Mr. Reagh

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II. Projects or studies under way

1. The Board of Actuaries of the Civil Service Retirement and Disability Fund is laying out detailed plans for tabulating and processing data for use in preparing the regular five-year valuation of the Civil Service Retirement Fund for the purpose of determining the liabilities of the Government under the Civil Service Retirement law. Under the law, such a valuation must be prepared as of July 1, 1940. - Mr. Reagh, Mr. Brown, Mr. Kroll
2. At the request on December 19 of Mr. John P. Kiley of the Chicago Division Technical Staff of the Bureau of Internal Revenue, further assistance is being given in preparation of material for use in an income tax case involving the payment of the proceeds of life insurance policies in installments. - Mr. Reagh, Mr. Brown
3. The Foreign Service Retirement law, as approved April 24, 1939, Section 26(m), provides that the "Treasury Department shall prepare the estimates of the annual appropriations required to be made to the Foreign Service Retirement and Disability Fund and shall make actuarial valuations at intervals of five years, or oftener if deemed necessary by the Secretary of the Treasury". An outline of the data required for making an actuarial valuation has been submitted to the State Department. A preliminary estimate of the appropriation required for the fiscal year 1942 has been prepared, and has been submitted to the State Department. - Mr. Reagh, Mr. Brown
4. At the request of the State Department on February 21, a statement is being prepared commenting upon an amendment proposed by Representative Bloom to extend widows' benefits under the Foreign Service Retirement Law, to the widows of officers who died before July 1, 1939. - Mr. Reagh

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6. At the request of the Bureau of the Budget on February 3, assistance will be given in the revision of a draft of a bill designed to correct several objections to Public No. 847, 76th Congress, "An act to provide for the retirement of certain members of the Metropolitan Police Department of the District of Columbia, the United States Park Police Force, the White House Police Force, and the members of the Fire Department of the District of Columbia".- Mr. Reagh

Other Projects or Studies

1. Publications

- (a) For the February issue of the Treasury Bulletin data were prepared on average yields of long-term Treasury bonds and high-grade corporate bonds. - Miss Eyre

All the material submitted for the February issue was reviewed and edited. - Mr. Lindow, Miss Eyre

- (b) For the publication Market Prices and Yields of Outstanding Bonds, Notes, and Bills of the United States, computations were made and copy was prepared for the issue covering the month of January. This publication shows by securities the rates of interest, maturities, interest payment dates, and amounts outstanding; and for each day of the month, together with a monthly average, closing market quotations (accrued interest to be added), and yields. Quotations of closing prices for Treasury bonds are from the New York Stock Exchange and are furnished by the Federal Reserve Bank of New York. Bid and asked prices for Treasury notes and bid and asked discount for Treasury bills are received from dealers in New York City. All yields are calculated to the call and maturity dates. - Mr. Moody, Miss McCoy
- (c) Work has been begun on the preparation of a cumulative subject index of Treasury publications since the establishment of the Department, covering (1) Annual Reports of the Secretary, (2) other publications issued by the Department, including annual reports of the bureaus and offices in the Department, and (3) material prepared in the Treasury Department which was published in Congressional documents, hearings before Committees of Congress, or the Congressional Record. - Miss Westerman

- 26 -

- (d) At the request of Assistant Secretary Gaston on October 18, an article was prepared on the operations of the Treasury Department during 1940 to be incorporated in the 1941 Americana Annual, and was transmitted in a letter signed by Assistant Secretary Gaston on February 5. - Mr. Tickton, Mrs. Wolkind
- (e) At the request of the Administrative Assistant to the Secretary on January 23, a review was made of the material in the United States Government Manual relating to national defense activities in the Treasury Department. A suggested substitute was prepared, and was transmitted under cover of a memorandum to Mr. C. S. Bell on February 3. - Miss Ziegler
- (f) Galley proof of sections on the business outlook and commodity price trends for the March issue of the Federal Reserve Bulletin was reviewed at the request of Assistant Secretary Gaston on February 27, and was returned to him on that date. - Mr. Daggit
- (g) Copy for the extract on the Treasury Department from the Congressional Directory of January 1941, is being prepared for transmittal to the Government Printing Office. - Miss Westerman

2. Correspondence

Replies were prepared to letters received on subjects relating to the work of the Division, and letters drafted elsewhere and submitted to the Division for that purpose were reviewed. - Miss Michener, Miss Ziegler, and other members of the staff in appropriate fields of work.

During February 493 letters were received in the Division and 485 were handled as required.

3. Charts

Charts are prepared and continually brought up to date for use in memoranda and in chart books on special subjects, and corresponding photographic, photostatic, and multilith work is carried on. This is done in the Graphic Section under the supervision of Mr. Banyas. A statistical report on the work of the Graphic Section for the month of February is attached.

Work completed in the Graphic Section, Division of
Research and Statistics, during February 1941

Type of work	For Division of R & S	For Others	Total
<u>Graphic:</u>			
<u>New Charts:</u>			
Total charts completed	49	8	57
Bond book charts completed	60	-	60
<u>Charts brought up to date:</u>			
3 bond chart books brought up to date	22 (times)	-	22 (times)
All other charts brought up to date	716	24	740
<u>Miscellaneous:</u>			
Total jobs	25	11	36
<u>Photographic:</u>			
<u>Photographs:</u>			
Total jobs	68	53	121
Number of-			
Negatives	172	60	232
Contact prints	187	60	247
Enlargements	247	361	608
<u>Photostats:</u>			
Total jobs	141	23	164
Number of-			
Lettersize copies	1,235	353	1,588
All other copies	10,728	220	10,948
<u>Multilith:</u>			
Total jobs	13	2	15
Number of-			
Zinc plates	83	8	91
<u>Miscellaneous:</u>			
Total jobs	21	10	31

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Statistical Report on Work Completed by the
Graphic Section, Division of Research and Statistics, by months,
beginning January 1941.

90

Type of work	Jan.	Feb.	March	April	May	June	Total
A. Graphic:							
New charts completed	50	57					
Charts brought up to date	734	740					
Read book charts completed	-	60					
3 bond books brought up to date	26 (times)	22 (t)					
Miscellaneous jobs	35	36					
B. Photographie:							
<u>Photographs:</u>							
Total jobs	105	121					
Number of-							
Negatives	153	232					
Contact prints	224	247					
Enlargements	209	605					
<u>Photostats:</u>							
Total jobs	167	164					
Number of-							
Lettersize copies	746	1,588					
All other copies	10,828	10,948					
<u>Multilith:</u>							
Total jobs	8	15					
Number of-							
Zinc plates	100	91					
<u>Miscellaneous:</u>							
Total jobs	16	31					

LBwlt
2-3-41

3-5-41

For Miss Channing

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 1, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns.....£62,000

Purchased from commercial concerns.....£35,000

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

Sold to commercial concerns.....£ 1,000

Purchased from commercial concerns..... - 0 -

This morning's newspapers carried reports that the Canadian dollar would be placed at par with the United States dollar through a foreign exchange agreement between this country and Canada. On the strength of these reports, the Canadian dollar improved to a discount of 12-3/16% by this afternoon. Just before the close, however, the President stated that he had never heard the suggestion that the United States and Canadian currencies be pegged dollar for dollar by official action. When this news reached the market, the rate started to ease. The final quotation was 12-3/8%, as compared with 14-3/4% last night.

In New York, the closing rates for the foreign currencies listed below were as follows:

Swiss franc (commercial)	.2322
Swedish krona	.2384-1/2
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2320
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	4-1/8% discount

In Shanghai, the yuan was unchanged at 5-9/32¢. Sterling was again quoted at 3.92-1/2.

There were no gold transactions consummated by us with foreign countries today.

No new gold engagements were reported.

In London, the prices fixed for spot and forward silver were both unchanged at $23\frac{1}{2}d$ and $23\frac{7}{16}d$, respectively. The U. S. equivalents were 43.67¢ and 42.56¢.

Handy and Harman's settlement price for foreign silver was unchanged at $34\frac{3}{4}¢$. The Treasury's purchase price for foreign silver was also unchanged at 35¢.

We made seven purchases of silver totaling 668,300 ounces under the Silver Purchase Act. Of this amount, 635,000 ounces consisted of new production from foreign countries, for forward delivery. The remaining 33,300 ounces represented new production silver from Java, which was sold to us for spot delivery.



CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 1, 1941.

TO Secretary Morgenthau
FROM Mr. Haas

Mr. Gano Dunn is ill in New York City and I, therefore, have not been able to discuss the steel report with him, as you requested.

I thought you would be interested in the attached article on steel capacity which appeared in the April issue of Fortune magazine. As you no doubt have noted, several of the periodicals have been critical of the conclusions reached in the Dunn report.

Steel Capacity

The industry and the President protest with a single voice: "There is plenty, plenty." The grim account books of war record: "There is never enough."

IN THE destiny of a nation, what is the meaning of steel capacity? It is the prime index of a nation's ability to provide for itself industrially in peace and in war. There are other vital indexes, but none nearly so vital as steel. The metal—product of the marriage in high heat of iron ore and coke and limestone—is the universal stiffener of war and peace economies, the classic factor in the calculations of economists. Without steel capacity no nation can aspire to first rank, and the concentration of productive facilities among the technically superior powers can be judged from the fact that approximately 90 per cent of the 1939 production was confined to half a dozen nations. The U.S. alone produced more than 35 per cent. Germany, including the conquered territories of the Saar, Austria, Czechoslovakia, and Poland, produced 20 per cent, the U.S.S.R. 14 per cent, the United Kingdom 10 per cent, France 6 per cent, and Japan 5 per cent. Leaving only 10 per cent—a matter of roughly 15 million tons out of an annual output of 150 million tons—for the rest of the world.

Starting with a prewar capacity of 82 million tons, what has the U.S. to fear from war—especially this new kind of war, fought not so much with conscript masses as with conscript industries, conscript al-

loys, conscript technical skills and imagination? Nothing at all, say the men who manage the steel mills. This has been their steady answer since the onset of the crisis—since the first heavy British and French buying in the spring of 1940. The superimposition of the U.S. defense load has not caused them to alter their position. They compare January production of 6.9 million tons—the highest in the nation's history—with a World War I peak monthly production of 4.1 million tons and the 1929 high of 5.3 million tons.

Even for a nation numbed by industrial statistics, the figures for steel roll with the sound of thunder. According to the American Iron and Steel Institute, some eighty score companies representing 95 per cent of U.S. steelmaking capacity are this year spending \$282 million on new plant. The biggest single program is Bethlehem Steel's, as noted in the preceding article. Altogether an estimated 3.4 million tons will be added to existing U.S. capacity.

Is this enough for the task that is undeniably ahead of us? Despite the calm statistic toting of the experts, the impregnable confidence of the steel industry itself, there has been a definite tightening in the situation. British buying has gone up and up—from 110,000 tons of ingots and semifin-

ished steel in 1939 to 3.4 million in 1940, and this year it was expected to approach six to eight million tons. The newspapers and the conference rooms of industry have been full of talk about shortages, at hand or impending. Figures of capacity are one thing: structural shapes and bars, billets and wire rods, on the unloading platforms behind the factory are something else. And within the New Deal a group of angry and persistent economists, reckoning on a maximum ingot production of 84.2 million tons for 1941, and a demand far in excess of that, have been storming the OPM and the White House for at least a 10 per cent increase in capacity.

The strain between the realities of deliveries and statistical reassurances became so intense that finally Mr. Stettinius, the priorities head in OPM, and the President himself had to take cognizance of it. A thoroughgoing survey of steel capacity was ordered, and the outcome was the so-called Dunn report, released February 28. It was the work of Gano Dunn, senior consultant of OPM's production division, head of J. G. White Engineering Corp., a conscientious, able engineer. The circumstances surrounding the release of the report were ironical enough, as the anecdote in "The State of Defense" on page 40 illustrates.

TO EXPAND STEEL CAPACITY 10 PER CENT (COST: \$1 — \$1.5 BILLION) YOU NEED:

13 coke-oven
batteries—
capacity
3 700,000 tons



12 blast
furnaces—
capacity
4 250,000 tons



76 open-hearth
furnaces—
capacity
8,500,000 tons



Elmer Smith

Regraded Unclassified

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12 blast
furnaces—
capacity
4,250,000 tons



76 open-hearth
furnaces—
capacity
8,500,000 tons



Elmer Leach

Regraded Unclassified

But the essential irony was in the document itself. Had it been prepared by the steelmasters, it could not have presented their arguments more convincingly. And when Mr. Roosevelt, beaming over the weighty calculations, proceeded to banish the specter of a steel shortage with a blitheness that the most opinionated steelman would not have dared to indulge in public, the irony was complete. For the first time in the memory of the New Deal the Administration and the steel industry found themselves talking the same language.

The case for the status quo

THE Dunn report runs to eighty typed pages plus tables and charts, but it can fairly be summed up in a sentence: *the U.S. has no need to worry about steel—it can take care of its requirements and Britain's.* This reassuring and startling conclusion was reached without apparent use of mirrors. Mr. Dunn estimated a maximum demand of 77.5 million tons for 1941. He arrived at this total by adding the war estimates of the army, navy, Maritime Commission, and the British Purchasing Commission to a civilian need calculated on the basis of the rise in steel demand with the rise in national income.

The total estimated needs for defense

plus export—chiefly to Great Britain and Canada—are estimated at 16.8 million ingot tons, broken down thus: 3.1 million tons for the U.S. Army, Navy, and Maritime Commission; 9.6 million tons for Britain; 1.8 million tons for Canada; and 2 million tons for other foreign buyers. This estimate for Britain, incidentally, is considerably higher than was predicted by the steel industry. On the basis of an estimated \$80 billion national income, Mr. Dunn figures the 1941 civilian demand at 61 million tons, according to a complicated formula worked out by the well-known steel economist, Melvin G. de Chazeau. This \$80 billion income level is the high-water mark anticipated by Administration economists. If it should actually be only \$77 billion, the OPM report assumes a civilian demand of only 57 million tons.

This is the picture as Mr. Dunn sees it for 1941. In 1942, with the current program whirling to a climax and the national income approaching a maximum of \$90 billion, he foresees a total U.S. defense demand of 4.5 million tons, an export demand of 14.5 million tons, and a total civilian demand of 70 million tons. Or a total of 89 million tons for 1942.

Where does Mr. Dunn expect to find capacity enough to meet the needs of life and war? According to him, actual reliable capacity, as of the beginning of 1941, was

87.6 million tons—or 3.1 million tons in excess of the accepted industry figures. The higher figure was reached in part by reducing by 2.5 per cent the industry's standard 10 per cent allowance for production loss due to shutdown for repairs. Speeding up the overhaul period (since cost is now of less consequence), Mr. Dunn says, would add 2.1 million tons to annual capacity. And an additional 1.4 million tons of capacity can be tapped in scattered steel foundries that are not included in the steel industry's total.

If these estimates of total maximum requirements in 1941 are correct, the U.S. steel industry, on this basis, should have a margin of 10.1 million tons in capacity. As to 1942, the pinch obviously will be close. But figuring on the addition of 3.5 million tons as a result of the new plant now building, Mr. Dunn projects a total capacity of 91.1 million tons for that year—a margin of 2.1 million. In addition, he points to the capacity to be had in the old Bessemer converters, which have lain unused for years. The Bessemers still in existence have a capacity of 7.6 million tons, of which barely half was in use last year. Hard pressed, the steelmasters could turn to them for, among other items, reinforcing bars, barbed wire, nails, and low-grade pipe, freeing the open hearths to that extent for more exacting production. The chief fault of the Bessemers was uncertain temperature control.

IT WOULD TAKE A LOT OF MONEY, MATERIALS, MEN—AND TIME

Ten per cent expansion of steel capacity may not sound particularly impressive; actually it is so vast an undertaking that nobody has been able to calculate its effect upon the country. It might cost a billion—or a billion and a half. It might create a new series of bottlenecks through diverting men and materials from other hurry-up projects of the defense program to set up the additional facilities. It certainly could not be done quickly. Here are a few reasons why:

More iron ore mines in Minnesota and Michigan would have to be opened; more railroad cars made available to carry the ore to Lake Superior docks; more ships built to transport the ore cargoes. Still more railroad cars would be needed to haul coal and limestone from the mines to the plants.

Coke ovens would have to be built as shown here. Time required: two years or more. Also blast furnaces and open hearths and accessories. Time: two to four years. And these ovens and furnaces

would require 1.2 to 1.4 million tons of steel in construction. More important in this regard, and far more expensive, there would have to be more rolling, finishing, and structural mills. And these are only the most obvious essentials. This program, as symbolically pictured below, is based on an estimated cost of \$1,500,000,000.

The reluctance of the steelmen and the defense strategists to expand can thus be understood. And the job may have to be tackled all the same.



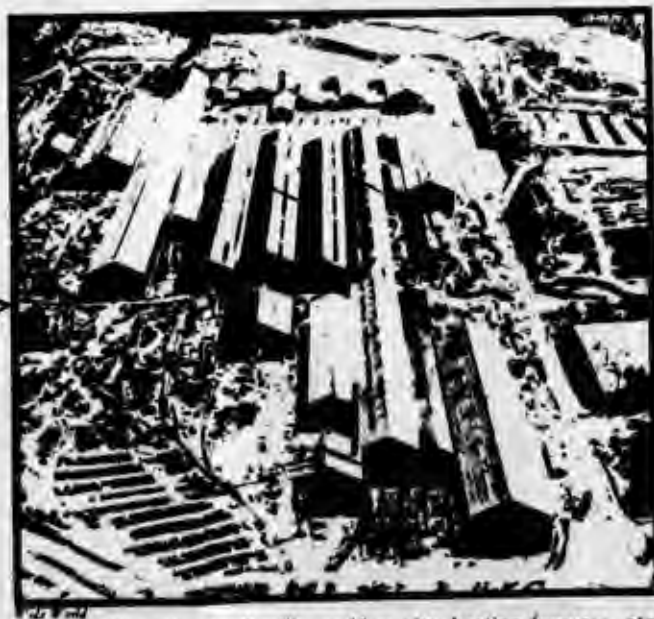
\$50-\$60 million



\$65-\$70 million



\$85-\$90 million



BUT at least four-fifths of the cost would be in rolling, finishing, structural mills, soaking pits, heating furnaces, etc.

has the new Jones & Laughlin flame-control method, based on the electric eye, has reduced the hazards, and a number of companies, notably Republic and Youngstown Sheet & Tube, have taken out licenses to use the new method.

MR. DUNN, although always conservative, has stretched his estimate of "reliable" capacity. Since the new plant expansion is already in full swing and since it takes twelve to eighteen months to build an open-hearth furnace, it is clear that the question of how well we shall fare in the critical year 1942 depends upon whether the demand for steel parallels the Dunn estimates. This may well be the case; the British may be able to stay afloat with the help of the tonnage tentatively earmarked for them—the U.S. Army and Navy may be satisfied with their present quota; the Maritime Commission may not demand more plate for ships; and the civilian demand may flow and ebb submissively to the rhythm of the national income.

The Dunn report assumes that all will be satisfied, just as it assumes that the potential bottlenecks that stand in the way of achieving "reliable" capacity will be overcome. Such bottlenecks, for example, as the shortages of pig iron and coke. (Bethlehem, as described on page 154, is in fact importing coke from Great Britain.) And it stands to reason that if the pinch for war steels should become intolerable, immediate results could be obtained by a severe and intelligent rationing of the 79 per cent of production allocated to civilian use.

Since the steel industry thinks in the same terms, one can understand why it heaved a sigh of relief when the Dunn report was finally disclosed. The industry has consistently scoffed at the scary rumors of shortages, arguing that the apparent "tightness" was temporary and largely attributable to panicky if not downright selfish inventory buying. And the fair-minded citizen will sympathize with its reluctance to embark upon a terribly costly and probably uneconomic expansion. To superimpose upon present capacity the minimum 10 per cent increase urged by the New Dealers would cost from a billion to a billion and a half dollars; and in creating it a whole new series of bottlenecks, arising from the diversion of men and materials, might be introduced into the economy—a telling argument. Steelmen have tenacious memories. In 1932, after one spurge of expansion, the industry was able to scrape up business for only 19.5 per cent of capacity. Between 1933 and 1938, production was at the rate of less than 50 per cent.

If this were all there was to the problem of steel—if we could in justice to our role as a great world power count upon the progress of the war and the economic cycle leaving us that water-thin margin charted in the OPM report, then there could be no ground for quarrel with Mr. Dunn or with the steelmen. But is this the proper attitude for a nation starting to rearm

eight years after its potential enemy? The only good wars are those decided decisively and quickly. Our capacity, by any standard, is immense. But the potential is greater yet. Shall we start on this job content with a near and comfortable horizon? Or shall we say, this is what we must have to be sure.

The alternative

THE fatal weakness of the Dunn report is not in what it says. It is in what is left unsaid. In its core assumptions it ignores what is actually happening in steel now, and what will inevitably happen if the nation ever goes full out on a war program. In contrast with the report itself, there are actual or impending shortages in various types of steel—notably structural, plate, and electric steels. The steel rate at the beginning of March was running at 97 per cent, indicating how closely demand is pressing capacity. The automobile industry will almost certainly have its supply cut sharply by summer. And it is a well-known fact that many big steel producers, harassed by the present system of voluntary priorities, would welcome rationing.

These are hardly the symptoms of an industry with a comfortable margin. Scared inventory buying may account for some of them, but the fact remains that backlogs, instead of diminishing, continue to pile up, and the timetable for deliveries is being pushed weeks ahead—fifteen to sixteen weeks on the average. The shortages are most ominous in the electric-furnace steels, key defense metals since they include tool, stainless, and roller-bearing steels, and steels for dies and certain types of armor plate and gun forgings. And completion of the two-ocean navy depends upon the uninterrupted stepping up of heavy armor-plate capacity. But there is no margin left for a timetable not of our choosing.

This is the story running through steel, and while some of the "tightness" may be due to inventory stocking, it may actually represent the emergence of the first inescapable characteristics of a war economy. No man or group of men could hope to tell within millions of tons how much steel the U.S. may need if it goes to war—or even to keep Britain in action. With its conquered territories Germany now has, on the basis of 1939 figures, a production of 44 million tons against 16.5 million for Britain and Canada. To give Britain anything approaching parity in metal is a manifest impossibility—even if she or we had the bottoms to carry it. Certainly, the 10.5 million tons earmarked for her in 1942 are not apt to be a decisive factor, and the fact that the trend of British orders may be toward fabricated steel, which would reflect the bombing out of their own fabricating capacity, means an added burden upon our already overtaxed fabricating facilities.

Direct military needs for steel for ships, guns, tanks, planes, etc., can be estimated fairly accurately. The question is not whether Mr. Dunn's figure of 4.5 million

tons for 1942, based on the present program, is enough. The fundamental question is: Is the defense program itself enough to deal with an enemy who has reportedly used 75 million tons of steel in rearmament? And arrival at any precise figure is complicated by the fact that indirect military requirements are unpredictable and may run twice as high as the direct. Military roads, barracks, bridges, hangars, housing, new and expanded plants to manufacture war goods or goods to make war goods—all these need steel and are part of the war program, though not labeled as military tonnage. If they were, the military-steel figures could read at least 8 million tons.

THE FAILURE of the Dunn report was the failure to allow for the unfathomable needs of war or to answer the arguments of the intense New Dealers, who maintain that no war is worth fighting if it means destroying at home the things we are resolved to preserve in principle. They refuse to separate the war program from their economic planning for the future; they want expansion to take up the slack in unemployment, rather than cut down civilian consumption, which at worst would mean more unemployment and at best a shifting of workers into war industries. In fairness to Mr. Dunn, let it be said that it was not his assignment to resolve these perhaps irreconcilable forces; and so far as the New Dealers are concerned, it is self-evident that from them has come no tangible plan for preventing the conceivably more disastrous postwar unemployment that would follow a huge expansion in capacity now.

This side of a huge and costly expansion of new plant, a number of feasible steps can certainly be taken to relieve the pressure. The civilian consumer can do with less steel and more substitutes, as he is already reconciled to do with less aluminum, and while the absence of the 1942 Detroit models would leave a gap in the excitement of the fall, we could certainly forgo it to survive as free men. Also, the rationalization of production—the spreading of orders more efficiently through the industry—would indisputably raise output. But before rationalization is possible, some sort of controlling board for the steel industry, endowed with plenary power by grace of the Department of Justice and agreeable to Philip Murray of the C.I.O., must be set up. But however the administrative and rationing problems are approached, one fact is gospel: a nation at peace tends to underestimate its needs for war. When we entered the last war, our military-steel requirements were estimated at 16 to 18 per cent of capacity. But before the War was over 60 per cent of capacity was devoted to government purposes and practically the entire output was allocated to "essential war uses." The present war, with more mechanization, demands more steel. There is warning for us in British experience. Even after liberal allowance for mechanized war, the British find themselves using two and a half times as much steel as they had counted on. And it is not enough.

97

Copies to Mr. Young and Mr. Mack on 4/4/41.

TREASURY DEPARTMENT

CONFIDENTIAL

INTER-OFFICE COMMUNICATION

DATE April 1, 1941.

TO Secretary Morgenthau
FROM Mr. Haas *HA*
Subject: Inability of Lindeteves, Inc., to place steel orders
in the United States.

A few days ago, when Mr. Lindow was in New York, the steel buyer for Lindeteves, Inc., (a large Dutch commercial firm exporting to the Netherlands East Indies) told him that it was becoming almost impossible to place orders for steel. He said that he was trying to place an order for from 5,000 to 7,000 tons of commercial steel items and was unable to find any takers, even though he was willing to accept delivery as late as the Spring of 1942 and was willing to pay prices prevailing at the time of delivery. Mr. Lindow asked whether there was any question of the requirements being for unusual shapes and sizes, but the buyer emphasized that the items were of regular commercial types. This is, of course, a very small order but that makes it all the more significant. The steel is required for defense activities in the Netherlands East Indies.

*Copy to Yarny
Hask*

TO:

99

MISS CHAUNCEY

D

Mr. Foley carried original and
enclosure to Secretary at 9:30 meeting -
4/4/41.

MR. FOLEY

O

April 1, 1941

Secretary Morgenthau

Mr. Foley

Mr. Wise, an attorney, and Messrs. A. W. Kimber and M. M. Yassakovitch of White, Weld & Co. came in to see me today with respect to the following matter:

The Manila Railroad Company is a Philippine corporation all of the stock of which is owned by the Philippine Government. \$13,236,000 of 5% bonds, due 1956, of this railroad is owned by Manila Railway (1906) Limited, a British company. These bonds are not the obligation of the Philippine Government. The British Government has not as yet requisitioned these dollar bonds because it would not be able to find a customer to whom to sell them. White, Weld & Co. is trying to work out a deal along the following lines:

The British company would sell the bonds to the Philippine Government at about 80, realizing about \$10,580,000. These dollars will be turned over to the British Government in exchange for sterling, which will be paid to the British company. The Philippine Government will raise the dollars to pay for such bonds by selling new bonds of the Manila Railroad, which bonds will be guaranteed by the Philippine Government. It is expected that these bonds will be 4% bonds, due in 20 years. White, Weld & Co. says that they have cleared this proposal with the British Treasury and the Bank of England, and with the Philippine Government. It is not possible to sell these bonds to the public now because of the lack of interest in investing in the Far East. White, Weld & Co. wanted to know whether the Stabilization Fund would be willing to purchase the bonds. I pointed out that the Stabilization Fund has not been used for this purpose.

In response to my inquiry, the man stated that they had also been to the RFC and the Export-Import Bank, and

- 2 -

both organizations indicated that they did not have legal authority to purchase these bonds of the Philippine Government. I also suggested that they might want to discuss the proposal with the State Department and with the Department of the Interior, who might be interested in it from the Philippine angle.

Although the proposal on the face of it does not seem to be an unreasonable one, I believe that it is not a matter with which the Treasury should concern itself, either through the Stabilization Fund or otherwise, except as a part of a much larger program of liquidating the British dollar investments for which there is no ready market.

If you agree, I will advise Mr. Wise that there is nothing that the Treasury can do about his proposal.

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

EB:man
4/4/41

Mr. Foley carried original and enclosure to Secretary at 9:30 meeting -
4/4/41

(COPY)

2000 Massachusetts Avenue, N.W.

April 1, 1941

Rear Admiral Emory S. Land
United States Maritime Commission
Washington, D. C.

Dear Admiral Land:

Because of its direct impact upon price stabilization, I raised the question of the shipping problem last summer in one of the first Defense Commission meetings. If I remember correctly, it was as a result of the ensuing discussion that you were invited to attend our next meeting, and it was then that I outlined the difficult problems we saw ahead. This was late in June 1940. Today price rises in imported commodities threaten our domestic price structure with complete disruption. From January 2, 1941, to March 27, 1941, a period of less than three months, the basic commodity index of the Bureau of Labor Statistics has risen 12.7%, in substantial part due to the sharp rise of 19.9% in the index sub-group of imported commodities. These price rises are not only individually harmful to the defense effort, but, through their cumulative character are infecting the entire price structure. The Secretary of the Treasury is so concerned about this matter that he recently brought it to the attention of the President in a letter which I now have before me.

Our records show that a leading factor in the rise of imports is the increase in foreign shipping rates, both cargo and charter. A letter to us from an importer discloses that a ship chartered during the 1934-1935 period at 85 center per deadweight ton per month brought \$3 on July 2, 1940, and in today's market would be worth at least \$8. Testimony as to similar charter prices in foreign

-2-

commerce was introduced at the hearing just concluded before the Interstate Commerce Commission in Investigation & Suspension Docket No. 4895, in which we appeared as protestant. While it is true that the costs of operating vessels in foreign commerce have been rising, rate increases have far outstripped any rise needed either to cover costs or to bring into service marginal shipping. From the public interest standpoint, therefore, present foreign cargo and charter rates seem entirely too high.

On February 25 we wrote to request that you examine the rate question, and advise us as to your powers. Your letter of March 11, and its accompanying memoranda, disclose that power to control foreign cargo and charter rates is almost non-existent. Apparently there exists

only the most indirect control over maximum cargo rates of foreign carriers, and this only by reason of the Maritime Commission's power to cancel its approval of conferences guilty of charging unreasonable rates. No control whatever exists for non-conference cargo rates, or for charter rates, which the conferences do not fix. Am I not correct in this?

It appears to me that the Government's hands cannot be tied and that legislation should be recommended which would empower the Government to fix compensatory maximum cargo and charter rates for all commerce to our ports, of whatever register. Difficulties to be encountered in connection with treaty provisions for free access to our ports are surely not insuperable. Moreover, the danger of driving foreign flag vessels to other trades by prescribing maximum rates could be largely averted by enlisting the cooperation of the British Empire in a maximum rate program.

However vital they may be, rates are only part of the problem. The successful stabilization of domestic prices depends in large measure upon the maximum flow of foreign commerce. Accordingly, this Division is concerned

-3-

not only with ocean freight rates but with the whole program of insuring shipping adequate in volume and efficient in schedule. In view of increasingly severe shipping losses, and the maximum rate of replacement within those nations to whom we are committed to give material aid, our shipbuilding program must aim at an annual production of four to five million tons of shipping, to be reached as quickly as is humanly and technologically possible. According to my information the present plans of the Maritime Commission contemplate the production of only 890,000 tons in 1941, and 2,200,000 in 1942. I realize that you must work within the limits of your legislation and appropriations, but if you are pressing for expansion, and you think I can help, just let me know.

It seems to me that the shipbuilding program should be accompanied by the most wise and economical use of all available shipping. Under Section 902 of the Merchant Marine Act of 1936 power to requisition shipping is available whenever the President proclaims a national emergency or that the security of national defense makes requisitioning advisable. In my considered judgment both conditions are fulfilled, and I will be glad to join you in recommending that the President take such action as will make such requisitioning legally possible now.

I should very much appreciate an opportunity to discuss these matters further with you at your earliest convenience, because frankly, I am deeply concerned.

Yours sincerely,

Leon Henderson
Commissioner

cc Secretary Morgenthau, Treasury Department
Chairman Eastman, Interstate Commerce
Commission

SECRET

1 April, 1941

From: Secretary of the Treasury Morgenthau.
To : General Watson.

Please inform the President that I will return
to Washington on Wednesday morning.

I would greatly appreciate his having me for
lunch Thursday or Friday.

SECRET

Copy to:
Mrs. Klotz

not sent. Perry left message 4/1

April 1, 1941

To Secretary Morgenthau

(For Coding)

Belgrade reports German troops moving southeastward from France toward Yugoslavia but information not available as to strength of German troops concentrated on Yugoslav frontier stop Italy is reported to hold ten divisions of troops on Yugoslav frontier stop Yugoslavs are reported to have threatened Italy with invasion of Albania toward Valona if Germans should occupy Salonika stop Belgrade considers Yugoslavia key to Balkans therefore Yugoslavs expect any German attack now to be directed against themselves rather than against Greece stop Belgrade has same report that emanated from Athens yesterday namely that Germans anticipated attacking Greece this past weekend stop Now Yugoslavia believes Germans have been caught unprepared for immediate move against their country but still are seriously concerned lest Germany consider such a move inevitable stop No definite clarification of attitude of Croatian minority stop Washington has sent stiff message through Vichy as result petroleum and rubber shipments possibly having reached Axis powers through French territory Bell

For Miss Chauncey

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brazil.

DATED: April 1, 1 p.m.

NO: 240.

It is feared by the Bank of Brazil that the United States may at some time freeze the funds of the Banco Francese Italiano and it is hoped that in such an event the United States will place no obstacles in the way to the taking over of the exchange business of the Rio branch of the Banco Francese Italiano by the Bank of Brazil. As under the existing exchange control regulations in Brazil the net exchange position of private banks operating in Brazil is regularly assumed ultimately by the Bank of Brazil any exchange loss suffered by a private bank operating in Brazil would also be an exchange loss to the economy of Brazil.

Under existing exchange control regulations in Brazil the Rio branch of the Banco Francese Italiano must report all transactions and sell any excess foreign exchange to the Bank of Brazil. The Rio branch of the Banco Francese Italiano has at present a slightly oversold net position in foreign exchange.

CAFFERY

BT 1063 3 04 5 41

RA:JSH

INVESTIGATION
RECEIVED

LS

PLAIN

LONDON

Dated April 1, 1941

Rec'd 2:35 p.m.

Secretary of State,
Washington.

1262, First.

FOR TREASURY.

Britain's second full financial year of the war ended yesterday with a gross deficit of £2,458 million, expenditure having reached £3,867 million and revenue having provided £1,409 million or 38 percent of expenditure. Net receipts from loan and savings subscriptions provided £1,134 million or 28 percent of expenditure while the remaining gap of £1,324 million or 34 percent of total expenditure was filled by an increase in the floating debt.

Revenue exceeded the July estimates by nearly £49 million but this is a small sum in comparison with the excess of £400 million in expenditure over the July estimates. The revenue items which brought in more than estimated were income tax at £523.9 million (£13.4 million more than estimated), excess profits duty and the complementary national defense contribution together at £96.2 million (£26 million more than estimated),

-2- 1262, First, from London.

estimated), excise at £224 million (£11 million more than estimated) and miscellaneous receipts £31 million (£8 million more than estimated).

In the last month of the fiscal year expenditure rose to an average of £14.8 million per day or £103.6 per week. Savings returns showed an average of about £28 million per week in the same period. Revenue from the present rates of taxation would average about £30 million a week over the year.

It is against this background that the budget is ^{TECH}~~being~~₁₀₋₁₁ prepared to be presented to the House of Commons on the first day it meets after April 6.

WINANT

ALC

Delivered to Treas. by Mr. Nicholson

SHANGHAI

April 1 1941

From Y L Chang

To Nicholson

Thanks for your message of March 29. When I sent you my wire of 24th I suspected something might happen but I did not dream an outrage would occur that very afternoon. Two time bombs exploded at both our offices killing six and wounding many. I was only twenty yards away when bomb exploded and was lucky to be unhurt. Building badly damaged hence temporary suspension office. Necessary repairs now completed and will resume business today. Everyone facing situation with courage. Will write you details. At one time feared that four banks might withdraw but such action not only would cause collapse of this market but affect whole currency structure so prepared to carry on in spite of everything.

TO THE SECRETARY
TREASURY DEPARTMENT
WASHINGTON

APR 2 11 20

RECEIVED
TREASURY DEPARTMENT

mg

COPY

Paraphrase of Code Radiogram
Received at the War Department
at 23:14, April 1, 1941.

Bucharest, filed 17:20, April 1, 1941.

1. There are at present 8 to 10 German divisions in Rumania. Additional troops are arriving but I am unable to learn whether they are remaining in this country or are merely passing through. So far there appears to be no large concentration of troops in the Banat.
2. It is believed here that there are now 32 German divisions in Bulgaria. This includes from 4 to 5 Panzer divisions. The Air Force consists of at least 2 air divisions.

BRAT

Distribution:

Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence

CONFIDENTIAL

Paraphrase of Code Radiogram
Received at the War Department
at 23:16, April 1, 1941.

Sofia, filed 18:50, April 1, 1941.

The German object is to get Japan into a war with the United States so as to hamper American shipments to Great Britain, according to the secretary of the Japanese Embassy in Berlin, who has been a recent visitor in the Balkans. He admits that British bombs are accurate but thinks them too light weight. He gives the figures for German submarine production as 26 a month. He says the Germans are disturbed over the better quality of British pilots when compared to Germans and the superiority of American built airplanes. Aerial bombardment of England during this spring will be tremendous, he says.

JARWIN

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

CONFIDENTIAL

CONFIDENTIAL

112

Paraphrase of Code Radiogram
Received at the War Department
at 9:06, April 1, 1941.

London, filed 14:25, April 1, 1941.

1. British Air Activity over the Continent.

a. Daylight of March 31. British fighter planes carried out offensive patrols. British planes attacked a concentration of German troops on the Dutch Isles with machinegun fire and bombs; units on parade, gun placements and barracks were attacked. A formation of British medium bombers carried out a severe raid on German Naval and merchant shipping crafts along the coasts of France and Holland. A direct hit was scored on a destroyer which is reported to be sinking. Other hits were scored on two tankers which were set on fire. One cargo boat was damaged. In addition, machinegun and bombing attacks were made against a number of "mosquito fleet" boats and two other destroyers, but the success of these raids could not be determined.

b. Night March 30-31. A few British planes engaged in mining operations off the coast of France and carried out a raid on Calais. The two German 26,000-ton battleships, *SCHARNHORST* and *GNEISENAU*, which had been located in the harbor of Brest, were the targets for a formation of 108 British heavy and medium bombers. While the vessels were definitely located, the success of the mission could not be determined.

CONFIDENTIAL

2. German Air Activity over Britain.

a. Night of March 31-April 1. A small number of German planes penetrated the coastline of England and dropped bombs on targets in Norfolk, Lincolnshire, Suffolk, Yorkshire, and Plymouth. Other German planes dropped mines in the Bristol Channel and the Yarmouth region. The extent of the damages done has not yet been determined.

b. Daylight of March 31. A total of 330 German planes were engaged in defensive patrols over the English Channel and the Straits of Dover, but only 17 German planes were plotted over Britain. One of these was over Scotland, eight attacked targets in Kent, six were over Northern Ireland, and two were active in the Plymouth area.

3. Aircraft Losses.

a. British. No British planes were lost during daylight hours of March 31 or during the night of March 30-31.

b. German. There are no reports of German aircraft losses.

4. British air activity in Middle Eastern theaters was as follows: In Ethiopia, the city of Dessie was bombed and the airfield at Jigjiga (?) was attacked and two grounded Italian planes were destroyed; Axis shipping in the vicinity of the Dodecanese Islands was attacked by British bombers; the Albanian city of Elbasan was attacked by Greek-based British bombers; in Libya, the harbor at Tripoli was attacked; in Eritrea, Asmara was bombed.

CONFIDENTIAL

5. It is reported that an air force manned by the Free French is operating in African theaters.

6. In the Mediterranean Sea near the island of Creta, the 5,485-ton British cruiser, DONAVENTURE, was sunk by torpedoes.

SCARLON

Distribution:

General Miles
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

CONFIDENTIAL

Transmission of Code Radiogram
Received at the War Department
at 19:37, April 1, 1941.

Belgrade, filed 03:50, April 1, 1941.

1. German troops in a position to threaten Yugoslavia are placed, as of March 29, in following locations: Area Eastendil-Petrich-Bevrochup, 7 divisions including one armored, one motorized, one mountain. It should be observed that these troops are in position for an offensive against southern part of Serbia by three routes: that is, Eastendil-Kmanovo; Dragalnica Valley; Strumitsa Valley. Two divisions are near Smoljan. Five divisions are at Flodiv, including one motorized and one armored division. Between Devia (Devlen) and Kardzali (Kirjali) three divisions are stationed. One motorized division is near Sofia.

2. There are eight other German divisions in Bulgaria but they are stationed further to the east and are less readily available.

3. Fifteen divisions of the Bulgarian army are in different stages of mobilization. Of these, however, only four are anywhere near the frontier of Yugoslavia.

4. The Yugoslavs have the equivalent of 12 divisions in Serbia - also in different stages of mobilization. It is said that the war minister, who has just taken office, is asking for a two week period so as to make sure troops are mobilized and concentrated. In spite of this, the Germans will not have a walk-over, even if they attack immediately, as the Yugoslav terrain is adapted to defense. The Fuehrer is furious because the coup d'etat took the Germans by surprise.

FOURIER

Distribution:

Secretary of War;
Chief of Staff;
State Department;

State Department;
War Plans Division;
Air Corps;

Secretary of Treasury
Asst. Secretary of War
Office of Naval Intelligence

CONFIDENTIAL

April 2, 1941
11:25 a.m.

H.M.Jr: Hello.

"Pa" Watson: Hello.

H.M.Jr: H.M., Jr. reporting back for duty.

W: E.M.W. receiving. Say, you're coming over this afternoon at 3:00 o'clock, aren't you?

H.M.Jr: Try to keep me away.

W: And then tomorrow we'll stick you down for lunch.

H.M.Jr: Wonderful. Is it all right if I wear my spurs?

W: Why, I'd put them on. Certainly.

H.M.Jr: It's all right, is it?

W: I think you ought to wear them.

H.M.Jr: Because I'd feel naked without them.

W: Well, I'd certainly put them on.

H.M.Jr: O.K.

W: All right. Glad to see you back.

H.M.Jr: Right. Will you tell the President I'm back?

W: I haven't yet but I shall the next time I go in there.

H.M.Jr: Please do.

W: All right.

H.M.Jr: Thank you.

April 2, 1941
12:00 Noon

GROUP MEETING

Present: Mr. Young
Mr. Bell
Mr. Cochran
Mr. Wiley
Mr. Kuhn
Mr. White
Mr. Sullivan
Mr. Graves
Mr. Haas
Mr. Gaston
Mr. Schwarz
Mr. Foley
Mrs. Klotz

H.M.Jr: I hope you didn't work too hard while I was gone. (Laughter)

Klotz: They were here day and night.

H.M.Jr: Mostly night.

Gaston: The last time I saw Ed he was throwing handfuls of rice around.

H.M.Jr: At himself?

Foley: No, Herbert's daughter.

H.M.Jr: Well, thanks, everybody, for leaving me alone. You seem to have done a swell job, Herbert, of taking the ships.

Gaston: I think the Coast Guard fellows did a good job when we once got onto it.

- 2 -

Klotz: You got a nice letter from the President.

H.M.Jr: Did we?

Klotz: Yes.

H.M.Jr: Good.

Bell: Knox was going to send one, too.

H.M.Jr: Wonderful. It looks almost as though they were getting ready for my resignation when I begin to get these letters. You ought to be glad you haven't got one, Dan. (Laughter)

Klotz: Here is another letter.

Gaston: That is on Fort Lauderdale, Miami, on their help to the President there.

Klotz: Oh, I am sorry.

H.M.Jr: Well, I would like to start - we are having a meeting at three o'clock. The President has called one. For a better name I call it the "War Board." I just wanted to see what I ought to know before the three o'clock meeting. I sent for Philip Young. Has anything happened with the English, the Greeks, the Chinese, anything come up? I suppose this will be a distribution meeting.

Foley: They are going to take up Coast Guard boats at that three o'clock meeting apparently, because Harry Hopkins called Oscar and asked him to get up some information for him in connection with it.

(Mr. Young entered the conference.)

- 3 -

H.M.Jr: Hello, Philip.

Foley: Harry called Oscar and asked for additional information in connection with the --

Gaston: Three hundred twenty-seven footers.

Foley: What they have in mind now is some faster ones. They want ten. That is one of the things that is going to be put up to the Board at three o'clock.

H.M.Jr: Could you tell me what the conditions of these boats are, as to their armament, whether they have been fixed up?

Foley: That is what they want to know, is their location and general plan.

H.M.Jr: Can I have a memorandum on that before three?

Gaston: Yes.

H.M.Jr: Where they are, the seven and the --

Gaston: The seven and the - shall we take it on a five and five basis or shall we take the seven and the ten, the 327 footers and the 250 footers?

H.M.Jr: Put the 250 footers on one and it will take so long to complete them and where they are, just a little line for each one, and the 327 footers the same thing on a page, where they are and how far along they are and what - he will ask what they have in the way of armament.

Gaston: Yes. There was a note that was given to Phil Young from Hopkins, two letters by Purvis

- 4 -

in which they said that they would like to have them as speedily as possible regardless of the condition they are in. That is, they could fix them up quicker than we could.

H.M.Jr: Could that be brought together for me in a package, Herbert?

Gaston: Yes.

H.M.Jr: And be here, say, at a quarter of three.

Gaston: Yes.

H.M.Jr: Philip, will you be here at a quarter of three, too?

Young: Yes, sir.

H.M.Jr: I have asked Purvis to come over to see me at two fifteen to find out what, if anything, has happened since I was gone.

Foley: Should Oscar tell Harry that we will have the material for the three o'clock meeting?

H.M.Jr: Yes. Did Harry want it?

Foley: Yes, he called Oscar.

H.M.Jr: I will bring it over.

Foley: He will tell him that you will bring all the stuff over.

H.M.Jr: Yes. But I would like it, you see, that the Campbell is in Lisbon. She has such and such armament. The next one is in such and such a place. And then, Herbert, also put in a memo that if we are going to do

- 5 -

these things somebody should take over that job between the Azores and Lisbon and how it can be done.

Gaston: Yes.

H.M.Jr: And how it can be done.

Gaston: Yes. At present we don't know of any way it could be done except by merchant ships.

H.M.Jr: Well, recommend that Civil Aeronautics should take that over.

Gaston: Civil Aeronautics? Yes.

H.M.Jr: Sure.

Gaston: Or the Weather Bureau.

H.M.Jr: Well, who does that - how was that fight between Civil Aeronautics and Agriculture decided?

Foley: I think Civil Aeronautics got it.

H.M.Jr: I thought they did. Do you remember the fight?

Foley: Yes.

H.M.Jr: I would say Civil Aeronautics. A memo on that, Herbert, you see.

Gaston: Yes.

Foley: I think that was settled in the Executive Order that put Civil Aeronautics in Commerce.

H.M.Jr: Well, you people have got from now until a quarter of three. I think this would be a time to get

- 6 -

out from under that job.

Gaston: Yes. Well, if we lose ten cutters, we just are out from under it. We won't have any cutters for it.

H.M.Jr: And bring out that thing again of - bring out the thing again where we were asking for money to build some more.

Gaston: Oh yes. That will go in.

H.M.Jr: What else would come up at three o'clock?

Gaston: Bob Jackson will raise the question - he talked to me yesterday on the phone - as to whether he should proceed with an action for forfeit of the Italian vessels under the Espionage Act.

Bell: Is Bob Jackson on this committee?

Gaston: Oh, he is not on that committee, is he? Well then that would be a separate matter.

Foley: One of the things that might come up, Mr. Secretary, is the over-all agreement under which the stuff is being made available to England. Before he left, you remember, the President said that when the appropriation bill passed that we should go ahead and take it up with State and Justice and the Budget and then he went on to say that subject to Harry clearing with the State Department as to whether or not it should be Treasury or State Department that would do it, we ought to begin our discussions with the British.

I called Dean Acheson after the bill passed last Friday, and I asked him --

- 7 -

H.M.Jr: This is on the --

Foley: That is on the agreement that we went over to the President with. I said that we had another draft incorporating the changes the President suggested, and I would like to get together with him, and I asked him to call me not later than Monday, and I never heard from him again.

Bell: I thought we were going to send them copies. Didn't we?

Foley: No.

Bell: I think we ought to send them copies, including the Budget, and let them work on it awhile.

H.M.Jr: Supposing he brings that up. That is the quid pro quo.

Foley: That is the quid pro quo, and we are ready with the new draft. We haven't been able -

H.M.Jr: Give me something on that, will you?

Foley: Yes, sir. I will give you a copy of the draft.

H.M.Jr: Well, a little memo.

Foley: Yes.

H.M.Jr: What?

Foley: Yes.

H.M.Jr: Will you?

Foley: Sure.

- 8 -

H.M.Jr: What else?

Bell: The Budget, I think, has been working on some kind of an organization for Hopkins.

H.M.Jr: Has anything happened on anything since I have gone, with the English?

Foley: No.

Bell: Procurement has been working with the British. We thought there was going to be a three hundred seventy-five million allocation and that was proposed.

Now, what is in this last allocation I don't know, do you, Phil? The President changed that first allocation and cut it down by two thirds.

Young: There is a couple of billion dollars - a couple of million of immediate requirements that they have been talking with Cliff Mack about, and also they have given him a further schedule of the types of stuff and the approximated value of purchases which will have to be made in the commercial field before July 1.

H.M.Jr: But I mean is there a definite allocation?

Bell: Well, we don't know, you see. That just came out in the paper yesterday.

H.M.Jr: Could you call up Harold Smith?

Bell: Yes, I can call him up. He just announced that yesterday. He turned down the first yesterday.

H.M.Jr: Call up Harold Smith. Is a quarter of three time enough?

- 9 -

Bell: Quite.

H.M.Jr: It gives me ten minutes to have you tell me everything.

Bell: This won't take very long, but we did have that meeting, you remember, that we talked about over the telephone with Purvis and one of his assistants and that assistant and Mack went right to work on the problem.

H.M.Jr: I gather nothing has happened, has it?

Foley: No.

Young: There hasn't anything great happened. The Army and Navy have been doing a little spot purchasing on immediate requirements. It doesn't amount to a great deal. It has been done on conditional letters of intent which don't mean anything either, but look nice. Treasury has not reached the point yet of actually placing any orders, even on a conditional letter of intent, on the commercial end of it.

H.M.Jr: We haven't any authority to place any orders, Philip.

Young: Any authority? No, there is no direction.

H.M.Jr: Not until we get an allocation.

Young: Except we had a letter from Bob Patterson asking Procurement to act as agent for the War Department in placing letters of intent on certain items on behalf of the War Department.

White: The Chinese are supposed to present their program for material by today at three.

- 10 -

I don't know whether that is old or new.

H.M.Jr:

Norman, just so we get this thing straight, I want you to get out a letter which I have written to Hopkins and the President trying to wind up as of the 15th of March this liaison committee which I have never heard from the President on and of course which on paper clears through McReynolds to the President. I would like you to pick up all these things, you see, and if we don't hear from the President, let's get hold of McReynolds and ask him if he will draft a letter for the President to sign closing it, and anybody that does anything now from the 15th of March on in connection with any foreign country, I want to be sure that the red tape is there to protect me, you see?

Thompson:

There is a letter from the State Department --

H.M.Jr:

Philip, you be particularly careful now of anything new that you take on, you see. Be sure the administrative procedure is correct, because I closed it off as of the 15th, and I want to be sure it is closed off, and so to guide you, anything that I do from now on, it is as a member of the committee of four, or if the Bureau of the Budget allocates some money to the Procurement Division, but only in those two capacities, so please, everybody, talk with Norman Thompson so we keep this thing straight. Do you agree on that, Dan?

Bell:

It is all right.

H.M.Jr:

Isn't it in those two capacities? Either as a member of the committee of four or through the Procurement Division?

- 11 -

Bell: That is right. The State Department, I understand, has taken over that outside purchasing.

Young: Yes. We had a letter from Sumner Welles on Monday in answer to the letter you wrote the Secretary of State the day you left, asking him to take over the countries outside of the lend-lease area.

H.M.Jr: What happened on that?

Young: He asked us to turn over the files and so on on those countries.

H.M.Jr: He did?

Young: Yes.

Bell: And we have done that.

Young: And we sent those over yesterday afternoon.

H.M.Jr: Say that again so I can assimilate it.

Young: Before you left you wrote the Secretary of State listing what countries you thought were in the lease-lend area, and asking that he take over the responsibility for purchasing operations for all countries outside of that area. Sumner Welles replied, and we received it on Monday, a letter saying that they would take that responsibility and asking that we turn over to them the files, documents, papers, and records with respect to those countries.

H.M.Jr: You had better - I had better take that over with me, because Mr. Hull will say that he never heard of it.

- 12 -

Young: We sent the stuff over yesterday afternoon and they are all set up and equipped. We have given a complete course of instructions and they are ready to operate.

Bell: They were considering something for Russia yesterday.

H.M.Jr: Well, let me take my letter to State and State's letter to me and then attach up in the corner just a little memo saying this was carried out so if something comes up about that, so just list - make it very brief, a little memo. These countries go to State, and they accepted it. Under my other letter, England and her allies, we say, "Go to Hopkins." He has never accepted it. Is that right?

Young: There never has been, so far as I know, any officially approved list of what is included in the lease-lend area, and we are never going to get the thing straightened out until that is done.

H.M.Jr: But State did take the other thing?

Young: Yes. We kept the files on those letters which you included in your letter to the Secretary of State as being lease-lend countries. That was as determined at the time you had a conversation with the President which he had recorded in a note --

H.M.Jr: But the other stuff has gone to State? And who runs that show over there?

Young: It is under Dean Acheson.

H.M.Jr: Then we are out from that?

Young: Yes, sir.

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H.M.Jr: Well then, if we get the other thing, I think with the help of McReynolds, because I think when Mac sees that he is in on that thing under the Executive Order, he will help us to get out from under it, and make it officially over to Hopkins.

Thompson: That is the only thing left now to clear.

H.M.Jr: Under the Executive Order he was supposed to have reported to the President through McReynolds. I think with his help we can clean that up.

Now, are these countries going - like Russia, going over to State.

Young: Yes, they are working on them now. They have the files. The only thing that we are doing with them is following up on our unfinished business that is outstanding trying to get that cleaned up, get that back to the State Department, pending cases.

H.M.Jr: Did they take any people away from you, Philip?

Young: No, they didn't. We have loaned them one of our girls for a week or ten days to supervise the procedure, because they will be using the same rigmarole that we will under the Lend-Lease to keep it on a standardized basis, and whether or not they will want to keep her at the end of that time I don't know.

(The Secretary on the White House phone)

H.M.Jr: Hello.....

Yes, I will. Hello.....

How are you?.....

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You did? How big was that?.....

That is what they said in the paper, but
I thought it was a fish story.....

It was?.....

I see.....

How was the weather and how was your stomach?.....

You don't like that.....

Well, the Navy, you know, rebuilt it. That
is the trouble.....

When she left the Coast Guard she was
all right.....

How would I know? We wanted to give him a
big one, originally, but he wouldn't take
it.....

What?.....

Really?.....

Dangerous?.....

Anything particular that affects the Treasury
that comes on at three this afternoon?.....

What?.....

Wonderful.....

Anything on the agenda that I can get ready
for?.....

Yes.....

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Yes.....

Yes.....

I see.....

Good.....

Good.....

Oh, the whole thing.....

Wonderful.....

Well, I just wanted to say hello and I wanted to know if there was anything that I could -----

We were in Arizona.....

Oh yes.....

Oh wonderful.....

This morning.....

Yes.....

Well, give me a ring. I am here. Good-bye.

H.M.Jr:

I don't know whether you could hear or not. On getting the ships into the middle East. What about those Danish ships, Herbert? What is the best way to run them? They are in good shape.

Gaston:

What route?

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- H.M.Jr: No, supposing the President said, "I want to take those Danish ships and loan them and send them somewhere in there." (Indicating on map)
- Gaston: The best way to run them is with their own crews and put them under the American flag.
- Foley: They have got diesel engines, Mr. Secretary, and we haven't any one experienced to run them.
- H.M.Jr: That is what they say.
- Gaston: Of course we have got plenty of men in Coast Guard that could run them, but it is hard to get engineers for that style of power plant, but nearly all those Danes are dead anxious to go into any kind of service on those ships.
- H.M.Jr: Well now, what kind of procedure would you have to go through to put them under the American flag?
- Gaston: A requisition. Bob Jackson thinks we haven't present legal authority; but our people, I think, believe we have, but at any rate I think we could get legislation very quickly under which they could be requisitioned. That would save the Danes from repercussions and dangers of a voluntary sale. There are questions of title that would be very involved in case of a voluntary sale and a requisition would be the answer to it.
- H.M.Jr: Philip, you might call up Purvis and tell him that I am going to ask him, if we were going to run any ships, where would they want their cargos, you see. I am going to ask him the question, if we ran ships in the Middle East, where would they want them landed, what port, if he knows. He should know when he comes over

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here, see.

Young: Yes, sir.

H.M.Jr: I mean, where would they want them landed.
I have heard so much discussion about it.

Gaston: What was the name of that little African port
that he talked about?

Young: Takoradi.

H.M.Jr: But that is just good for airplanes, Herbert.

Gaston: Yes, I suppose so.

H.M.Jr: That is just good for airplanes because they
unload them and then they fly them through.
There is no rail here.

Gaston: I see. They are making pretty good progress
in getting the Red Sea coast cleaned up.

H.M.Jr: But it is a long haul around there.

Gaston: I should think from the West Coast of the
United States it would be the most efficient
route for the Red Sea.

Young: Stuff going to Greece is going, most of it,
from the East Coast via Suez, via the Red Sea.
The British have sent about seven ship loads
of stuff into Greece, you see, from here.

H.M.Jr: Have they? How did they send them?

Young: They went on British ships.

H.M.Jr: But I mean, how did they route them?

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Young: Around the Cape and through the Red Sea.

H.M.Jr: I see. You might tell him that I am going to ask him that question and to be ready. You can see from the way Harry talks, nothing has happened since I was gone.

What else?

Foley: Would you want to take up the allocation of administrative money in the Treasury under the Lend-Lease Bill?

H.M.Jr: Well, we don't know how much we have got.

Bell: You mean today?

Foley: Yes.

Bell: I shouldn't think so.

Thompson: You mean the administrative end of it. We are sending over today a memo for about 44 thousand dollars for personnel and administrative expenses.

H.M.Jr: And after the first of July, how much?

Thompson: Well, on that same basis.

H.M.Jr: That would go to the Bureau of the Budget, wouldn't it?

Thompson: Yes. It would be about 200 thousand dollars a year.

H.M.Jr: I wouldn't take that up today.

Young: From a practical point of view, I think one of the most important questions is to settle on the countries. There are three immediate

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and urgent problems: Canada, the Dutch, and Norway, even though they continue to pay in cash and reimburse the U. S. Treasury.

H.M.Jr: Can you give me a little something on that?

Young: I wrote up a memo which I was going to try to send to Hopkins, and I will try to give it to you before this meeting.

H.M.Jr: How about giving it to me.

Young: I will give it to you instead.

H.M.Jr: Send it to me, too.

Young: I will give you a copy of my memo to him.

H.M.Jr: But see that I get it. Put it actually in Mrs. Klotz' hand.

Gaston: We discovered through Anslinger something that the State Department didn't know that is rather interesting, that the Norwegians are sending a force of patrol boats from Canada to Iceland and also an air force. The Norwegians.

H.M.Jr: How did Anslinger get that?

Gaston: Well, they came to Anslinger for a special export permit for some morphine to go along, and he talked to State Department and that was State Department's first information. About 18 trawlers that they are sending and some airplanes.

Young: They say they have got 250 merchant ships operating in the interests of the British in the war zone without a gun on them today.

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H.M.Jr: I will tell you what we have got to do. We had better shift this so I don't get rushed too much. I can see you people all, Bell and Young and Foley and Gaston at 2:30, and I will have Purvis at 2:00. You (Thompson) had better listen so you get on to this thing. Harold, are you following this or are you too busy on Procurement?

Graves: Well, I was at the conference that Mr. Bell spoke about. I have talked a few times with Mr. Mack, but I am not doing very much about it. I don't think there is any need for me to.

H.M.Jr: How does it flow from this desk to Mack? How will I handle this?

Graves: I suppose--

H.M.Jr: Through Philip?

Graves: I suppose so.

H.M.Jr: Is that agreeable to you, Harold?

Graves: Yes, quite.

H.M.Jr: Well, I would like it that way.

Graves: I would like it that way, too.

H.M.Jr: You would? Then I think you needn't be here at 2:30. Is that all right with you?

Graves: It is all right with me.

H.M.Jr: With the bond thing, you have got enough, haven't you?

Graves: Yes.

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H.M.Jr: On this Allied purchasing, then, I will work with Mack through Philip.

Graves: That is fine.

H.M.Jr: Is that all right?

Graves: That is fine.

H.M.Jr: Do you think that is all right, Norman?

Thompson: I do, yes.

H.M.Jr: What else?

Bell: The only other thing, we are working with the Budget on the--

H.M.Jr: Did you notice, gentlemen, I said 2:30 instead of a quarter of three?

Bell: on the fiscal procedure, I don't think they have gotten into any other organization. Burns has been working around with some plans, but he had no authority to set up anything.

H.M.Jr: On fiscal?

Bell: The accounting and the handling of the documents and so forth.

H.M.Jr: Well, I don't have to get in on that, do I?

Bell: No.

Young: I set up a requisitioning procedure, too, to handle the actual specific British requests coming through on a formal basis, officially signed so there is an adequate record for information.

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H.M.Jr: Well, the way I feel, I am just - because I haven't had a chance to talk to anybody. I don't know how anybody else feels. But if Hopkins takes over the Lend-Lease Allies and the State Department has taken over the other, I say I will take my 25 percent plus responsibility amongst the four of them plus whatever the Procurement has to do, which would leave Philip back where he was before helping me on those two fronts, if that is agreeable to you, you see. Do you see what I mean? Because you have no indication from Hopkins that he is going to take you over as part of his organization, have you?

Young: No. He merely said while he was away to look after the commercial purchasing end of this thing.

H.M.Jr: Well, that fits into what I see now.

Young: As part of the Treasury business, yes.

H.M.Jr: Did anybody hear from Donovan?

Foley: No.

Young: I have had three hysterical phone conversations with him during the last 10 days.

H.M.Jr: Philip, my ears are stopped from flying. Pull a chair up here. I can't hear you and I can't see you.

Foley: You are in bad shape.

Young: Maybe I am getting weak too. (Laughter)

H.M.Jr: Go ahead.

Young: I have had three phone conversations with Donovan.

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The last one was yesterday. Purvis thought he was working on the Middle Eastern requirements and Donovan thought Purvis was working on the Middle Eastern requirements, and I didn't know what either one of them was doing and couldn't find out. I got hold of the British yesterday and this fellow Davidson who handles the Middle East for the British, and we went over all of the various lists and what Donovan has evidently done. He has talked with Maritime about getting 15 merchant ships, of which there seems to be some indication he can get around four and that is all I know about that. I don't know what ships or where.

H.M.Jr: To do what?

Young: To carry stuff in the Middle East. He has been down to the Army, to the Quartermaster Corps and the Signal Officer and so on, and got a list of odds and ends, CCC uniforms, old Army uniforms they are evidently going to put on the Greeks, all sorts of hand tools, shop tools, carpenters' tools.

H.M.Jr: Donovan has done this?

Young: Yes. All sorts of discarded junk which is junk from the Army point of view but which evidently has considerable value in Greece or in the Balkan area. Those lists he turned over to Purvis. The British have gone over that list of which could be made available with the Greeks here and the Greeks would like about 90 percent of it. The actual requisitions for the specific items that the British and the Greeks want will be starting to come in today or tomorrow. Now, there is also a much larger Greek list which looks into the future and calls for bombers, submarines,

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destroyers, cruisers and so on, which is fairly fantastic at the moment with respect to making anything available, and it is more of a feeler on the part of the Greeks to see how much they can get than it represents actual needs. I think it is becoming increasingly important that the small British Allies like the Norwegians, the Belgians, and the Greeks and possibly the Turks should, when they want to get defense articles under the Lend-Lease, have their requests or requisitions countersigned and approved by the British before they come through. There ought to be that much coordination in there. I don't think you can do that with the Dutch, but you can with the others.

H.M.Jr: Well, of course under this formula I have laid down for myself, other than making the suggestion in front of the President, I wouldn't have anything to do with that.

Young: I made that to Hopkins in this memo that I wrote this morning. Another problem is coming up and that is, in the question of Norway, whether they want these guns for the 250 merchant ships, and they evidently still have some cash, as to whether they come under the credit provisions or the cash provisions of this act.

H.M.Jr: They come under the Lend-Lease.

Young: Yes, but you have two types of buying under the Lend-Lease, where we buy for the foreign country and pay for it with American tax payers' money and where we place the orders but they reimburse the U. S. Treasury in cash and we act as buying agent.

H.M.Jr: Well, they will get it on a no cash basis, I am sure.

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Young: That will come up, possibly, in connection with other countries. The Dutch are extremely anxious to come in on this cash reimbursement program under the Lend-Lease, and I think they should.

H.M.Jr: Well, what else is there now other than this particular subject.

Bell: There are some questions to be decided in connection with savings bonds. I would like to have a conference with you.

H.M.Jr: Tomorrow morning at 10:15.

Bell: I would like to have Mr. Haas, Mr. Graves, and Mr. Edwards present.

H.M.Jr: Ten fifteen.

(Telephone conversation with Mr. Purvis follows:)

April 2, 1941
12:35 p.m.

H.M.Jr: Hello, Arthur.

Arthur
Purvis: Hello. Good morning. I didn't know
you were coming back so soon.

H.M.Jr: Well, I came back because I felt in my
bones something was going to happen and
it is at 3:00 o'clock this afternoon.

P: Oh, really.

H.M.Jr: The President has called a meeting of the
four of us, so I thought - I've been talking
over with my people what has happened since
I've gone and I can't find that much has
happened.

P: No, there's not a great deal. There has
been a sort of quietus. I'm still trying to
clear the Coast Guard cutters and have
got a willingness, I think. Knox is
willing and Stark is moderately willing
provided he doesn't have to go into
writing, and it is before the President
in a formal way for five of the fast ones
and five of the slow. Gaston said that
whatever I could get through on the fast
ones he would support, so I'm rather
hoping that decision will come today, but
there hasn't been a lot.

H.M.Jr: Well, I thought if you could be here at
sharp 2:00, I've got a half an hour and
you can pump into me what you'd like.

P: All right. I'll be there at 2:00 o'clock.

H.M.Jr: And be ready to tell me what you think
comes first. Now, one thing I know they
are going to bring up is the question of
getting materiel into the Middle East,
and I'd like to know from you as I've
heard discussed so often, what port you
think is the best.

P: Yes. The port - (Laughs) - well, of course
probably Takoradi.

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H.M.Jr: I know.

P: For the other I think the answer is probably Aden but you can't - because they keep it so quiet you know.

H.M.Jr: Well, you tell me what you think is the best and then let them decide whether they want to use that or not.

P: Yes, exactly.

H.M.Jr: You see. But I wanted to put you on notice that if from 2:00 to 2:30 you'd just pump into me what you want - you've got half an hour before I go to this meeting.

P: Yes, I get you.

H.M.Jr: You see?

P: All right. Fine.

H.M.Jr: And then at 2:30 my own people are coming in to give me the various stuff that has happened since I left.

P: Yes.

H.M.Jr: Right?

P: All right, fine. Thank you very much indeed.

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H.M.Jr: I think that is about all. You say savings bonds, Bell?

Bell: Ten fifteen.

H.M.Jr: I think we got a swell press on that.

Bell: Very good.

H.M.Jr: The only thing that I would like - I like the tax letter, I like Barth's letter. Now, I want a third man, Ferdie. I want a man to do the same kind of work on Federal securities, which would include savings bonds.

Kuhn: You notice the tax man included savings bonds in his last letter.

H.M.Jr: But he will have all he can do on taxes. You can put him on the payroll of defense bonds. He will do the same kind of thing only just keep us posted on public reaction. The only criticism I had of Barth, I thought he got a little bit too poetical last time. He has got to boil it down. I don't mean in terms of words, but I think they should limit them to a thousand words, don't you think?

Kuhn: All right.

H.M.Jr: I think he must have run over that.

Kuhn: It looked a little long because of big type.

H.M.Jr: Well, he got a little poetic.

Kuhn: Did the other one seem all right to you?

H.M.Jr: The other one was fine. I liked particularly that he divided the thing in to two groups. John and I have got to get busy and sit down.

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Sullivan: Mr. Doughton is leaving Friday and will be back on either the 14th or the 15th. He told me this morning he might want to see you tomorrow before he left.

H.M.Jr: I would like to see him very much. What is tomorrow?

Klotz: Thursday.

H.M.Jr: Why don't you ask the old boy to drop down, say at three o'clock tomorrow.

Sullivan: I will, sir.

H.M.Jr: Will you?

Sullivan: He had an idea which I think was very good that in all conferences on tax bills this year, we have in the ranking Republican members as well as the Democratic ones.

H.M.Jr: Will you ask him if he can come down at three tomorrow?

Sullivan: I will. You might want to do some thinking on that because he is going to put it up to you. I think it is a sound idea.

H.M.Jr: I think three, if he is going away Friday.

What else besides?

Cochran: May I ask you one question? I phoned Pinsent awhile ago to ask whether Sir Edward Peacock could report any new developments. They haven't sold anything more since you left. They said he had been active. Sir Edward is in town today and Pinsent said we could get him to stay over if you would want to see him today or tomorrow. I thought you would be very busy.

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H.M.Jr: I would rather let it go over until next week.

Cochran: All right, fine.

There was one message I picked up over at the State Department which was slow in getting here where Ben Cohen had received a letter from Waley of the British Treasury along the lines of Phillips' protest to us that we were a little severe in wanting them to liquidate their securities and sell gold and so on. I don't think that will come up. I think it is closed with the President.

H.M.Jr: I think it is closed.

Cochran: But I will give you a copy of the wire if you want.

H.M.Jr: No. But I think if you haven't done it, between Bell and you we ought to fix up a document letting the State Department know just where we stand visavis England and Canada on their financial situation. I think Mr. Hull ought to have that, Dan. It is pretty important. I think what we could do, if we could fix up a letter for the President giving him the English and Canadian position, say what it was the last we knew it, something about the orders, you see. We stopped the 15th of March, and that whole picture. I think we ought to put it in writing in some sort of a report to the President.

Bell: A report from you to the President?

H.M.Jr: And a copy to the Secretary of State. It is pretty important. I think we ought to make that report. I mean, the one that we - the cash - when we stopped okaying the cash orders,

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the 15th, how many orders there are on the books as of the 15th, how we expect the English to pay for it, you see, and looking as far forward as we can on their dollar position as they had informed us.

Bell: We will have some of those new form statements, I think, maybe sometime today, won't we, Merle?

Cochran: Yes.

H.M.Jr: Well, I think you could prepare one for the President and then Mr. Hull. I think we ought to do that.

Bell: All right.

H.M.Jr: The other thing, Dan, you talked to me something about a committee which will pass on all future financing if and when necessary.

Bell: That was the letter that came from Jerome Frank and we have had one conference and we intended to have another one this afternoon or tomorrow before you got back. You hiked it up a day on us so we haven't had that second conference. We will be prepared before the end of the week, though.

H.M.Jr: Was that the conference while I was gone?

Young: No, there were two conferences.

H.M.Jr: All right.

Foley: Charlie Spencer called this morning. He has got a fellow in London that he wants to get out. The bank is closing up his office and he says he can't get him out of there. Is there anything you can do about it?

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H.M.Jr: Charlie Spencer?

Foley: First of Boston. They are closing up the office over there and they can't get him out. He would have to get priority so he could fly over to Lisbon.

H.M.Jr: From London to Lisbon?

Foley: Yes.

H.M.Jr: Oh, I would make a routine request, sure. Spencer is a very helpful fellow.

Foley: Yes, that is what I thought.

H.M.Jr: Yes, ask Pinsent.

Cochran: Through the British.

H.M.Jr: Yes.

Cochran: All right, sir.

H.M.Jr: Spencer has done a lot for me.

Cochran: All right.

April 2, 1941
2:00 p.m.

RE AID TO BRITAIN

Present: Mr. Young
Mr. Purvis
Mrs. Klotz

H.M.Jr: Well, what I wanted from you was --

Purvis: Just an idea of what might be going on?

H.M.Jr: Yes, because I talked to Hopkins this morning, and I gathered very little had happened in the two weeks that I was gone; and just to clear up in your mind what is in my mind, I say we have now got the State Department to agree to take over everything we are doing that isn't Allied business, officially, I mean. I have been unable yet to get Hopkins to acknowledge my correspondence to the President about his taking it over. This is my mental state. As a member of the committee of four, I want to carry 25 per cent plus.

Purvis: Yes, exactly.

H.M.Jr: And in my capacity as Secretary of the Treasury, I am head of the Procurement Division. And then on the side, last but not least, as a friend.

Purvis: Yes, quite. I think that puts it clearly.

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H.M.Jr: Because I have been going over this with - but I mean that is the way out. I feel that I want to go to the meeting knowing where your needs are, and you leave it to me to put it over at the right time.

Purvis: Yes. Of course I am very anxious not to cut across his --

H.M.Jr: I understand. But I mean --

Purvis: Yes, that is the picture. Well, the main --

H.M.Jr: You needn't worry about the other thing.

Purvis: No. The main item that is up first from the Release Act is the Coast Guard cutters, and so that you will be amply posted on that, here is a memorandum that went over to the President last night at Mr. Hopkins' suggestion asking for a mixed batch of Coast Guard cutters, five of the twenty knotters, which we think is in the wood, and five of the sixteen knotters, the idea being that there are only five anyway of the fast ones which are nearby, and it is the most vital individual release that there is on the place. Secretary Knox has promised strongly to support, with the President, the granting of just as many twenty knotters as can be done without undue delay, which is what the British Government is most concerned with. They are prepared to take them as they are. I mean, at the moment, the great and vital thing is merchant shipping, and this is the best thing at the moment that is up.

filed as all to report of W. M. Board meeting with President (in President's folder)

I think you know, on the other hand, that there has been a request for thirty destroyers, ten a month. I have no knowledge, really, of the status of that. I am hoping, I will put it this way, that any work that is going on on those

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destroyers is going on in such a way that if, as, and when the United States decides it can do anything, time is not being lost because perhaps they are being repaired and refitted. I may be wrong in that, but I hope that is right.

H.M.Jr: Do you want me to read this?

Purvis: Yes, if you wouldn't mind. It wouldn't take you a minute, and that would give you the Coast Guard cutter one.

H.M.Jr: Do you want this back?

Purvis: Not really. I will leave it with you. But the main point is that the - at night the submarine can go away on the surface. On the surface, her speed is approximately sixteen knots. To over-haul her, we need a vessel that will go a few knots more. Otherwise, she gets away. Therefore, those five might do the work of more, you see.

H.M.Jr: Now what else?

Purvis: Now, the next thing in releases which perhaps you should know of, but it is a group, and it is no good handing it to you, because it is made up of hundreds of different items. There are requests now, since you left, not only for stuff for Greece, but also for Yugoslavia, for Turkey, natural result of this affiliation. When Colonel Donovan came back, I saw him immediately, and he felt that considerable progress might be made if we could tell him promptly what we had on the griddle and he could add his knowledge of what ought to be on the griddle. The result was that a comprehensive list was made out from our side, showing everything that was on order for the Middle East, for British account, for

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the Greek campaign, and since then there has been a new Greek list in the last three days of enormous dimensions, and there is Turkey and Jugoslavia waiting anxiously in the background.

In that list - of course the main question is whether you can get ships. We really need about fifteen ships in the next two months or two months and a half to carry the goods.

H.M.Jr: How do you describe this list that you talk about?

Purvis: It is the list I gave to Colonel Donovan. I have shown that list to Mr. Hopkins, and I understand Colonel Donovan has been working on that through the Department. In other words, Mr. Hopkins, when he left, authorized Colonel Donovan to receive this list from me and encouraged him, as I understand it, to do any work he could.

H.M.Jr: That list is the - would you call it the Greek?

Purvis: Well, it is the Middle East list, you might say, in that it covers not only what is required for the British campaign in the Middle East, but also for the Greeks as Greeks.

H.M.Jr: Middle East needs?

Purvis: Middle East needs.

H.M.Jr: Now under that, you say, comes the ships.

Purvis: Well, the problem there is to get the ships to carry it. That is really the main problem. We have a lot of stuff on order. What the great contribution that Donovan was able to make to us was to show us what he had learned when he was

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out there as to their great need. We had only seen it in the form of cable advices from London. When we saw his documents, which he showed me confidentially just to peruse while I was there, one could link it up with the strategy of the war there and one realized that you saw an actual letter, for instance, from Hughes, the Quartermaster General in charge of supplies in Wavell's campaign, asked by Donovan to tell him what he really wanted there, he enclosed a list of what he had asked for, principally for road-making machinery, stuff for airplanes to be made quickly, and then goes on to say unfortunately London had to cut this down very materially because of the lack of dollars. He gave an enlightening picture of the Egyptian campaign.

H.M.Jr: Just to digress one second, remember you asked for seventy tanks.

Purvis: We are now asking for 400.

H.M.Jr: Did you ever get any of those seventy?

Purvis: Yes. We got two last week, I think. It finally went through. More are coming.

H.M.Jr: You didn't get any prior to this campaign?
No American tanks took part in that campaign?

Purvis: Oh no. The first of them arrived last week. The trouble was guns, by the way. The tank bodies were coming out.

H.M.Jr: But the problem of transport to the Middle East - you said something about fifteen ships?

Purvis: We have cargo on order sufficient to fill approximately fifteen ships in the next two months.

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H.M.Jr: You need fifteen ships.

Purvis: In the next two months. The danger, as London has warned us, is this. Shipping has now become so short that it is rationed with the greatest care.

H.M.Jr: What is the matter with these Danish ships?

Purvis: That is what Donovan thought he could get from the Maritime Commission.

H.M.Jr: If it was left to us here in the Treasury, we could get those Danish ships --

Purvis: I am not sure whether Donovan is blocked or not, but he has soft-pedaled for three or four days with me, and I have a feeling as if he may be stalled.

H.M.Jr: If the President would leave it to us, we could turn the whole business over.

Purvis: You see, London is frightened that we are going to take ships away from U.K., which would be serious.

H.M.Jr: This would be something U.K. wouldn't get any-way.

Purvis: That is it. All our cargo for the Middle East, the B.P.C. fellows tell me, has so far gone around the Cape and has come up and been distributed. I mean, the last British port, strictly British, is Aden, but it has been distributed at Cairo and at Alexandria for wherever it had to go.

H.M.Jr: For my purpose, through the Red Sea?

Purvis: That is it, through the Red Sea, so what we want are boats to take it up around here, unless, of

- 7 -

course, the strategy of the naval campaign has been altered by the naval victory.

H.M.Jr: I haven't got a good map from here to here (indicating). I don't know - you see, that is a free port, so to speak (referring to port in Gulf of Persia). That is not in the war zone. The railway goes up here.

Purvis: But I am a little afraid then we strike the Syrian situation.

H.M.Jr: I am just raising that.

Purvis: At present it is all coming through there.

H.M.Jr: That is the --

Purvis: That is outside of the combat zone. Airplanes to Takoradi, as I gather it, everything else coming around the Cape. The last strictly British port is Aden, but of course, there is the port of Sudan further up here, and the actual place of distribution has recently been Alexandria. Whether that would change as strategy because of the naval victory, I can't tell. It hasn't changed yet. We are still receiving instructions to route around the Cape.

H.M.Jr: We are ready for the President to ask us to take these Danish ships and put them to work.

Purvis: I didn't see Donovan before coming here.

H.M.Jr: I wanted to get the feel directly from you. You (Young) got the feeling, didn't you, that Donovan and Hopkins weren't clicking?

Young: Yes. Hopkins wasn't here. Donovan seems to be doing a terrific amount of rushing around, and I can't see what effect it is having. As far as

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getting actual results, he gets things started, but I don't think he follows them up.

Purvis: I tell you what I think. That may be, you see. I think he has been able to do this. We have been asking whether it would be possible for us to see --

H.M.Jr: Do you mind? I want to get it straight. Let's just leave that for the moment. I am fighting time. Are you by any chance free tonight?

Purvis: Yes.

H.M.Jr: Are you?

Purvis: Yes.

H.M.Jr: Well, I am too, so we could get together at the house.

Purvis: I wish I could ask you to come to mine, but we have got domestic troubles.

H.M.Jr: Well, will you come to my house at 7:30?

Purvis: Fine.

H.M.Jr: Then we would be just alone.

Purvis: That would be fine.

H.M.Jr: Then we will have - let's just - give me the over all.

Purvis: Well now, the over all situation, as I say, is there is a big list of requirements put in with Donovan with Hopkins' knowledge prior to his leaving, he leaving Donovan to do a little job on this. Donovan, I think, has been trying to get the things sold to the Maritime Commission from a ship view so as not to interfere with

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the normal U.K. shipping situation, because he has been trying to unearth a great many more stores. He, having been out there, knows that even picks and shovels and uniforms and what have you are terribly important.

H.M.Jr: But the thing that I gather from what you tell me - let me just get this thing. The Coast Guard cutters - my men are coming in at 2:30, you see.

Purvis: They are all important from my view as a single thing.

H.M.Jr: We know where every ship is.

Purvis: And Knox is in favor of it. Stark, I think, is moderately in favor, too, but not wanting to put himself in writing.

H.M.Jr: Now, you have got enough material for the ships, so the question is to get these Danish ships into the thing.

Purvis: We could very usefully employ fifteen ships in the next two months.

H.M.Jr: We can give you more than that. But the idea that our people recommend is that we keep the crews who want to stay on. Just put American captains on.

Purvis: That is right.

H.M.Jr: And fly the American flag and let them go. They can start immediately. If the President would let me do it, I would start it tomorrow. We have been ready for two months now.

Purvis: It would be too bad if there were an incident.

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- H.M.Jr: You don't want an incident. From your standpoint, it would be bad business. I really think from your standpoint it would be bad.
- Purvis: It has been going on publicly.
- H.M.Jr: Now that is the Middle East.
- Purvis: That is the Middle East. And there I think you should know that the reason Donovan, I think, has been looking for ships is primarily because he has been able to get the Army Department to let him look at the Quartermaster General and Signal Department and Medical store sheets. We do not have available to use sheets of what are in stock. Both the Air Commissions have a lot of deficiencies in propellers and ordnance which, if they could once fit in, would release completed planes. They have a deficiency list of bits and pieces. Equally, we have a deficiency list in ordnance, but that is primarily shells and guns and things of that kind, and primarily a Middle Eastern affair, whereas the air is primarily a U.K. affair. If we could ever see the sheets under suitable supervision, it would undoubtedly be an enormous help. I believe that, after all, some of our fellows have managed to see some of them, but it is not a very good way, because you can't use it if you see it. Donovan has been able to see the Quartermaster General, the Signal Department, and the Medical Corps sheets, and that is what he has picked this list out of that I sent to you (Young).
- Young: He sent me a copy, too.
- Purvis: He had six copies made, you see, and I thought he sent them through whatever he considered the normal channels. But that background of innumer-

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able items, there is that for the Middle East and then there is this deficiency list, as I say, of items, particularly of airplane stuff, which if they could be obtained for the Air Commission would put whole units into force in England quite quickly. I take it you are thinking in terms of something to be done quickly, because that seems to be the essence of the thing.

- H.M.Jr: The thing - what I am thinking of until I hear what the President has, it seems to me that these Coast Guard cutters will assure a safe voyage for your convoys out of Halifax, and we were ready to turn them over the day the Bill was signed, and I don't know how many, but I take it that five of these cutters to a convoy should be plenty.
- Purvis: Wonderful. We are going on less protection than that.
- H.M.Jr: And they are in such shape that they could go on up.
- Purvis: That twenty-knot point is terribly important, because you will add enormously to the effective use of them. Admiral Stark has said to Secretary Knox in my presence, "Well, I agree with you that what we want to do is to deliver something which is as effective as possible to the British."
- H.M.Jr: The President first asked for those twenty-knotters.
- Purvis: Did he? I believe I have worked a little on that and have a more favorable evidences.
- (Discussion off the record.)
- But after all, that only went to the President

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last night in this form. It is the fifth request in one form or another. Finally, Mr. Hopkins said, "Write to the President."

H.M.Jr: One little thing, just to digress a minute. I haven't had in two months now that list of the airplane production, you know, that you usually give me. Don't tell me you have got it.

Purvis: I have therefore made it over a whole period.

H.M.Jr: Don't tell me you have it? It is too much.

(Laughter.)

Purvis: There is the key. I not only put this last month, but I put all the previous months in there.

H.M.Jr: This is A, and there are A, B, C. Here it is 1, 2, 3. Is that the same?

Purvis: I am sorry. Yes, that is the same.

H.M.Jr: But I mean A would be --

Purvis: Yes, A is 1.

H.M.Jr: That just makes the code a little more interesting.

Purvis: A little more effective. It is probably why it was done.

(Laughter.)

H.M.Jr: Who else has got this besides me?

Purvis: Nobody, as far as I know.

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Klotz: Just very few.

Purvis: I am not going to bother the Secretary with that presently, but there are four books outside. (Speaking to Mrs. Klotz.)

H.M.Jr: Outside?

Purvis: Yes, I left my chauffeur and ran, and in the process, the books had to be left out there, and I told him to send them in, but he is probably blocked outside.

Klotz: Who is Bracken?

Purvis: That is the red-haired familiar of the Prime Minister's. His name is Bracken. He is a young man of great push. He is right inside the - a very able fellow. Right inside the Prime Minister's office.

Klotz: Very nice.

Purvis: I think there is a letter for you there, too.

And on procurement, have we time just to touch on it?

H.M.Jr: Yes.

Purvis: On the procurement question, do I understand it is definite that the Treasury is going to act --

H.M.Jr: No, we don't know. That is what I am meeting at 2:30 with my people for. I will know that by tonight.

Purvis: May I put a second thought on that? In addition to these raw materials, there is another function which I don't believe belongs anywhere

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except here, and that is what Sir Henry Self described so well as odds in stocks. There is an enormous amount of stock which I don't believe it is going to be easy to process through. Individual departments would be able to help. I am sure, for instance, the Army Department could help enormously in the air end, but it needs a catch agency; and the Procurement Division would be particularly useful. For instance, Paris Green to be spread on the waters of the Red Sea to see - or the Suez Canal to see that it doesn't reflect, so that the bombers can't get at it. The most extraordinary things that arrive every day, you see, and which don't in themselves involve large sums of money, but there will be no place to do them.

- H.M.Jr: Well, we now know this much. I will know much more tonight. But you (Young) told me that Bob Patterson has asked us officially to buy all the things that they can't buy.
- Purvis: Splendid. I hope that will include some arrangements on these miscellaneous things apart from the big raw material things such as steel.
- H.M.Jr: We will know more tonight. On the other hand, Bell tells me that the Navy doesn't want us to do that buying.
- Young: Navy can't do it. They haven't got the people or the experience.
- H.M.Jr: Up until noon our people didn't know what the allotment was, but they are all outside and I am to see them now. So we will go over there, and we will see what is what, and I will know a lot more tonight.

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Purvis: Yes. Well, that is a very --

H.M.Jr: One thing that surprises me is, you are not getting anything like 50-50 on the airplane production of our country.

Purvis: Not at the moment. Now, I have an idea, however, that since you left there has been a very important and apparent development from our view in regard to the Army. The sheets as they have shown them to us as to what they are willing to divert in ordnance, and I had understood it also to apply to air, were so much more encouraging than anything that we have had before, that whereas you might find that up to a certain date it hadn't happened, I wouldn't be a bit surprised if you find that it is happening from now on.

H.M.Jr: It didn't happen up until the 29th of March.

Purvis: No.

H.M.Jr: Nothing like it. I am going to show this to the President. Nothing like it.

Purvis: Well, anything that you can do.

H.M.Jr: I mean nothing like it.

Purvis: Yes.

H.M.Jr: Just nothing like it.

Purvis: No. Well, those are things that can be done immediately, and I believe the President's main interest as I gather from Mr. Hopkins is not so much the procurement program as what can we do just immediately in the future and that, you know, is not highly organized for the moment.

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H.M.Jr: I will see you at 7:30, and come as you are,
because we will be alone.

Purvis: All right. Thank you very much. I will look
forward to it.

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Secretary Morgenthau

April 2, 1941

Mr. Foley

Attached is a redraft of the over-all Agreement to cover defense articles made available to the United Kingdom which incorporates the suggestions made by the President at our meeting with him and Harry Hopkins on March 14, 1941.

At that time the President said he was in no hurry to sign the Agreement and suggested, after the appropriation measure was passed by Congress, that we take up the redraft, first, with the State Department, second, with the Attorney General, and third, with the Director of the Budget, and, subject to Harry Hopkins' first clearing with Dean Acheson as to the attitude of the State Department, begin discussions in a preliminary way with the British.

I called Dean Acheson last Friday and told him that we were ready to sit down with him and go over the redraft, but I haven't heard anything from him although he promised to give me a call not later than last Monday.

I suggest that you ascertain at the meeting this afternoon whether or not Treasury or State is to take the Agreement up with the British.

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

Attachment

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WHEREAS, the President of the United States is authorized by the Act of the Congress of the United States of March 11, 1941 (Public No. 11, 77th Congress, and hereinafter called the Act) to sell, transfer title to, exchange, lease, lend or otherwise dispose of, and to take certain further action with respect to, defense articles to the government of any country whose defense the President deems vital to the defense of the United States, on such terms and conditions as the President deems satisfactory, and

WHEREAS, the President has determined that the defense of the United Kingdom is vital to the defense of the United States,

NOW, THEREFORE, it is agreed by the United States and the United Kingdom as follows:

1. From time to time and in such amounts as the President may determine, the United States will, pursuant to the Act,

(a) furnish to the United Kingdom certain defense articles;

(b) test, inspect, prove, repair, outfit, recondition or otherwise place in good working order any defense article, or procure any or all such services by private contract; and

(c) communicate defense information pertaining to any defense article furnished hereunder, as valued and listed or otherwise described in schedules,

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appropriately identified, now or hereafter to be attached to this Agreement.

2. Within such period or periods as determined by the President, notice of which determination shall be given to the United Kingdom,

(a) The United Kingdom agrees to redeliver to the United States such defense articles furnished to the United Kingdom hereunder which, in the opinion of the President, are not used up, worn out, destroyed, or otherwise rendered incapable of effective use.

(b) The United Kingdom agrees, in the case of defense articles, other than agricultural commodities, which in the opinion of the President are used up, worn out, destroyed, or otherwise rendered incapable of effective use, to furnish to the United States an equivalent amount of similar defense articles, which, in the opinion of the President, are of a quality, efficiency and relative value substantially equal to the defense articles furnished hereunder to the United Kingdom.

(c) The United Kingdom agrees, in return for

(i) agricultural commodities, and

(ii) other defense articles, services and

defense information,

furnished to it hereunder and for which the United States has not otherwise received full reimbursement, to furnish to the United States an equivalent in tin, rubber, jute, and other products and commodities.

produced in the British Empire or elsewhere and which, in the opinion of the President, are needed by the United States. Such products and commodities shall be furnished in such quantities and at such time or times as shall be determined by the President.

(d) In lieu of returning or furnishing the defense articles or similar defense articles as provided in paragraphs (a) and (b) above, the United Kingdom may, at its option, furnish or transfer to the United States any raw materials or other property, services, information, facilities, or other consideration or benefits acceptable to the President.

To the extent that, during such period or periods determined by the President, the United States shall not have received pursuant to paragraphs (a), (b), (c) and (d) full reimbursement for the defense articles, services, and defense information furnished to the United Kingdom hereunder, the United States shall be entitled to receive or otherwise acquire, and the United Kingdom agrees to furnish or otherwise transfer property, services, information, facilities and other consideration and benefits acceptable to the President.

3. By future agreement, the parties may substitute, in lieu of Section 2, any other payment or repayment in kind or property, or any other direct or indirect benefit to the United States, which the President deems satisfactory.

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4. The President shall determine the fair value of any property, services, information, facilities or other consideration or benefit received by the United States from the United Kingdom; and the United Kingdom shall be credited therefor on account of the defense articles, services and defense information furnished to the United States hereunder. For any defense article returned to the United States pursuant to paragraph (a) of Section 2 above, the United Kingdom shall receive a credit equal to the value given to such defense article in the schedules now or hereafter to be attached to this Agreement. The parties to this Agreement shall periodically review the status of the accounts arising under this Agreement, and the President may from time to time determine any credits to be given to the United Kingdom by reason of any consideration or benefit which the President determines shall have been received by the United States from the United Kingdom.

5. The United Kingdom agrees that it will not, without the consent of the President, transfer title to or possession of any defense article or defense information furnished to the United Kingdom hereunder or permit its use by anyone not an officer, employee, or agent of the United Kingdom.

6. If, as a result of furnishing to the United Kingdom any defense articles or defense information, it

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is necessary for the United Kingdom to take any action or make any payment in order fully to protect, pursuant to the Act, any of the rights of any citizen of the United States who has patent rights in and to any such defense article or information, the United Kingdom will do so, when so requested by the President.

7. Any defense articles, materials, or other personal property to be returned, furnished, or paid to the United States hereunder, shall be delivered or paid by the United Kingdom at such place or places in the United States, or any place subject to the jurisdiction thereof, as from time to time shall be determined by the President. Any defense article or other property, service, information, facility, or other consideration or benefit to which the United States shall become entitled hereunder shall insofar as the rights, powers and privileges of the United States may thereby be affected, be exempt and immune from any taxes, charges, restrictions, regulations and controls of any nature under the laws of the United Kingdom or any political subdivision thereof.

8. The United States may at any time cease furnishing the defense articles, services and defense information referred to in Section 1 above. Such cessation shall not affect any of the rights, powers, or privileges of the United States or of the President hereunder or of any of the duties, liabilities, or obligations of the United Kingdom, all of which shall continue in effect until the

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United Kingdom shall have fully performed its duties and obligations and discharged its liabilities hereunder. Any default by the United Kingdom in the performance of any of its duties or obligations or in the discharge of its liabilities hereunder shall entitle the United States, by appropriate action to be determined by the President, to enforce its rights, powers, claims and privileges hereunder.

9. The President may exercise any power or authority conferred on him hereunder through such officer or agency as he shall direct for that purpose. The terms "defense article" and "defense information" as used in this Agreement shall have the same meaning as defined in the Act.

10. Any notice under the hand of the President or any officer designated by him shall be deemed and taken as the notice of the United States and the President and shall be sufficient if delivered at the British Embassy at Washington, D.C., or at the office of the Permanent Secretary of the British Treasury in London; and any notice by the United Kingdom shall be sufficient if delivered to the American Embassy in London, or to the Secretary of the Treasury of the United States at the Treasury of the United States in Washington, D.C. Any waiver of any notice required hereunder shall not extend to or affect any subsequent notice or waive any right of the parties to require notice hereunder.

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8. The parties to this Agreement, and the officials signing this Agreement on their behalf, each for itself, himself, or themselves, represent and agree that the execution and delivery of this Agreement have in all respects been duly authorized, and that all acts, conditions and legal formalities which should have been performed and completed prior to the making of this Agreement have been performed and completed as required by, and in conformity with, respectively, the laws of the United States and the United Kingdom.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in duplicate at the City of Washington, District of Columbia, this _____ day of _____, 1941.

THE UNITED STATES OF AMERICA

By

(Title)

HIS MAJESTY'S GOVERNMENT IN THE
UNITED KINGDOM

By

(Title)

To:

173412

The Secretary

In connection with Hull's request today for the withdrawal of the Italian naval attache as persona non grata I think I may have neglected to inform you that I furnished State, as well as Justice and Navy, copies of telegrams signed "Addeto Navale" containing a code phrase which, according to one of the Italian Captains, was the prearranged order for sabotage. The information came from Vinond, Assistant Collector of Customs at Norfolk. I phoned Breckenridge Long about it Monday and gave him the photostate Tuesday. The telegrams were dated March 19 and March 28, the first covering two ships and the second three. We learned that the delay as to the three ships was due to the fact that they were under libel.

From: MR. GASTON

174 4/2

The Secretary

Re: Degaussing calibration.

The degaussing belt is a cable around a ship inside or outside the bulwarks which carries a heavy low-voltage current to neutralize the ship's magnetism so that it won't set off magnetic mines over which it passes.

Calibration consists merely of testing to see that the ship's magnetism is properly neutralized. This is done over the Navy's prepared course at Norfolk, where there are underwater cables connected to instruments ashore to measure magnetic effects from ships passing over the cables.



From: MR. GASTON

Miss Channing -

See Jackson's two
tables on status
of cutters.

R. I. D.

April 2, 1941
2:30 p.m.

RE AID TO BRITAIN

Present: Mr. Bell
Mr. Thompson
Mrs. Klotz
Mr. Young
Mr. Foley
Mr. Mack
Mr. Gaston

Bell: These are the allocations that are to be recommended to the President this afternoon.

H.M.Jr: Procurement and the Treasury, eight and a half billion dollars worth.

Bell: That is a reduction from 375 million. (Laughter)
I understand that that represents about the orders that Mack has been talking to the British about.

H.M.Jr: I see.

Bell: That is what all of that sheet is. It is more in accord with what is before each Department at this time. In the other sheet they estimated - or they tried to allocate about half of the appropriations, three billion four.

H.M.Jr: Well, now, let's just stick to the eight and a half million. What is that, Mack?

Mack: That is their estimate of the immediate purchases for the next 10 days. That would be steel, three million; brass rods and wire, 750 thousand; fire hose, 700 thousand; horn and hoof meal - they use that for putting out fires, seven thousand; agricultural implements, one million; road building equipment, one million 500 thousand; nitrates, 500 thousand; phos-

- 2 -

phate rock, 250 thousand; phosphates, 500 thousand. It figures actually eight million 270 thousand.

H.M.Jr: How does that come to you?

Mack: We had a request from the Budget for an estimate of the immediate needs, that is, the orders to be placed within the next week or ten days, and I got that from the British Purchasing Commission.

H.M.Jr: You mean it came to you direct from the British Purchasing?

Mack: Well, I guess--

Young: It came as a result of conferences which Cliff Mack and I had with the British.

H.M.Jr: Did you get my message about trying to get the steel from some of the smaller companies?

Mack: No, I didn't.

Young: I got that message.

H.M.Jr: Didn't you pass it on?

Young: I got it from Danny Bell. The steel situation on the British at the moment is that they have got so much piled up on the docks they have given orders to the mills to stop making any deliveries.

H.M.Jr: I wish you would have given him that order. Who did I tell that to?

Gaston: You told that to me.

H.M.Jr: I wanted that order transmitted. When I give an order, I want it to go down the line.

Gaston: Phil happened to be in Dan Bell's office at the moment, and I gave it to Dan and he got it from him.

- 3 -

Young: I am sorry, I didn't understand it that way.

H.M.Jr: Well, I gave it very plainly. I wanted to find out from CIO who were the companies in that bulletin that they mentioned who had less than fifty per cent production. That was what I said. I made it very clear and mentioned the bulletin and where the information was and everything else.

Well, I will repeat it. I don't like to repeat orders more than once. I don't make a custom of it. If you get hold of the CIO bulletin, they have specifically in the last monthly bulletin said that there are a lot of small companies with capacity up to 8,000 tons that have got less than fifty per cent of their capacity booked.

Mack: I see.

H.M.Jr: And the suggestion I made was that you ask CIO who are these companies.

Mack: I will do that.

H.M.Jr: Let's find out who they are.

Mack: I will do that.

H.M.Jr: After all, we ought to place this whether the stuff is on the docks or not, Phil.

Mack: There has been this change since that information was given to me. Elliott, who is the head of the Iron and Steel Corporation, told me that there were cancelations to be made within the next few days, and I guess they have been made by this time, that would give them enough free funds to take care of their iron and steel requirements for the month of April so that we wouldn't be called on to make any actual purchases until May first.

- 4 -

H.M.Jr: Well, let me just go around to some of the others. I haven't very much time. I want to find out what is going on. I don't understand when the English need stuff why they don't purchase it ten days in advance.

What else, Dan?

Bell: That is all I had.

Thompson: I have a letter to the Secretary of State relative to turning over files and everything in connection with the Lend-Lease. We turned them over yesterday. I got hold of Mr. McReynolds just a few moments ago and told him we wanted to get a formal clearance on the other letter, the things that Harry Hopkins has taken over.

He talked to Hopkins and called me back, and said if we would send over a draft of a letter for the President to sign, addressed to you, and turn that over to Harry Hopkins, Harry will get it signed. So I will get that in this afternoon.

H.M.Jr: Good. That is the way to clean it up. Does that clean you (Bell) up?

Bell: Yes.

H.M.Jr: Now, Herbert, before I go over?

Gaston: Yes.

H.M.Jr: What about the Coast Guard cutters?

Gaston: Here are the memoranda right here.

That is the 327 footers. The location is in the first column.

- 5 -

H.M.Jr: Is this the original?

Gaston: It is what they sent me. Wait a minute, they sent the wrong one on that. Here is the original on the 250 footers. They just stuck the wrong one in on me.

Klotz: Shall I get it for you?

H.M.Jr: This is the 327. It is just a copy. That looks all right.

Gaston: That isn't the original, yes. But this is the 250 footers, isn't it? Yes, and this is the 327. They sent the copy instead of the original, that is all.

H.M.Jr: Who would have it in your office?

Gaston: They wouldn't have it in my office. They handed it to me just as it came over from Coast Guard.

H.M.Jr: What does this mean, "Temporary D. G."?

Gaston: That is "degaussed," not installed, not calibrated.

H.M.Jr: What does that mean, "calibration"?

Gaston: Oh, I suppose it has to do with --

H.M.Jr: I would like to explain it.

Gaston: All right, I will find out just exactly.

H.M.Jr: Well, I haven't got time unless you want to step out and phone.

Gaston: Yes.

H.M.Jr: I don't --

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Gaston: I presume it has to do with calibrating the ships instruments, but I will verify that.

H.M.Jr: Do you mind?

Gaston: Here are the other two memoranda. I will go out and call on that.

H.M.Jr: Just let me see if there is anything else. This is the replacement. All right. Weather Control. O.K. This doesn't sum up how many are ready and how many are not, does it?

Gaston: They show the state of the armament program on the ships.

H.M.Jr: You couldn't get - would Waesche know if I called him up, do you think?

Gaston: You had better get Chalker, I guess, if he is still there.

H.M.Jr: Let's just let that go a minute, and we will come to you (Foley).

(Mr. Foley hands memorandum to the Secretary)

H.M.Jr: Now while we are waiting, after talking with Purvis, the thing that seems the most important are these Coast Guard ships. Could you take two minutes to tell me - I mean, Danish ships. Tell me how you would go about turning them over.

Foley: Well --

(Telephone conversation with Captain Chalker follows:)

April 2, 1941
2:44 p.m.

H.M.Jr: This is the Secretary.

Capt. L.T.
Chalker: Yes, sir.

H.M.Jr: You have given me this thing through Mr. Gaston for the 250 ft. and the 327, and it's so damned complicated I can't make head or tails out of it. In the first place, what does it mean "not calibrated."

C: The calibration has to do with the degaussing that they put on as protection against electric mines.

H.M.Jr: Calibration of what?

C: The calibration of the degaussing system which is a system that is used to protect the vessel against electric mines if the ship passes over them.

H.M.Jr: Well, now, let me ask you. The 250 ft. cutters, how many of them - I can't tell from this - of the ten, how many of them are ready?

C: They're in different stages of preparation at the present time, sir, and the only one of the 250 that is fully equipped in all respects is the Cayuga.

H.M.Jr: Well, how long would it take to get five of them ready?

C: We could have five of them ready I would say, sir, within a week or ten days at the most.

H.M.Jr: Who does it depend upon outside of the Coast Guard?

C: It depends principally upon delivery of equipment. We have four of them at the present time in the New York yard. Delivery

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date on them is April 2nd, today, as a matter of fact, and they will be complete as far as we can complete them with equipment which is available to the Coast Guard.

H.M.Jr: That's four.

C: Yes, sir, and the Cayuga is ready.

H.M.Jr: Well, then five ought to be ready as of today.

C: Yes, sir, except even that ready doesn't mean, unfortunately, entirely ready in this respect. The .50 caliber machine guns - they are guns that we have to get through the Navy. If they can make them available they can install them within, oh, within one working day easily.

H.M.Jr: Well, let's put it this way then. If the Navy gave us 100% cooperation when could these ships put to sea and be ready?

C: The four ships could put to sea and be ready I would say within three to four days.

H.M.Jr: And the Cayuga is ready.

C: The Cayuga is ready as far as we can get her ready, yes, sir.

H.M.Jr: All right. Now, that's that. Now, on the 327 footers, how near ready are they?

C: The only one which is 100% ready at the present time is the Ingham in New York.

H.M.Jr: She is ready.

C: Yes, sir.

H.M.Jr: And how about the others?

C: The others are in varying stages, some requiring degaussing and other minor equipment.

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H.M.Jr: Well, how long would it take you? Give me comparable figures on the other five.

C: I think, sir, provided the equipment is available and we get 100% cooperation, I would say that we could have those ready I think within ten working days.

H.M.Jr: On how many?

C: Well, I think that would take care of all which are on this coast. That would be eight.

H.M.Jr: Eight?

C: I beg your pardon - I was taking two from ten. Two from seven would be five.

H.M.Jr: Of the 327's, how many out of the seven? Only got seven ships.

C: Of the 327 I would say five.

H.M.Jr: Five ships in ten days. Is that right?

C: Yes, sir.

H.M.Jr: All right.

C: I'm a little out of my field estimating for the engineers, but from everything I've seen, that is my opinion.

H.M.Jr: And that's with 100% cooperation from the Navy.

C: Yes, sir.

H.M.Jr: O.K. I'll add a day or two so that - to keep you out of trouble.

C: All right, sir.

H.M.Jr: O.K. Thank you. Your Gaston is sitting here.

C: Yes, sir.

H.M.Jr: Thank you.

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Gaston: One is in Lisbon and the other is in the south Pacific.

H.M.Jr: Let me use the rest of the time to get this Danish ship thing.

Foley: In so far as the ships are concerned in our protective custody, upon which a conspiracy to violate our laws was committed, that is, where there was sabotage --

H.M.Jr: May I interrupt you? None of the Danish ships was sabotaged.

Foley: O.K., none of them.

H.M.Jr: Would you keep on the --

Foley: On the Danish ships, which haven't been damaged, I think in order for us to take them over and operate them, we probably will need legislation.

H.M.Jr: How many are there?

Foley: Twenty --

Gaston: Thirty-six.

H.M.Jr: Well, there wouldn't be any trouble getting a bill through, would there?

Foley: I doubt very much whether there would be any trouble getting a bill through.

H.M.Jr: But on those 36 you feel that a bill would be the best thing?

Foley: That would be the neatest way to do it, because there are all kinds of questions of ownership and payment of funds and that sort of thing that we can tie up into a bundle and drop it

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in Congress' lap and get it done quickly and neatly. There is an argument that could be made, that the President because of the exigency of the situation would have executive power under the Constitution to do it, but it wouldn't be as neat a way.

H.M.Jr: Do you agree?

Gaston: Yes. I think it is better to do it by legislation. The sale thing is almost out of the question, because it involves status of ownership and representation.

H.M.Jr: Have you got any opinion?

Bell: I don't know.

H.M.Jr: Isbrandtsen and Moller are fighting among themselves.

Let me go back to this thing with Young and Mack. What I can't understand is, don't the British at this time, for instance, know how much steel they want and all the rest of that stuff?

Young: Well, I think they have a pretty good idea of their requirements. They change from day to day. They put out a blanket contract arrangement, as I understand it, for a certain category of steel or scrap iron or what not, and they change the specifications of that stuff day in and day out, depending on what they actually need at the moment in a hurry. Is that the sort of picture you got?

Mack: Yes, sir. They have a tentative estimate for the next 90 days of ninety-eight millions.

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- H.M.Jr: Do I understand from you, for instance, that this man Elliott is going to use so-called free money and doesn't want it under the Lend-Lease?
- Mack: For the current needs, that is, for the month of April. He explained that they are going to cancel certain pending steel orders because it doesn't call for the requirements that they now need, and he is going to use that free balance to take care of this month's needs. I believe he estimated this month's needs to be only about three million dollars, because they have a large accumulation on the docks that hasn't yet moved. Those two factors together.
- H.M.Jr: Well, I am very much interested to find out whether this statement by the CIO that there are 6,000 tons unused productive capacity that exists amongst the small companies, which are the small companies.
- Mack: I can do that.
- H.M.Jr: Because I think it is terribly important, particularly in connection with this Gano Dunn report which I want to get on as soon as I get a chance.
- Mack: All right.
- H.M.Jr: But - well, I never could understand the English and I don't understand them now. I thought they would be asking for all kinds of stuff. It gets down to eight million dollars.
- Young: Well, they are asking for all sorts of things. They have got a hundred and sixty-two million dollars worth of stuff for Cliff lined up between now and the first of July,

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but it is in general categories and not broken down in detail yet.

H.M.Jr: We will go over, and here is a chance - and all they are going to get, evidently, if the President approves it, is eight and a half million. If they don't get more, it is their own fault, is that right?

Young: The British?

H.M.Jr: Yes, as far as Procurement is concerned.

Young: Well, the British haven't substantiated a detailed breakdown of any more, item by item.

Mack: I asked for the best information they had as to their requirements for ninety days and they gave me a listing that calls for a hundred and sixty-two million nine hundred thousand, but the eight million three is for the immediate needs.

H.M.Jr: I see. Well, when I come back I will let you all know what happened. Have you got anything, Bell?

Bell: No, sir.

H.M.Jr: O.K.

Young: Here is a copy of this memo I sent Harry this morning.

H.M.Jr: Oh, good. Thank you.

Young: That photostat in there is that copy of a statement from the Norwegian Minister on the 250 merchant ships. Now, you probably don't want the copies of your letters to

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the President and Harry on the buying in view of what Norman has worked out, is that right?

Thompson: I don't think so.

H.M.Jr: No. Should I read this before I go over?

Young: I don't think you need to. The third sheet there is one on which I would like to show you some points.

H.M.Jr: Which is that, Phil?

Young: Here it is on the back. I should have written another memo.

H.M.Jr: All right.

Young: It is the question of definition, principally.

H.M.Jr: This is the important thing.

Young: It is important because we can't split this thing up with the State Department until we know what we are splitting.

H.M.Jr: This is what you would like to have lend-lease, what is up here?

Young: Those are principally the same countries that were mentioned before with the addition of Belgium and Turkey.

H.M.Jr: O.K. All right, everybody. Thank you.

March 29, 1941

MEMORANDUM TO: Mr. Young

Herewith is information furnished to the Bureau of the Budget which is based upon telephone information received from Mr. Swiggett of the British Purchasing Commission. These items represent Mr. Swiggett's estimate of immediate purchase requirements.

Included in these items are those on which we are now in the process of negotiating purchases, as per list attached.

Steel	\$3,000,000
Brass Rods & Wire	750,000
Fire Hose	700,000
Hoof & Horn Meal	70,000
Agricultural Implements	1,000,000
Road Building Equipment	1,500,000
Nitrates	500,000
Phosphate Rock	250,000
Phosphates	<u>500,000</u>
	\$8,270,000

Clifton E. Mack,
Director of Procurement.

GLjr/ejs

April 7, 1941

MEMORANDUM

To: Mr. Hopkins
From: Mr. Young

Re: Definition of Countries Within
the Lend-Lease Area.

On March 29th, I addressed a memorandum to General Burns concerning the definition of countries within the lend-lease area, copy of which I enclose. This matter is becoming urgent in connection with dominions of the British Empire, such as Canada and Australia, and in connection with the Netherlands East Indies.

For the present it is assumed that such parts of the British Empire as Canada and Australia will continue to pay cash for their purchases; that is, purchases may be made by the United States Government under the Lend-Lease Act with a direct cash reimbursement to the United States Treasury or by a separate negotiation conducted directly between the purchaser and the supplier. In the latter case the transaction would not be performed under the lend-lease provisions.

Canada is very anxious to have the United States Government place orders for it under the Lend-Lease Act and then reimburse the Treasury. I might add that the reimbursement to the Treasury goes into a revolving fund in such a way that there is no drain on the lend-lease appropriation.

In the case of the Netherlands where over 95 per cent of the purchasing program is destined for the Netherlands East Indies, it seems to me that all parts of the Netherlands Empire should be included within the lend-lease area although, of course, the Dutch will continue to pay cash either on direct purchase transactions

on an lend-lease transactions with reimbursement to the United States Treasury. I believe that the Dutch should be included in this area and allowed to purchase under lend-lease provisions, first, because of their close relationship with the British and the need for increased coordination between the Netherlands Purchasing Commission and the British Purchasing Commission; secondly, because of the vital importance of the Far Eastern situation to the United States; and, thirdly, because more active control and supervision over this large purchasing program, which is having a direct effect on our production and our economy, can be secured in the lend-lease area than if the Dutch are left to shift for themselves.

Further, the fact must be taken into account that the United States is receiving vital strategic and critical materials from the East Indies and that this flow should be preserved at least for the time being.

There is a third ramification of this situation, namely, there must be coordination and cooperation between the British Purchasing Commission and the British allies asking for release of goods under the Lend-Lease Act. For instance, Norway is currently requesting certain guns and ammunition, as outlined on the attached list, to arm 250 Norwegian merchant ships which are operating in the war zone and in the interests of the British.

I am now trying to find out if the Navy can make available any of the equipment requested, and it is my feeling that all such requisitions from British allies, with the possible exception of the Dutch, should only be made if approved by the British Supply Council. In connection with this specific request, it would seem to me much easier to release guns for the Norwegian ships that are being used to help the British than to build new ships to replace them.

I attach a list of urgent questions which if they could be answered would immediately help clarify the situation and speed up lend-lease operations.

(Initialed) P.Y.

PT:bj

Urgent Questions Concerning Lend-Lease Operations

- (1) Are the following countries considered to be within the lend-lease area although purchasing operations may be carried on for cash either by a direct purchase transaction or by cash reimbursement to the United States Treasury:

Poland	British Empire
Iceland	Norway
Greenland	Turkey
Greece	Belgium (including Belgian Congo)
China	Netherlands (including Netherlands East Indies)

- (2) If this list of countries cannot be approved, can the various parts of the British Empire, the various parts of the Netherlands Empire, and Norway be treated as within the lend-lease area even though purchasing may be carried on for cash?
- (3) Should the smaller British Allies coming within the lend-lease area, such as Greece, Norway, and Belgium (excluding Netherlands Empire) have all requisitions for defense articles countersigned by the British before submitting them to the United States Government?

Note: In connection with the purchasing operations of such countries as Norway and Belgium there is a problem looming up as to when these countries should be extended credit even though they may have a certain amount of cash resources left.

For instance, with respect to the immediate request of Norway for armament for merchant ships, the Treasury Division of Monetary Research advises me that Norway has approximately 35 million dollars in gold, 10 million dollars of official balances, and 35 million dollars private balances. Yet the implication from the note from the Minister of Norway is that this armament should be secured on lend-lease credit.

As a matter of practical operation, I should think these problems could be worked out in individual instances as they occur and in conjunction with the British Treasury which has information as to the financial state of its allies.

PY:bj
4/2/41

*This was presented to President by
Cory at White House, Lincoln
4/7/41*

Secretary Morgenthau

April 2, 1941

Mr. Foley

Attached is a redraft of the over-all Agreement to cover defense articles made available to the United Kingdom which incorporates the suggestions made by the President at our meeting with him and Harry Hopkins on March 14, 1941.

At that time the President said he was in no hurry to sign the Agreement and suggested, after the appropriation measure was passed by Congress, that we take up the redraft, first, with the State Department, second, with the Attorney General, and third, with the Director of the Budget, and, subject to Harry Hopkins' first clearing with Dean Acheson as to the attitude of the State Department, begin discussions in a preliminary way with the British.

I called Dean Acheson last Friday and told him that we were ready to sit down with him and go over the redraft, but I haven't heard anything from him although he promised to give me a call not later than last Monday.

I suggest that you ascertain at the meeting this afternoon whether or not Treasury or State is to take the Agreement up with the British.

(initials) C. H. S. Jr.

Attachment

WHEREAS, the President of the United States is authorized by the Act of the Congress of the United States of March 11, 1941 (Public No. 11, 77th Congress, and hereinafter called the Act) to sell, transfer title to, exchange, lease, lend or otherwise dispose of, and to take certain further action with respect to, defense articles to the government of any country whose defense the President deems vital to the defense of the United States, on such terms and conditions as the President deems satisfactory, and

WHEREAS, the President has determined that the defense of the United Kingdom is vital to the defense of the United States,

NOW, THEREFORE, it is agreed by the United States and the United Kingdom as follows:

1. From time to time and in such amounts as the President may determine, the United States will, pursuant to the Act,

(a) furnish to the United Kingdom certain defense articles;

(b) test, inspect, prove, repair, outfit, recondition or otherwise place in good working order any defense article, or procure any or all such services by private contract; and

(c) communicate defense information pertaining to any defense article furnished hereunder, as valued and listed or otherwise described in schedules, appropriately identified, now or hereafter to be attached to this Agreement.

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2. Within such period or periods as determined by the President, notice of which determination shall be given to the United Kingdom,

(a) The United Kingdom agrees to redeliver to the United States such defense articles furnished to the United Kingdom hereunder which, in the opinion of the President, are not used up, worn out, destroyed, or otherwise rendered incapable of effective use.

(b) The United Kingdom agrees, in the case of defense articles, other than agricultural commodities, which in the opinion of the President are used up, worn out, destroyed, or otherwise rendered incapable of effective use, to furnish to the United States an equivalent amount of similar defense articles, which, in the opinion of the President, are of a quality, efficiency and relative value substantially equal to the defense articles furnished hereunder to the United Kingdom.

(c) The United Kingdom agrees, in return for
(i) agricultural commodities, and
(ii) other defense articles, services and defense information,

furnished to it hereunder and for which the United States has not otherwise received full reimbursement, to furnish to the United States an equivalent in tin, rubber, jute, and other products and commodities produced in the British Empire or elsewhere and which,

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in the opinion of the President, are needed by the United States. Such products and commodities shall be furnished in such quantities and at such time or times as shall be determined by the President.

(d) In lieu of returning or furnishing the defense articles or similar defense articles as provided in paragraphs (a) and (b) above, the United Kingdom may, at its option, furnish or transfer to the United States any raw materials or other property, services, information, facilities, or other consideration or benefits, acceptable to the President.

To the extent that, during such period or periods determined by the President, the United States shall not have received pursuant to paragraphs (a), (b), (c) and (d) full reimbursement for the defense articles, services, and defense information furnished to the United Kingdom hereunder, the United States shall be entitled to receive or otherwise acquire, and the United Kingdom agrees to furnish or otherwise transfer, property, services, information, facilities and other consideration and benefits acceptable to the President.

3. By future agreement, the parties may substitute, in lieu of Section 2, any other payment or repayment in kind or property, or any other direct or indirect benefit to the United States, which the President deems satisfactory.

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4. The President shall determine the fair value of any property, services, information, facilities or other consideration or benefit received by the United States from the United Kingdom; and the United Kingdom shall be credited therefor on account of the defense articles, services and defense information furnished to the United States hereunder. For any defense article returned to the United States pursuant to paragraph (a) of Section 2 above, the United Kingdom shall receive a credit equal to the value given to such defense article in the schedules now or hereafter to be attached to this Agreement. The parties to this Agreement shall periodically review the status of the accounts arising under this Agreement, and the President may from time to time determine any credits to be given to the United Kingdom by reason of any consideration or benefit which the President determines shall have been received by the United States from the United Kingdom.

5. The United Kingdom agrees that it will not, without the consent of the President, transfer title to or possession of any defense article or defense information furnished to the United Kingdom hereunder or permit its use by anyone not an officer, employee, or agent of the United Kingdom.

6. If, as a result of furnishing to the United Kingdom any defense articles or defense information, it

is necessary for the United Kingdom to take any action or make any payment in order fully to protect, pursuant to the Act, any of the rights of any citizen of the United States who has patent rights in and to any such defense article or information, the United Kingdom will do so, when so requested by the President.

7. Any defense articles, materials, or other personal property to be returned, furnished, or paid to the United States hereunder, shall be delivered or paid by the United Kingdom at such place or places in the United States, or any place subject to the jurisdiction thereof, as from time to time shall be determined by the President. Any defense article or other property, service, information, facility, or other consideration or benefit to which the United States shall become entitled hereunder shall, in so far as the rights, powers and privileges of the United States may thereby be affected, be exempt and immune from any taxes, charges, restrictions, regulations and controls of any nature under the laws of the United Kingdom or any political subdivision thereof.

8. The United States may at any time cease furnishing the defense articles, services and defense information referred to in Section 1 above. Such cessation shall not affect any of the rights, powers, or privileges of the United States or of the President hereunder or of any of the duties, liabilities, or obligations of the United Kingdom, all of which shall continue in effect until the

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United Kingdom shall have fully performed its duties and obligations and discharged its liabilities hereunder. Any default by the United Kingdom in the performance of any of its duties or obligations or in the discharge of its liabilities hereunder shall entitle the United States, by appropriate action to be determined by the President, to enforce its rights, powers, claims and privileges hereunder.

9. The President may exercise any power or authority conferred on him hereunder through such officer or agency as he shall direct for that purpose. The terms "defense article" and "defense information" as used in this Agreement shall have the same meaning as defined in the Act.

10. Any notice under the hand of the President or any officer designated by him shall be deemed and taken as the notice of the United States and the President and shall be sufficient if delivered at the British Embassy at Washington, D. C., or at the office of the Permanent Secretary of the British Treasury in London; and any notice by the United Kingdom shall be sufficient if delivered to the American Embassy in London, or to the Secretary of the Treasury of the United States at the Treasury of the United States in Washington, D. C. Any waiver of any notice required hereunder shall not extend to or affect any subsequent notice or waive any right of the parties to require notice hereunder.

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3. The parties to this Agreement, and the officials signing this Agreement on their behalf, each for itself, himself, or themselves, represent and agree that the execution and delivery of this Agreement have in all respects been duly authorized, and that all acts, conditions and legal formalities which should have been performed and completed prior to the making of this Agreement have been performed and completed as required by, and in conformity with, respectively, the laws of the United States and the United Kingdom.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in duplicate at the City of Washington, District of Columbia, this _____ day of _____, 1941.

THE UNITED STATES OF AMERICA

By _____

(Title)

HIS MAJESTY'S GOVERNMENT IN THE
UNITED KINGDOM

By _____

(Title)

April 2, 1941
5:23 p.m.

Herbert
Gaston:

Yes.

H.M.Jr:

Herbert.

G:

Yes.

H.M.Jr:

The President decided that he wants to let the English have the ten 250 ft. cutters, so will you take the necessary steps.

G:

Yes. I presume I'll talk to Oscar Cox and work out the details of transfer but we're to deliver them as rapidly as possible without further fuss and feathers.

H.M.Jr:

Pardon?

G:

I suppose we're to deliver them as rapidly as possible and we'll make the arrangements with the British as to how they'll take them over.

H.M.Jr:

That's what I understand. And on the other thing, take it up with the Maritime Commission. I've got a lot more stuff. I'll give it to you in the morning but take it up with the Maritime Commission. They're to furnish us with the ships; we're to man them and maintain weather patrol.

G:

Well, that's sensible. They are to get instructions to that effect, are they?

H.M.Jr:

Well, we're to fix it up and find out what ships they have and fix up a letter and the President will sign it.

G:

Yes.

H.M.Jr:

But he wants some of these old coast-wise ships.

G:

The old coast-wise ships.

H.M.Jr:

Something that isn't much good for anything else.

- 2 -

G: Yes.

H.M.Jr: Some of the older ones like - he mentioned the Wardline, or something like that.

G: Yes.

H.M.Jr: Some of the older ships, and they're to turn them over to us and we're to man them and maintain them.

G: Yeah. These Italians would be very suitable if we had them now.

H.M.Jr: Well, I've got a lot of stuff but I just wanted to get that on the record tonight.

G: O.K. I've got it.

H.M.Jr: I've been over there for almost two hours and a half now and I'll do the rest in the morning but I wanted to get this started. Will you please start it still tonight?

G: You bet I will.

H.M.Jr: Thank you.

G: Right.

April 2, 1941

Arthur Purvis had dinner with me tonight. It seems that yesterday he had a two and a half hour luncheon engagement with Harry Hopkins. He has great difficulty in working with Hopkins, and he says he does not always know what he really wants. He said that what Hopkins wants now, and what he claims the President wants, is that they send General Wavell over here from the Middle East. Purvis said that Hopkins said that if he comes here, they can have the moon. Hopkins not only told Purvis this on Tuesday, but he also told the same story later in the day to the new military attache at the British Embassy.

I told Purvis that I doubted very much that this is what the President wanted, and I was with him yesterday at this meeting of the War Cabinet for two and a half hours, and he never even hinted that he wanted this man or that he was interested particularly in the strategy of the Middle East campaign. I told Purvis what the President mostly was interested in was how he could get American flag ships to various European ports without breaking the neutrality laws.

My suggestion to Purvis was that he do what we used to do with the children when they got tantrums; namely, throw a lot of pieces of paper in front of them and by the time they picked the paper up, they had forgotten the tantrum. I told him he should prepare statistics showing how much tonnage is waiting on the docks at New York and Halifax for shipment. I said he should give it in terms of so many carloads of ten thousand tons shipped, and that this is composed of so many airplanes, etc., and that they wanted these cargoes moved to the Middle East, England, or Singapore. I told him to get these figures into the hands of Hopkins as soon as possible, and put it up to him strongly as to how they could move this cargo off the docks and to the appropriate destination. Purvis said he thought this was an awfully good suggestion and he would get on it at once. I told him that after he had given the figures to Hopkins, he should give them to me.

0:

The Secretary

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Coast Guard is getting up a memorandum on the 35 Danish ships giving further information as to power plants and general characteristics than is contained in this schedule, which I have taken from the files. It was submitted in connection with Admiral Waesche's report of April 2 on the seizure of the ships. I will furnish copies of the new tabulation to Cox and Young.



From: MR. GASTON

LIST OF DANISH VESSELS SILED MARCH 30, 1951

NO.	NAME	EST.	LENGTH	GROSS TONNAGE	HOME PORT	PRESENT LOCATION	DATE OF ARRIVAL	ESTIMATED NO. OF BOARD WHEN ENTERED
1	JOSEPH	Dan.	290.0	1,549	Major	Portland, Maine	4/12/40	17
2	ANNA MAREN	Dan.	466.3	8,878	Major	Boston	4/9/40	9
3	ANNA MAREN	Dan.	257.9	1,890	Major	Boston	12/16/40	11
4	ANNA MAREN	Dan.	257.9	1,890	Major	Boston	4/16/40	10
5	ANNA MAREN	Dan.	352.6	2,301	Major	New York	4/10/40	18
6	ANNA MAREN	Dan.	280.7	1,948	Major	New York	4/20/40	15
7	ANNA MAREN	Dan.	310.0	2,872	Major	New York	4/10/40	16
8	ANNA MAREN	Dan.	356.8	2,888	Major	New York	4/17/40	13
9	ANNA MAREN	Dan.	271.8	1,917	Major	New York	12/19/40	10
10	ANNA MAREN	Dan.	357.0	2,190	Major	New York	4/22/40	14
11	ANNA MAREN	Dan.	292.2	1,969	Major	New York	6/22/40	8
12	ANNA MAREN	Dan.	292.0	1,700	Major	New York	7/23/40	8
13	ANNA MAREN	Dan.	356.4	2,937	Major	New York	6/3/40	17
14	ANNA MAREN	Dan.	354.7	2,488	Major	New York	4/4/40	15
15	ANNA MAREN	Dan.	290.0	1,949	Major	New York	4/4/40	6
16	ANNA MAREN	Dan.	290.0	1,700	Major	New York	4/3/40	9
17	ANNA MAREN	Dan.	271.7	1,654	Major	New York	4/7/40	16
18	ANNA MAREN	Dan.	259.0	1,992	Major	New York	7/3/40	6
19	ANNA MAREN	Dan.	271.7	1,641	Major	New York	4/15/40	13
20	ANNA MAREN	Dan.	356.8	2,832	Major	Philadelphia	4/9/40	17
21	ANNA MAREN	Dan.	401.4	4,700	Major	Philadelphia	4/8/40	16

4/2/41

NO.	NAME	NAT.	LENGTH	GROSS TONNAGE	HOME PORT	PRESENT LOCATION	DATE OF ARRIVAL	ESTIMATED NO. ON BOARD WHEN SEIZED
22	BROSUND	Dan.	305.0	2,939	Frederikshaven	Baltimore	4/3/40	12
23	ALSSUND	Dan.	332.1	3,222	Frederikshaven	Baltimore	4/5/40	15
24	LEVA MAERSK	Dan.	439.0	5,614	Copenhagen	Baltimore	4/6/40	13
25	RAGNHILD	Dan.	326.8	2,252	Copenhagen	Baltimore	4/9/40	13
26	COLUMBIA	Dan.	384.7	6,049	Copenhagen	Baltimore	6/5/40	14
27	ANNA MAERSK	Dan.	441.4	5,339	Copenhagen	Baltimore	7/3/40	10
28	NIEL MAERSK	Dan.	418.9	5,086	Svenborg	Baltimore	8/13/40	10
29	LAURA MAERSK	Dan.	455.9	6,599	Copenhagen	Baltimore	7/5/40	18
30	FRODE	Dan.	289.7	2,140	Copenhagen	Norfolk	4/11/40	10
31	E M DALGAS	Dan.	326.8	2,836	Copenhagen	Norfolk	4/21/40	16
32	CAROLINE MAERSK	Dan.	456.8	7,691	Fredericia	Jacksonville	4/14/40	18
33	NORDPOL	Dan.	380.0	4,480	Copenhagen	Los Angeles	4/13/40	13
34	NORDVAL	Dan.	380.0	4,472	Copenhagen	Los Angeles	4/20/40	16
35	NORDVEST	Dan.	401.4	4,702	Copenhagen	Grays Harbor, Wash.	4/11/40	22

4/2/41



THE COMMANDANT OF THE UNITED STATES COAST GUARD

WASHINGTON

2 April 1941.

MEMORANDUM FOR - The Secretary of the Treasury

Subject: Seizure of Immobilized German and Italian Merchant Vessels in Ports of the United States.

1. On receipt of information at Coast Guard Headquarters late Saturday afternoon, March 29th, from a reliable source, that the Italian merchant vessel VILLARPEROSA at Wilmington, North Carolina, was being sabotaged, and the engines of the Italian merchant vessels EURO and PIETRO CAMPANELLA, at Baltimore, were in a disordered condition giving rise to the suspicion that sabotage was being committed, District Commanders concerned were directed to investigate and report immediately on the condition of Italian vessels in their respective areas. This action was followed by orders that guards be placed on these vessels and that every effort be made to prevent sabotage without actually seizing them or arresting the crews. The orders further directed that District Commanders were to be prepared to take custody of Italian vessels promptly at 9:00 a.m., EST, Sunday, March 30th, if so ordered; and to make arrangements to retain the crews in custody of the Coast Guard until Immigration authorities could receive them.

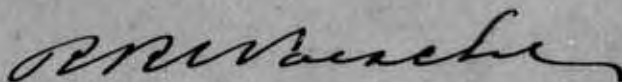
2. In the meantime, Assistant Secretary Gaston, General Marshall and Admirals Stark and Waesche conferred relative to the situation and it was decided in view of early reports received of the discovery of extensive sabotage on several vessels in the Philadelphia area and elsewhere that the President should be apprised and his approval obtained for the immediate seizure of all Italian merchant vessels in United States ports, Puerto Rico and the Canal Zone - 28 in all. At the same time, the Navy Department issued orders to Commandants of Naval Districts to be prepared to give assistance to the Coast Guard if so requested. At 11:00 p.m., March 29th, a detachment of Marines from the Navy Yard, New York, left on a Coast Guard Cutter to assist in preventing further damage to the five Italian vessels in the Port of New York.

3. Authority having been received from the President, Assistant Secretary Gaston directed the Commandant to order the seizure of all Italian vessels, and accordingly, District Commanders were instructed at 9:35 a.m., Sunday, March 30th, to execute orders previously given them to this effect. Reports received before midnight of the same day indicated that seizure of 27 Italian vessels in continental United States and Puerto Rico had been successfully accomplished. It is understood that the Army took care of the 23,000-ton passenger liner CONTE BIANCANANO, immobilized in the Canal Zone. Having received preparatory orders, the Commanders of the Boston and Jacksonville Districts were directed to seize the German vessels PAULINE FRIEDERICH and ARAUCA, at Boston and Port Everglades, respectively, the PAULINE FRIEDERICH having already been reported as sabotaged. These are the only two German vessels within the jurisdiction of the United States.

4. On Sunday, March 30th, arrangements were made with local Immigration authorities to take over as soon as possible the crews of the German and Italian

vessels, and they cooperated splendidly by telephoning to their regional supervisory officers throughout the Country instructions on relieving Coast Guard units of the prisoners.

5. Of the 27 Italian vessels seized, reports show that 26 were sabotaged, and of the 2 German vessels seized, one, the PAULINE FRIEDERICH, was sabotaged. Appended hereto is a list of the Italian and German vessels under seizure, together with pertinent information; and a general summary of the damage inflicted on each vessel.



R. R. WAESCHE,
Rear Admiral, U. S. Coast Guard,
Commandant.



LIST OF ITALIAN AND GERMAN VESSELS SEIZED MARCH 30, 1941

NO.	NAME	NAT.	LENGTH	GROSS TONNAGE	HOME PORT	PRESENT LOCATION	DATE OF ARRIVAL	ESTIMATED NO. ON BOARD WHEN SEIZED
1	ALBERTA	It.	417.7	6,131	Trieste	New York	6/5/40	30
2	ARSA	It.	404.1	5,441	Genoa	New York	6/5/40	36
3	AUSSA	It.	404.1	5,441	Trieste	New York	6/6/40	32
4	BRENNERO	It.	343.5	4,946	Genoa	New York	5/30/40	38
5	SAN LEONARDO	It.	400.0	4,657	Genoa	New York	6/2/40	36
6	BELVEDERE (P)	It.	437.8	6,889	Genoa	Philadelphia	6/7/40	37
7	ANTONINETTA	It.	398.9	4,423	Genoa	Gloucester, N.J.	7/24/40	28
8	SANTA ROSA	It.	344.0	3,027	Genoa	Gloucester, N.J.	8/6/40	29
9	MAR GLAUCO	It.	403.9	4,690	Genoa	Gloucester, N.J.	8/10/40	30
10	PIETRA CAMPANELLA	It.	430.2	6,140	Genoa	Baltimore	8/9/40	31
11	NERO	It.	406.4	4,687	Genoa	Baltimore	8/19/40	30
12	LACOFIA	It.	430.8	5,932	Trieste	Newport News	6/9/40	33
13	VITTORIN	It.	350.7	3,349	Genoa	Newport News	6/11/40	26
14	GUIDONIA	It.	434.2	5,060	Naples	Norfolk	6/9/40	28
15	GIUAN	It.	382.9	5,473	Genoa	Norfolk	6/11/40	30
16	SAN GIUSEPPE	It.	413.2	5,074	Genoa	Norfolk	6/8/40	29
17	VILLANPEROSA	It.	396.7	6,255	Genoa	Wilmington, N.C.	6/4/40	26
18	CLARA	It.	401.0	6,131	Trieste	Savannah	6/9/40	22
19	IRGANIA	It.	413.1	4,815	Genoa	Jacksonville	6/6/40	40
20	CONFIDENZA	It.	412.4	6,458	Genoa	Jacksonville	6/7/40	31

NO.	NAME	NAT.	LENGTH	GROSS TONNAGE	HOME PORT	PRESENT LOCATION	DATE OF ARRIVAL	ESTIMATED NO. ON BOARD WHEN SEIZED
21	IDA E O	It.	403.4	4,935	Genoa	Mobile	6/6/40	30
22	ADA O	It.	373.0	5,234	Genoa	New Orleans	5/30/40	38
23	MONFIGRE	It.	423.7	5,498	Genoa	New Orleans	5/30/40	29
24	MONDIOLA	It.	392.4	6,113	Genoa	Houston	7/21/40	22
25	COLORADO	It.	386.2	5,039	Genoa	San Juan	6/7/40	26
26	LEONE	It.	467.6	8,059	Trieste	Portland, Ore.	6/19/40	55
27	DINO	It.	415.5	5,592	Genoa	Boston	6/5/40	28
28	*CONTE BIANCAMANO(P)	It.	650.9	23,255	Genoa	Colon, C. Z.	6/27/40	400

* This vessel seized by Army authorities in Canal Zone.

1	PAULINE FRIEDERICH	Ger.	376.7	4,654	Hamburg	Boston	9/3/39	19
2	ARAUCA	Ger.	398.3	4,354	Hamburg	Port Everglades	12/19/39	44

4/2/41

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CONFIDENTIAL

31 March, 1941

MEMORANDUM TO MR. GASTON:

Subject: Italian and German Merchant Vessels; report of damage.

The following is a list of the German and Italian merchant vessels seized by the Coast Guard, and the damage inflicted on each according to the latest reports received to date:

BOSTON, MASSACHUSETTS

German	PAULINE FRINKERICH	All auxiliaries destroyed by sledging; manifolds and bearings destroyed; all main cylinders drilled and sections of lining removed. Damage believed to have been inflicted March 30th.
Italian	DINO	Slight damage to bearings and machinery by introduction of filings.

NEW YORK, NEW YORK

Italian	ALBERTA	Three boilers; main condensers and main engines; main shaft burned partially through; blowers, gauges and air pumps, and general damage throughout, including steering engine.
Italian	ARSA	Two boilers; main condensers and main engines; main shaft burned partially through; blowers, gauges and air pumps, and general damage throughout, including steering engine.
Italian	AUSSA	Three boilers; main condensers and main engines; main shaft burned partially through; blowers, gauges and air pumps, and general damage throughout, including steering engine.
Italian	BRUNINO	Two boilers; main condensers and main engines; main shaft burned partially through; blowers, gauges and air pumps, and general damage throughout, including steering engine.

NEW YORK, NEW YORK

Italian SAN LEONARDO

Two boilers; main condensers and main engines; main shaft burned partially through; blowers, gauges and air pumps, and general damage throughout.

PHILADELPHIA, PENNSYLVANIA

Italian BELVEDERE

Machinery badly sabotaged; condensers, crossheads and low pressure cylinders smashed; other damage, minor in nature.

GLoucester, NEW JERSEY

Italian ANTONIETTA

Machinery badly sabotaged; condensers, crossheads and low pressure cylinders smashed; other damage, minor in nature.

Italian SANTA ROSA

Machinery badly sabotaged; condensers, crossheads and low pressure cylinders smashed; other damage, minor in nature.

Italian MAR OLAURO

Machinery badly sabotaged; condensers, crossheads and low pressure cylinders smashed; other damage, minor in nature.

BALTIMORE, MARYLAND

Italian PIETRO CAMPANELLA

Considerable sabotage to both engines; all fires in boilers were drawn.

Italian ENZO

Considerable sabotage to both engines; all fires in boilers were drawn.

NEWPORT NEWS, VIRGINIA

Italian LAGONIA

Machinery and boilers badly wrecked.

Italian VITTORIO

Machinery and boilers badly wrecked.

NORFOLK, VIRGINIA

Italian GUIDONIA

Machinery and boilers badly wrecked.

Italian GEVANI

Machinery and boilers badly wrecked.

Italian SAN GIUSEPPE

Machinery and boilers badly wrecked.

WILMINGTON, NORTH CAROLINA

Italian VILLAFRANCA Circulating pump wrecked; no other apparent damage discovered to date.

SAVANNAH, GEORGIA

Report received 4/1/41 indicates discovery of damage to furnaces of center boiler. No apparent damage discovered to date. (3/31/41)

Italian CLARA

JACKSONVILLE, FLORIDA

Italian IRONIA Machinery practically completely wrecked.

Italian CONTINENZA Machinery practically completely wrecked.

PORT EVERGLADES, FLORIDA

German ARANCA No apparent evidence of sabotage.

MOBILE, ALABAMA

Italian IDA E O Machinery badly damaged.

NEW ORLEANS, LOUISIANA

Italian ADA O Main engines damaged.

Italian MONFIERE Main engines damaged.

HOUSTON, TEXAS

Italian MONSICIA Undamaged.

SAN JUAN, PUERTO RICO

Italian COLORADO Main engines and boilers sabotaged.

PORTLAND, OREGON

Italian LUNA Auxiliary motors in engine room wrecked - condition main engine as yet unknown; compasses and navigational instruments sabotaged.

W. E. DERRY,
Commander, U. S. Coast Guard

WEP:abc 3/31/41



THE COMMANDANT OF THE UNITED STATES COAST GUARD

WASHINGTON

2 April 1941.

MEMORANDUM FOR - The Secretary of the Treasury

Subject: Seizure of Danish Merchant Vessels in United States.

1. Report of the seizure and treatment of Danish merchant vessels immobilized in ports of the United States, and their crews, is made separately because the circumstances surrounding their seizure are different from those relating to German and Italian vessels. There was no evidence of the commission of sabotage on Danish vessels prior to, or after, taking them into custody. Seizure on authority of the President was ordered as a protective measure.

2. The order to assume custody of the 35 Danish vessels was issued by the Commandant at 6:10 p.m., Sunday, March 30th, after consultation with Assistant Secretary Gaston, and followed by a few hours instructions to all District Commanders to be prepared to seize Danish vessels on short notice. The cooperation of the Army and Navy was to be requested, if required. Messages received at Coast Guard Headquarters up to midnight, Sunday, disclosed that seizure of the 35 Danish vessels in continental United States had been successfully accomplished. Except for the four Danish vessels in the Philippines, which, it is understood, the Navy took care of, there were no Danish vessels outside continental United States. The Danish Training Ship DANMARK, regarded as a public vessel, and immobilized at Jacksonville, Florida, was not ordered seized.

3. On April 1st, District Commanders were issued general instructions to treat the crews of the Danish vessels with every consideration and courtesy consistent with the safety and security of the vessels against sabotage. A copy of these instructions is enclosed; a similar copy having been furnished the Danish Minister in Washington, about 6:00 p.m., April 1st. Instructions have also been issued that the Danish ensign will be flown on Danish vessels having Danish officers and crew on board, and that when no such members are on board no ensign will be flown.

4. Appended hereto is a list of the Danish vessels seized, together with pertinent information.


R. R. WAESCHE,
Rear Admiral, U. S. Coast Guard,
Commandant.

NO.	NAME	NAT.	LENGTH	GROSS TONNAGE	HOME PORT	PRESENT LOCATION	DATE OF ARRIVAL	ESTIMATED NO. ON BOARD WHEN SEIZED
22	BROSUND	Dan.	305.0	2,939	Frederikshaven	Baltimore	4/3/40	12
23	ALSSUND	Dan.	332.1	3,222	Frederikshaven	Baltimore	4/5/40	15
24	LEVA MAERSK	Dan.	439.0	5,614	Copenhagen	Baltimore	4/6/40	13
25	RAGNEILD	Dan.	326.8	2,252	Copenhagen	Baltimore	4/9/40	13
26	COLUMBIA	Dan.	384.7	6,049	Copenhagen	Baltimore	6/5/40	14
27	ANNA MAERSK	Dan.	441.4	5,339	Copenhagen	Baltimore	7/3/40	10
28	NIEL MAERSK	Dan.	418.9	5,086	Svenborg	Baltimore	8/13/40	10
29	LAURA MAERSK	Dan.	455.9	6,599	Copenhagen	Baltimore	7/5/40	18
30	FRODE	Dan.	289.7	2,140	Copenhagen	Norfolk	4/11/40	10
31	E M DALGAS	Dan.	326.8	2,836	Copenhagen	Norfolk	4/21/40	16
32	CAROLINE MAERSK	Dan.	456.8	7,691	Fredericia	Jacksonville	4/14/40	18
33	NORDPOL	Dan.	380.0	4,480	Copenhagen	Los Angeles	4/13/40	13
34	NORDVAL	Dan.	380.0	4,472	Copenhagen	Los Angeles	4/20/40	16
35	NORDVEST	Dan.	401.4	4,702	Copenhagen	Grays Harbor, Wash.	4/11/40	22

4/2/41

LIST OF DANISH VESSELS SEIZED MARCH 30, 1941

NO.	NAME	NAT.	LENGTH	GROSS Tonnage	HOME PORT	PRESENT LOCATION	DATE OF ARRIVAL	ESTIMATED NO. ON BOARD WHEN SEIZED
1	JUTTA	Dan.	290.0	1,549	Esbjerg	Portland, Maine	4/12/40	17
2	EDGA MAERSE	Dan.	466.3	8,278	Nyborg	Boston	4/9/40	9
3	HERTA MAERSE	Dan.	287.9	1,890	Aalborg	Boston	12/16/40	11
4	RITA MAERSE	Dan.	287.9	1,889	Aalborg	Boston	4/16/40	10
5	AUSTRALIAN REEFER	Dan.	332.6	2,321	Esbjerg	New York	4/10/40	14
6	BROHOLM	Dan.	280.7	1,544	Copenhagen	New York	4/20/40	18
7	GEORGIA	Dan.	310.0	2,272	Copenhagen	New York	4/10/40	15
8	GERTRUDE	Dan.	326.8	2,282	Copenhagen	New York	4/17/40	13
9	JONNA	Dan.	271.8	1,517	Esbjerg	New York	12/10/40	10
10	LUNBY	Dan.	357.0	4,150	Kallehave	New York	4/21/40	24
11	MARIA	Dan.	258.2	1,369	Esbjerg	New York	6/28/40	8
12	MARNA	Dan.	292.0	1,700	Esbjerg	New York	6/21/40	8
13	NORA	Dan.	356.4	2,937	Esbjerg	New York	7/23/40	17
14	OLYMPIA	Dan.	384.7	4,488	Copenhagen	New York	6/3/40	18
15	PAULA	Dan.	290.0	1,549	Esbjerg	New York	4/4/40	6
16	SESSA	Dan.	290.0	1,700	Esbjerg	New York	4/3/40	9
17	SICILIAN	Dan.	271.7	1,654	Copenhagen	New York	4/7/40	16
18	TANNA	Dan.	265.0	1,392	Esbjerg	New York	7/3/40	6
19	TUNIS	Dan.	271.7	1,641	Copenhagen	New York	4/15/40	13
20	P N RAMN	Dan.	326.8	2,832	Copenhagen	Philadelphia	4/9/40	17
21	NORDEN	Dan.	401.4	4,700	Copenhagen	Philadelphia	4/8/40	16

4/2/41

TREASURY DEPARTMENT
UNITED STATES COAST GUARD

Headquarters

Washington

1 April, 1941

Action to be taken in connection with crews of
Danish ships seized by the Coast Guard.

1. The Danish Minister will instruct Danish Consuls in each port, and through them the Masters of all Danish vessels, to extend full cooperation to local Coast Guard Captains of the Port and to make a thorough check on the reliability and trustworthiness of each member of the crew. The Master of the vessel will submit in writing to the local Coast Guard Captain of the Port, through the Danish Consul, the names of the members of his crew whom he certifies to be thoroughly reliable and trustworthy. If the Danish Consul is in agreement, he will approve these lists and submit them to the local Coast Guard Captain of the Port. After such certified and approved lists have been received, the local Coast Guard Captain of the Port will himself make such investigation as he considers necessary and will satisfy himself that the men on the list are acceptable.

2. Inasmuch as the responsibility for the safety of Danish vessels is vested in Coast Guard Captains of the Port, they have authority to decide how many members of the crew of each vessel will be permitted to remain on board. They have authority to remove from the Danish vessels at any time and deliver to the Immigration authorities any member of the crew who in their judgment is found to be undesirable.

3. It is the policy of the Commandant to extend every consideration to the crews of Danish vessels and to permit as many members of the crew to remain on board as will not jeopardize the safety of the vessels.

Approved:

/s/ R. R. WAESCHE
1 April, 1941

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COPY

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OFFICE OF THE ATTORNEY GENERAL
Washington, D. C.

April 2, 1941

The Honorable,
The Secretary of the Treasury.

My dear Mr. Secretary:

This acknowledges the letter dated March 31, 1941, received by me from Assistant Secretary of the Treasury, Honorable Herbert E. Gaston, stating that on Sunday, March 30, officers and men of the United States Coast Guard took possession of all Italian and German merchant vessels in American harbors and removed the crews therefrom, and that in the process many acts of obvious wilful destruction of machinery and equipment were discovered aboard Italian vessels and aboard one of the German vessels.

The Federal Bureau of Investigation has already been directed to make appropriate investigation of the acts of destruction, and such investigation is in progress.

Sincerely yours,

(Sgd) Robert H. Jackson

Attorney General

March 31, 1941.

The Honorable

The Attorney General.

Attention: Mr. McGuire

Dear Mr. Attorney General:

On Saturday, March 29, a report was received by the Treasury Department that sabotage, consisting of the wilful destruction of machinery, had occurred on merchant vessels of Italian flag immobilized in American ports. The Coast Guard was immediately directed to make an investigation and reported specific instances of apparently wilful damage and destruction of machinery on Italian merchant vessels in the harbors of Philadelphia and Norfolk. Thereupon orders were issued to the Coast Guard to place armed guards upon all vessels of Italian and German registry in American ports, under the authority conferred by the Act of June 15, 1917, (50 U.S.C. Sec. 191) and the President's Proclamation No. 2412, dated June 27, 1940. Subsequently, on Sunday, March 30, by direction of the Secretary of the Treasury and with the consent of the President, officers and men of the United States Coast Guard took possession of all Italian and German merchant vessels in American harbors and removed the crews therefrom.

In the process of taking possession of these vessels many acts of obvious wilful destruction of machinery and equipment were discovered aboard Italian vessels and aboard one of the two German vessels taken under Coast Guard control.

In the belief that you may wish to institute prosecutions I am having prepared and will submit to you a memoran-

- 2 -

dum exhibiting the names and location of the ships on which damage was discovered and a summary of the damage done. The Commandant of the Coast Guard will be glad to submit to the appropriate officer of your Department files and facts in his possession on this matter.

Very truly yours,

(Signed) Herbert E. Gaston

Herbert E. Gaston
Assistant Secretary of the Treasury

HEG/mah

April 2, 1941

My dear Mr. Secretary:

In accordance with the letter of March 29th, from Mr. Sumner Welles, Acting Secretary of State, the files, records, papers, and other materials pertaining to the purchase of military supplies by foreign countries outside of the lend-lease area were forwarded to you under date of April 1, 1941.

This Department will be very glad to assist in any way possible in the transfer of this material.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable,

The Secretary of State

CC to Mr. Thompson

ai PY:bj



By Messenger 4 15



DEPARTMENT OF STATE
WASHINGTON

March 29, 1941

reply refer to

My dear Mr. Secretary:

I have received your letter of March 20, 1941, referring to your letter to the President dated March 12, 1941, in which you recommended that all foreign countries outside the lend-lease area desiring to purchase military supplies in this country submit their needs to the Secretary of State.

In this connection, and in accordance with your understanding that Mr. Philip Young, the Treasury member of the President's Liaison Committee, has discussed this problem with Mr. Acheson, Assistant Secretary of State, in order that the transition with respect to both new and pending purchases by the foreign countries concerned may be consummated with as little difficulty as possible, you state that you have instructed Mr. Young to accept no new business from such countries beginning March 20.

The

The Honorable

Henry Morgenthau, Jr.,

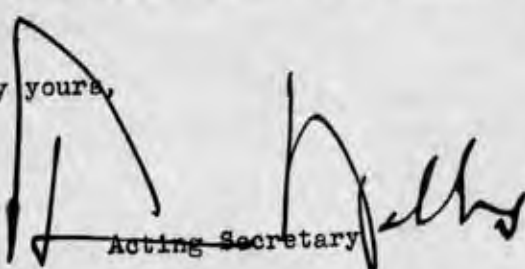
Secretary of the Treasury.

- 2 -

The Department of State is prepared to assume responsibility for dealing with this problem. May I request, therefore, that all files, records, papers, and other materials now in the possession of your Department and concerning the purchase of military supplies by foreign countries outside the lend-lease area be transferred to this Department on or before March 31, 1941? It is my understanding that the countries outside the lend-lease area include all those except Poland, Iceland, Greenland, the Netherlands, Greece, China, the British Empire, and Norway which, according to your information, are interpreted as being within the lend-lease area and under the supervision of Mr. Harry Hopkins.

Your kind offer of assistance by the members of your office experienced in foreign purchasing operations is greatly appreciated.

Sincerely yours,



Acting Secretary

RECEIVED

MAR 21 1941

U.S. DEPARTMENT OF STATE
WASHINGTON, D.C.

COPY

British Embassy
Washington, D.C.
2nd April 1941.

Dear Secretary Morgenthau,

I had to come to Washington for a day or so, but understood that you would be very much occupied in the first days after your return so I refrained from asking for an interview. I should like to have the opportunity of talking over some things with you, at your convenience, however, and shall be glad to come to Washington for that purpose whenever you wish.

I hope that you had a real rest during your short holiday.

Yours sincerely,

(Signed) E. R. Peacock

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

DELIVERIES OF AIRPLANES, BY PURCHASERS AND BY TYPES OF PLANES

January 1, 1940 - March 29, 1941

STRICTLY CONFIDENTIAL

	Bombers	Pursuits	Trainers	Other military planes	Commercial planes	Total
TOTAL ALL PURCHASERS						
Jan. 1 - June 22	554	500	608	100	379	2,141
June 23 - July 20	101	198	234	14	81	628
July 21 - Aug. 17	111	170	270	10	22	683
Aug. 18 - Sept. 14	70	146	303	20	105	644
Sept. 15 - Oct. 12	63	220	377	17	141	618
Oct. 13 - Nov. 9	66	158	343	17	67	651
Nov. 10 - Dec. 7	100	211	275	16	56	648
Dec. 8 - Jan. 4	158	247	315	6	98	824
Subtotal June 23 - Jan. 4	659	1,350	2,117	100	542	4,868
Jan. 5 - Jan. 18	80	97	184	5	36	402
Jan. 19 - Feb. 1	75	151	323	33	22	604
Feb. 2 - Feb. 15	79	113	155	15	11	363
Feb. 16 - Mar. 1	175	102	304	19	27	627
Mar. 2 - Mar. 15	100	101	223	17	13	454
Mar. 16 - Mar. 29	155	114	326	16	34	645
Total Jan. 1, 1940 - Mar. 29, 1941	1,877	2,528	4,444	303	1,184	10,336
ARMY						
Jan. 1 - June 22	28	31	461	61	-	581
June 23 - July 20	14	40	131	6	-	191
July 21 - Aug. 17	18	69	156	4	-	247
Aug. 18 - Sept. 14	12	64	161	7	-	244
Sept. 15 - Oct. 12	10	86	173	-	-	269
Oct. 13 - Nov. 9	12	20	155	-	-	191
Nov. 10 - Dec. 7	8	14	129	2	-	153
Dec. 8 - Jan. 4	4	19	75	-	-	98
Subtotal June 23 - Jan. 4	78	302	984	20	-	1,384
Jan. 5 - Jan. 18	6	6	86	-	-	98
Jan. 19 - Feb. 1	1	2	166	-	-	169
Feb. 2 - Feb. 15	13	9	74	4	-	100
Feb. 16 - Mar. 1	43	33	153	5	-	234
Mar. 2 - Mar. 15	25	64	120	6	-	215
Mar. 16 - Mar. 29	29	67	185	6	-	287
Total Jan. 1, 1940 - Mar. 29, 1941	223	514	2,229	103	-	3,069
NAVY						
Jan. 1 - June 22	42	1	78	35	-	156
June 23 - July 20	-	2	26	6	-	34
July 21 - Aug. 17	5	-	14	4	-	23
Aug. 18 - Sept. 14	10	9	17	13	-	49
Sept. 15 - Oct. 12	16	13	49	17	-	95
Oct. 13 - Nov. 9	22	23	35	17	-	97
Nov. 10 - Dec. 7	17	11	82	14	-	124
Dec. 8 - Jan. 4	16	18	76	6	-	116
Subtotal June 23 - Jan. 4	86	76	299	78	-	539
Jan. 5 - Jan. 18	17	14	79	5	-	115
Jan. 19 - Feb. 1	31	11	113	33	-	188
Feb. 2 - Feb. 15	21	17	41	8	-	87
Feb. 16 - Mar. 1	30	12	32	12	-	86
Mar. 2 - Mar. 15	23	-	35	12	-	70
Mar. 16 - Mar. 29	37	15	81	10	-	143
Total Jan. 1, 1940 - Mar. 29, 1941	287	146	758	193	-	1,284
BRITISH EMPIRE AND FRANCE*						
Jan. 1 - June 22	469	289	164	2	9	933
June 23 - July 20	86	139	46	-	1	272
July 21 - Aug. 17	86	95	69	2	4	256
Aug. 18 - Sept. 14	30	83	52	-	1	166
Sept. 15 - Oct. 12	24	121	50	-	10	205
Oct. 13 - Nov. 9	26	99	57	-	3	185
Nov. 10 - Dec. 7	75	147	68	-	8	298
Dec. 8 - Jan. 4	128	194	144	-	-	466
Subtotal June 23 - Jan. 4	455	678	476	2	27	1,638
Jan. 5 - Jan. 18	57	69	9	-	5	140
Jan. 19 - Feb. 1	83	128	40	-	-	251
Feb. 2 - Feb. 15	84	87	25	1	10	167
Feb. 16 - Mar. 1	72	33	58	-	2	227
Mar. 2 - Mar. 15	52	12	46	-	-	110
Mar. 16 - Mar. 29	73	12	46	-	7	138
Total Jan. 1, 1940 - Mar. 29, 1941	1,245	1,551	925	5	55	3,781
OTHER						
Jan. 1 - June 22	15	179	105	3	370	672
June 23 - July 20	1	17	21	-	80	119
July 21 - Aug. 17	2	6	33	-	102	143
Aug. 18 - Sept. 14	18	-	73	-	97	188
Sept. 15 - Oct. 12	1	-	106	-	151	258
Oct. 13 - Nov. 9	6	16	69	-	60	151
Nov. 10 - Dec. 7	-	79	16	-	48	143
Dec. 8 - Jan. 4	10	18	70	-	58	156
Subtotal June 23 - Jan. 4	40	94	358	-	615	1,107
Jan. 5 - Jan. 18	-	8	34	-	31	73
Jan. 19 - Feb. 1	-	12	14	-	22	48
Feb. 2 - Feb. 15	1	-	14	-	21	36
Feb. 16 - Mar. 1	30	-	23	-	24	77
Mar. 2 - Mar. 15	-	4	10	-	13	27
Mar. 16 - Mar. 29	16	20	14	-	32	82
Total Jan. 1, 1940 - Mar. 29, 1941	102	317	546	3	1,125	2,093

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

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

Regraded Unclassified

DELIVERIES OF AIRPLANES, BY PURCHASERS AND BY TYPE OF PLANE

STRICTLY CONFIDENTIAL

January 1, 1940 - March 29, 1941

	Bombers	Pursuits	Trainers	Other military planes	Commercial planes	Total
TOTAL ALL PURCHASERS						
Jan. 1 - June 22	554	500	808	100	379	2,341
June 23 - July 20	101	198	234	14	81	628
July 21 - Aug. 17	111	170	270	10	105	666
Aug. 18 - Sept. 14	70	146	303	20	98	637
Sept. 15 - Oct. 12	53	220	377	17	141	808
Oct. 13 - Nov. 9	66	158	343	17	63	647
Nov. 10 - Dec. 7	100	211	275	16	56	648
Dec. 8 - Jan. 4	158	247	315	6	98	824
Subtotal June 23 - Jan. 4	559	1,350	2,117	100	642	4,868
Jan. 5 - Jan. 18	80	97	188	5	16	406
Jan. 19 - Feb. 1	75	151	323	33	22	604
Feb. 2 - Feb. 15	79	113	155	13	31	391
Feb. 16 - Mar. 1	175	108	104	19	27	627
Mar. 2 - Mar. 15	100	101	221	17	13	454
Mar. 16 - Mar. 29	155	114	326	16	34	645
Total Jan. 1, 1940 - Mar. 29, 1941	1,877	2,528	4,444	303	1,184	10,336
ARMY						
Jan. 1 - June 22	28	31	461	61	-	581
June 23 - July 20	14	40	131	6	-	191
July 21 - Aug. 17	18	69	156	5	-	248
Aug. 18 - Sept. 14	12	64	161	7	-	244
Sept. 15 - Oct. 12	10	86	173	-	-	269
Oct. 13 - Nov. 9	12	80	159	-	-	191
Nov. 10 - Dec. 7	8	19	129	2	-	158
Dec. 8 - Jan. 4	4	19	75	-	-	98
Subtotal June 23 - Jan. 4	78	302	984	20	-	1,384
Jan. 5 - Jan. 18	6	6	86	-	-	98
Jan. 19 - Feb. 1	1	2	166	-	-	169
Feb. 2 - Feb. 15	13	9	78	4	-	100
Feb. 16 - Mar. 1	43	23	153	7	-	226
Mar. 2 - Mar. 15	25	24	120	5	-	214
Mar. 16 - Mar. 29	29	67	185	6	-	287
Total Jan. 1, 1940 - Mar. 29, 1941	223	514	2,229	103	-	3,069
NAVY						
Jan. 1 - June 22	42	1	78	35	-	156
June 23 - July 20	-	2	26	6	-	34
July 21 - Aug. 17	5	-	14	5	-	24
Aug. 18 - Sept. 14	10	-	17	13	-	40
Sept. 15 - Oct. 12	16	13	49	17	-	95
Oct. 13 - Nov. 9	22	23	35	17	-	97
Nov. 10 - Dec. 7	17	11	82	14	-	124
Dec. 8 - Jan. 4	16	18	76	6	-	116
Subtotal June 23 - Jan. 4	86	76	299	78	-	539
Jan. 5 - Jan. 18	17	14	79	5	-	115
Jan. 19 - Feb. 1	31	11	113	33	-	188
Feb. 2 - Feb. 15	21	17	41	8	-	87
Feb. 16 - Mar. 1	30	10	30	12	-	82
Mar. 2 - Mar. 15	23	-	35	12	-	70
Mar. 16 - Mar. 29	37	15	81	10	-	143
Total Jan. 1, 1940 - Mar. 29, 1941	287	146	758	193	-	1,384
BRITISH EMPIRE AND FRANCE*						
Jan. 1 - June 22	469	289	164	2	9	933
June 23 - July 20	86	139	56	2	1	284
July 21 - Aug. 17	86	95	69	-	4	254
Aug. 18 - Sept. 14	30	83	52	-	1	166
Sept. 15 - Oct. 12	24	121	60	-	10	205
Oct. 13 - Nov. 9	26	99	57	-	3	185
Nov. 10 - Dec. 7	74	147	48	-	8	278
Dec. 8 - Jan. 4	128	194	184	-	-	466
Subtotal June 23 - Jan. 4	455	678	476	2	27	1,838
Jan. 5 - Jan. 18	57	69	9	-	-	140
Jan. 19 - Feb. 1	43	126	40	-	5	209
Feb. 2 - Feb. 15	46	87	26	1	10	169
Feb. 16 - Mar. 1	72	57	96	-	2	227
Mar. 2 - Mar. 15	52	33	58	-	-	143
Mar. 16 - Mar. 29	73	12	46	-	2	133
Total Jan. 1, 1940 - Mar. 29, 1941	1,265	1,551	915	5	55	3,791
OTHER						
Jan. 1 - June 22	15	179	105	2	370	671
June 23 - July 20	1	17	21	-	40	119
July 21 - Aug. 17	2	6	33	-	101	140
Aug. 18 - Sept. 14	18	-	71	-	97	186
Sept. 15 - Oct. 12	3	-	125	-	171	299
Oct. 13 - Nov. 9	6	16	92	-	60	174
Nov. 10 - Dec. 7	-	34	15	-	48	103
Dec. 8 - Jan. 4	10	16	20	-	38	184
Subtotal June 23 - Jan. 4	40	94	358	-	615	1,107
Jan. 5 - Jan. 18	-	8	14	-	11	33
Jan. 19 - Feb. 1	-	12	4	-	22	38
Feb. 2 - Feb. 15	1	-	24	-	21	26
Feb. 16 - Mar. 1	30	-	23	-	24	77
Mar. 2 - Mar. 15	-	1	10	-	15	26
Mar. 16 - Mar. 29	16	20	14	-	32	82
Total Jan. 1, 1940 - Mar. 29, 1941	102	317	542	2	1,125	2,088

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

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

Regraded Unclassified

CONFIDENTIAL(To Keep You Posted)

April 2, 1941

To: The Secretary

From: Mr. Young

Re: British Aircraft Shipments

Attached herewith is the latest statement of aircraft shipped to the United Kingdom and other points. This statement gives figures showing the number of planes which have been received at the assembly points during the past week.



STATEMENT NO. 8AIRCRAFT SHIPPED TO U. K. & OVERSEAS COMMANDS

TYPE	DESTINATION	ASSEMBLY POINT	By Sea during week ending March 8/41	By Air during week ending March 29/41
<u>Brewster</u>				
Buffalo	Far East	Singapore (via Panama)	8	
<u>Glenn Martin</u>				
Maryland I	Middle East	Alexandria	10	
<u>Curtiss</u>				
Tomahawk	Middle East	Alexandria	10	
<u>Lockheed</u>				
Hudson III	U. K.	U. K.	8	
Hudson V	U. K.	U. K.	5	
<u>Consolidated</u>				
Catalina	U. K.	U. K.		3
<u>Douglas</u>				
Boston II	U. K.	U. K.	2	
T O T A L			43	3

British Air Commission
April 1, 1941

RECEIVED

APR 2 1941

Treasury Department
Office of Philip Young

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE April 2, 1941

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation.

Summary

(1) Preliminary Reserve Board estimates of industrial production in February proved to be too low, and the FRB seasonally-adjusted index of industrial production rose to a new record high at 141, as compared with 139 in January. Factory employment and payrolls reached record high levels in February and showed gains of 12 per cent and 27 per cent, respectively, over February 1940.

(2) Further expansion of consumer buying is evidenced by increased retail sales in February. Seasonally-adjusted sales of department stores, variety stores and rural trade outlets all rose above the previous month. Retail sales of new and used cars by General Motors dealers both rose no less than 51 per cent above the corresponding month of 1940.

(3) Commodity prices have continued to move higher. The BLS index of 28 basic commodities has risen 14 per cent since the current rise began in early February. Although import commodities made the widest gains, numerous domestic commodities have shown notable strength recently, particularly in the fats and oils group.

(4) Our index of new orders in the week ended March 22 rose to a new record high. Steel orders reached a new high for the year, and new textile business spurted sharply as a result of large orders for woollens.

(5) Steel operations last week were scheduled at only a fraction under 100 per cent of capacity -- a new record high on a tonnage basis. However, the strikes at the Bethlehem Steel Corporation's plants probably reduced actual output slightly.

- - - - -

- 2 -

Industrial production at new high in February

Industrial activity in February reached higher levels than preliminary estimates of the Federal Reserve Board had indicated, and the FRB index for the month reached 141 as compared with 139 in January (see Chart 1, upper section). Although iron and steel production declined, the rise in the index was largely due to further gains in durable goods industries closely identified with the defense program, such as machinery and transportation equipment.

The extent to which the heavy industries have dominated the rise in the combined FRB index from the 1935-39 base period is shown in the lower section of Chart 1. It will be noted that the production of transportation equipment has shown the greatest rise, followed by non-ferrous metals, machinery, and iron and steel. The boom in military aircraft production and shipbuilding, together with increased railroad equipment activity, contributed importantly to the strong showing made by production of transportation equipment. Automobile production, however, is included in this group, and continues as the dominant factor.

The unusually high rate of industrial activity in February is also evidenced by the fact that factory employment and payrolls during the month reached the highest levels on record. Factory employment was 12 per cent higher than in February 1940, while payrolls gained 27 per cent.

Rise in consumer buying

The heavy demands on industry arising from the defense program have been considerably augmented in recent months by a rising tide of consumer buying. Retail trade, after allowance for seasonal factors, moved into new high ground in February. Reference to Chart 2 will show that in that month seasonally-adjusted sales of department stores, variety stores and rural trade outlets all rose above the previous month, and exceeded year-earlier levels substantially.

Further evidence of expanded consumer buying has come to light in figures of automobile sales. Confidential data on retail sales of General Motors new cars in February, for example, show a rise of no less than 51 per cent above February 1940, to the highest monthly total since April 1937. The significance of this showing is enhanced when consideration is given to the fact that sales of 1941 model cars got off to a very good start last fall and have been well maintained since then. (See Chart 3.) Similar data show that used car sales by General Motors

- 3 -

dealers in February kept pace with new car sales, showing an almost identical percentage gain over year-earlier levels.

Although new-car stocks of General Motors have been built up steadily from the low point at the end of last August, stocks remain relatively low in terms of the volume of retail sales. Thus the ratio of stocks to sales at the end of February was noticeably below that prevailing at the end of February 1940, and very considerably below the comparable figures for February 1939 and 1938. (See Chart 4, upper section.) Likewise, due to unusually heavy sales of used cars in February, the ratio of used car stocks to sales at the end of the month was the lowest since the end of last August. (See Chart 4, lower section.)

Despite the short month and adverse seasonal conditions, used car sales by General Motors dealers in February ran ahead of the best months of 1940 and the 1936-37 upswing. This strong showing lends added support to the view that the real stimulus to the upsurge in automobile sales has come from increased consumer incomes, although fears of price increases and production curtailment probably have had some contributory effect.

Substantial rise in commodity prices

The renewed rise in commodity prices which got under way during the early part of February has attained substantial proportions. Since that time the BLS index of 28 basic commodities has risen 14 per cent. Due largely to increases in ocean freight rates and the tight ocean shipping situation, import commodities during the period mentioned rose 19 per cent, while domestic commodities gained 10 per cent. (See Chart 5.) Although in the initial stages of the rise, gains were largely confined to import commodities, the upward movement subsequently broadened to include domestic commodities, some of which have recently shown notable strength. (Refer to Chart 5.)

The BLS all-commodity index, as usual, has lagged behind the price index of basic commodities, but recently it has begun to rise more noticeably. In the week ended March 22 it advanced 0.7 to 81.6, the highest point in more than 3 years.

The rise in commodity prices has been accompanied by a gain in the volume of trading, suggesting the possibility of increased public speculation for the rise. Thus, the

- 4 -

daily average number of futures contracts traded (see Chart 6) has risen to the highest level since last May, when the upheaval in the futures markets following the German invasion of the Low Countries, particularly in the grain markets, brought a heavy volume of trading activity.

Fats and grains move higher

Although import commodities as a group showed the greatest rise in the past two weeks, considerable strength was shown by a number of domestic commodities, including cottonseed oil, lard and other fats, as well as wheat and corn. Among other factors tending to strengthen prices for these and certain other domestic farm products are: (1) enhanced export prospects growing out of the passage of the lend-lease bill, and (2) pending legislation in the Senate and House which would substantially raise the Government loan levels on such farm products as wheat, cotton, tobacco and corn.

Maximum prices and priorities established for certain metals

The tight supply situation for numerous strategic metals was again brought to public attention at the beginning of last week, when the Price Stabilization Division of the National Defense Commission fixed maximum prices for scrap aluminum and secondary aluminum ingots. This week maximum prices have been set on zinc scrap and secondary slab zinc. It has been indicated that similar measures will be taken shortly in connection with steel scrap.

At the end of last week, the OPM put into effect a general priorities system for ferro-tungsten, tungsten metal powder, and tungsten compounds.

New orders at record high

Due to a sharp rise in new orders for textiles and a further gain in steel bookings to a new high for the year, our index of new orders for the week ended March 22 reached a new record high. (See Chart 7.) The gain in textile orders was due largely to a jump in orders for woolen textiles. However, aggregate new orders for products other than steel and textiles declined, after showing a good gain in the previous week.

- 5 -

Production problems confront steel industry

No abatement has occurred in the heavy flow of new orders to steel mills. In fact, latest reported weekly bookings of the U. S. Steel Corporation rose to a new high for the year at 182 per cent of capacity. The Inland Steel Company of Chicago has received such a heavy volume of orders for distant deliveries that it has sent out a letter to its customers stating that no orders for 1942 delivery will be accepted until books are opened for the first quarter of that year. Exceptions will be made only for definite defense program contracts.

A further increase in the shipbuilding program is expected, and in this connection the Iron Age points out that some of the continuous sheet-strip mills may be used for rolling larger tonnages of plates for merchant shipbuilding. This would necessitate further delays in sheet and strip mill schedules, which are already greatly extended.

Evidence of actual or threatened lack of adequate supplies of various materials required by the steel industry continues to come to light. The scarcity of various non-ferrous metals is giving trouble in connection with the production of alloy steels and steel coating. Sales of galvanized sheets, for example, are reported to be restricted due to the shortage of zinc. A tight situation in the supply of merchant pig iron is reported to be developing in the Pittsburgh and adjoining areas. At the same time, complaints continue to be heard that steel scrap supplies are not coming out as fast as desired.

Although steel tonnage originally scheduled for production during the past week reached a new record high and came within a fraction of 100 per cent of capacity, strikes at the Bethlehem Steel Corporation's Bethlehem and Johnstown plants probably caused the week's output for the industry as a whole to decline slightly. However, the strikes at both plants were settled by the end of the week, and steel operations during the current week are scheduled at 99.2 per cent of capacity. Negotiations are still going on between the Carnegie-Illinois Steel Company and the Steel Workers Organizing Committee relative to a new wage agreement. Inasmuch as steel prices have not yet been announced for the second quarter, some trade commentators attribute the delay in the price announcement to uncertainties over wage negotiations.

- 6 -

Weekly business indexes

Gains and losses in the various components of the New York Times index of business activity during the week ended March 22 were evenly divided, and as a result the combined index was unchanged from the previous week at 122.1.

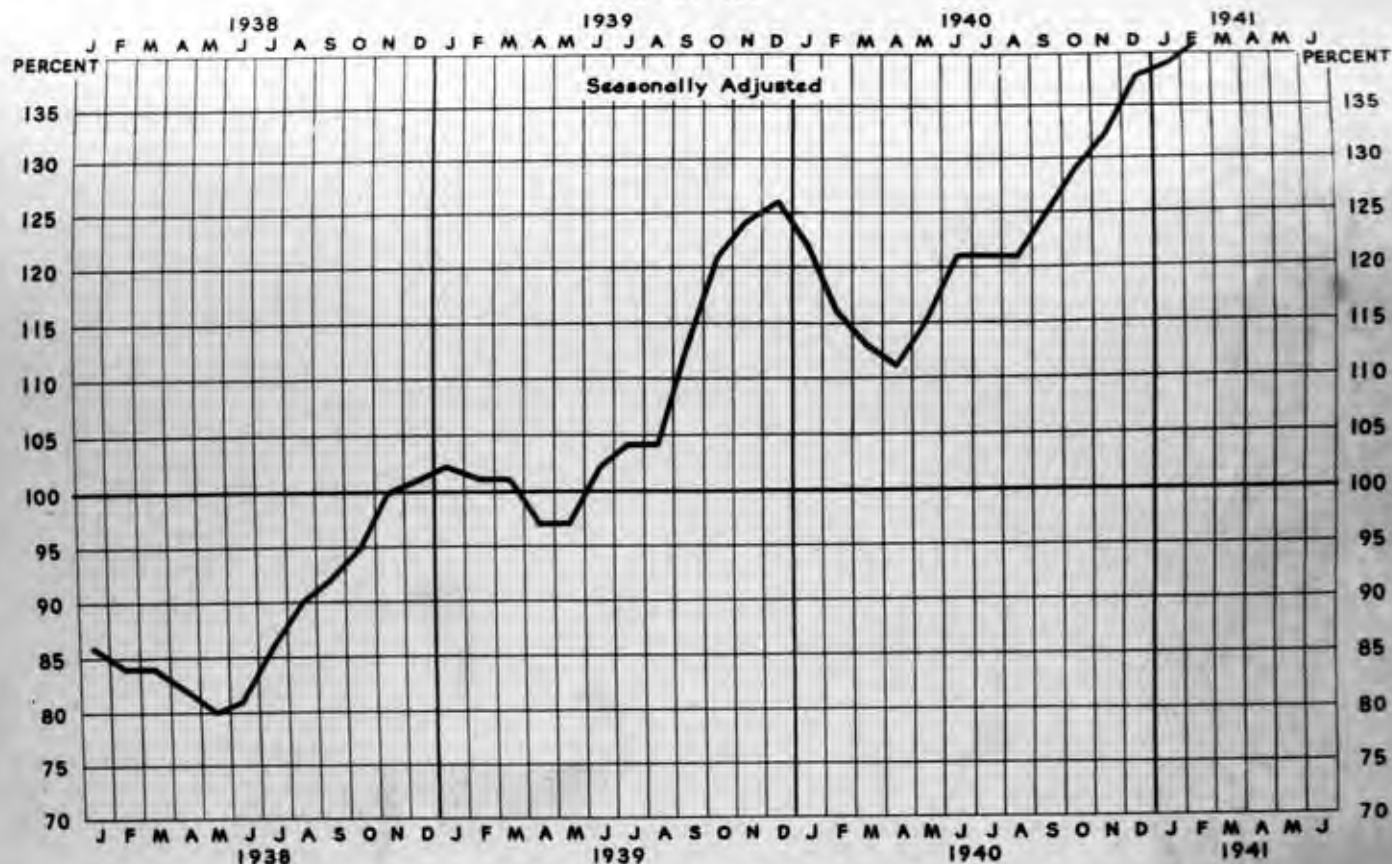
The principal gains occurred in the adjusted indexes of "all other" freight carloadings and cotton mill activity, due to contra-seasonal gains in freight traffic and cotton textile production. The chief offsetting factors were a contra-seasonal decline in miscellaneous freight carloadings and a sharp drop in the adjusted index of automobile production due to a contra-seasonal decline in output.

Barron's index of business activity for the week ended March 22 made a slightly better showing than the Times index and rose to 131.5 from 131.1 in the previous week.

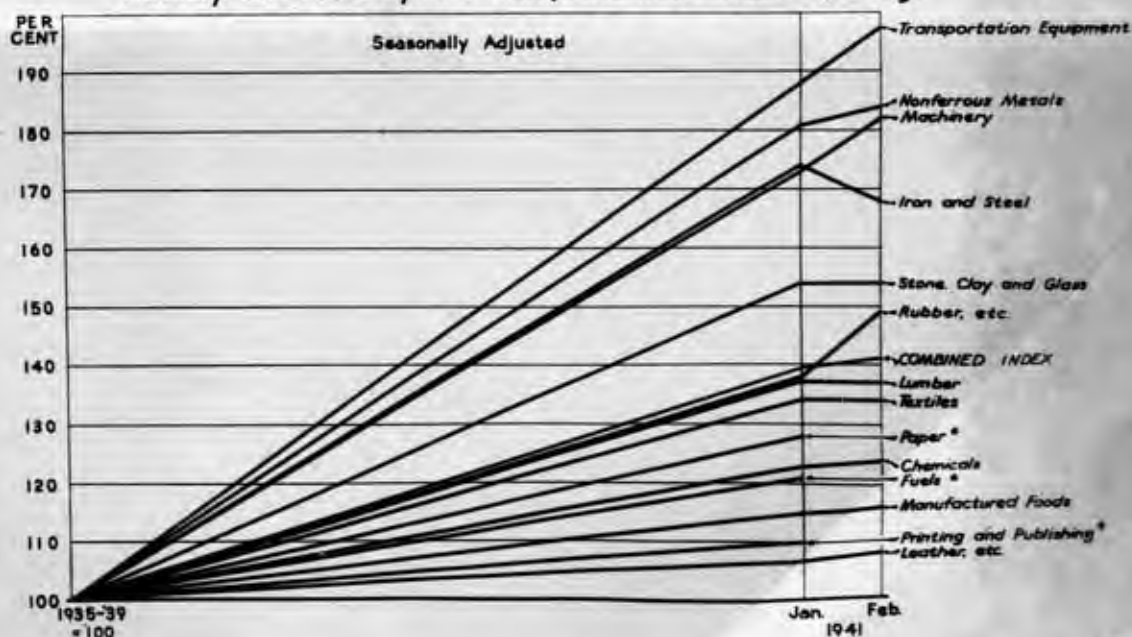
Preliminary data for the week ended March 29 indicated a slight contra-seasonal gain in scheduled steel operations, but labor troubles probably caused some decline in actual steel output. Automobile production during the same period gained a trifle to 124,000 units, but the gain was less than seasonal, causing the adjusted index to drop 4 points.

FEDERAL RESERVE BOARD INDEX OF INDUSTRIAL PRODUCTION

1935-39=100



Selected Components
January and February 1941 Compared with 1935-39 Average



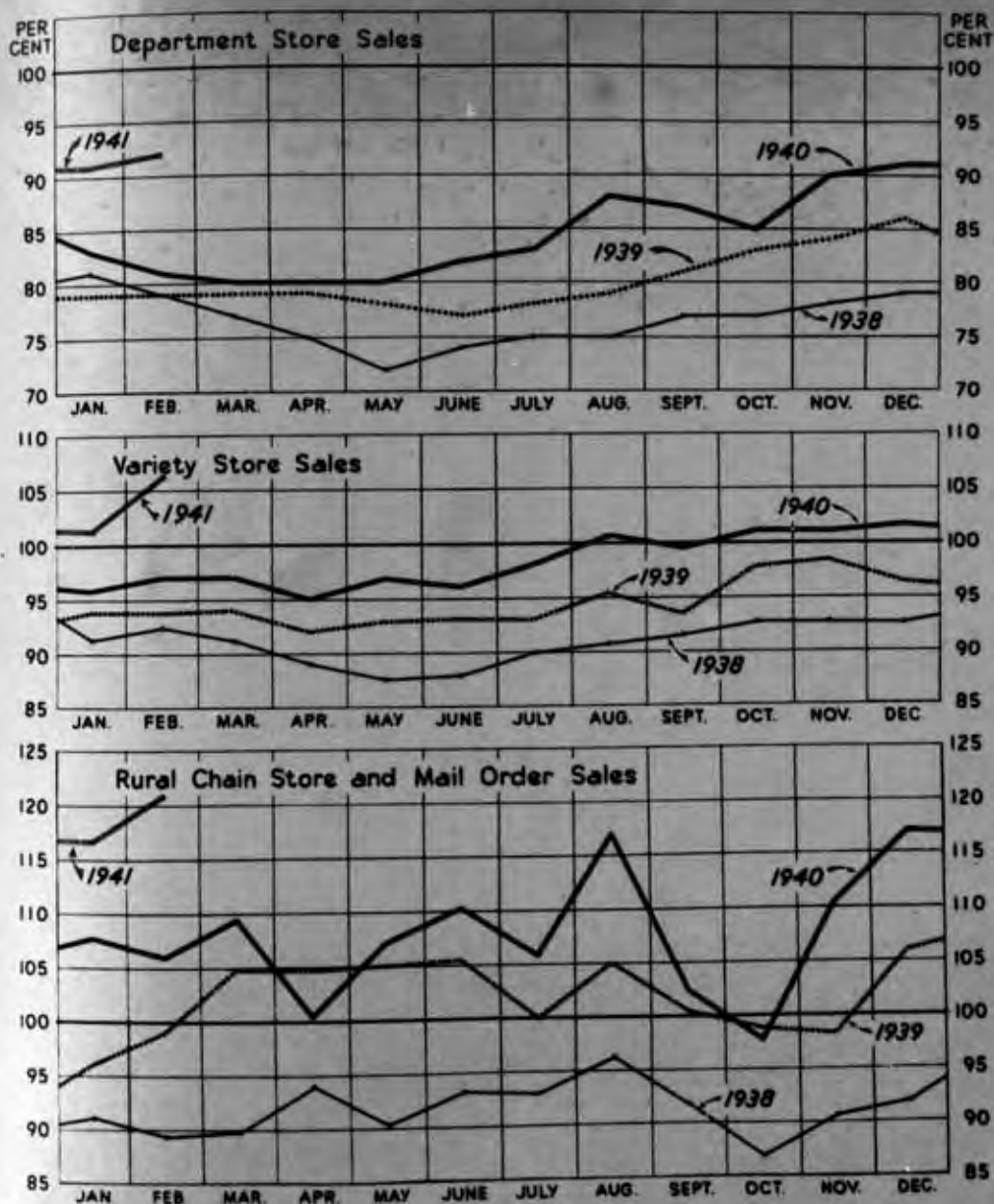
* Not available for Feb. 1941

RETAIL TRADE

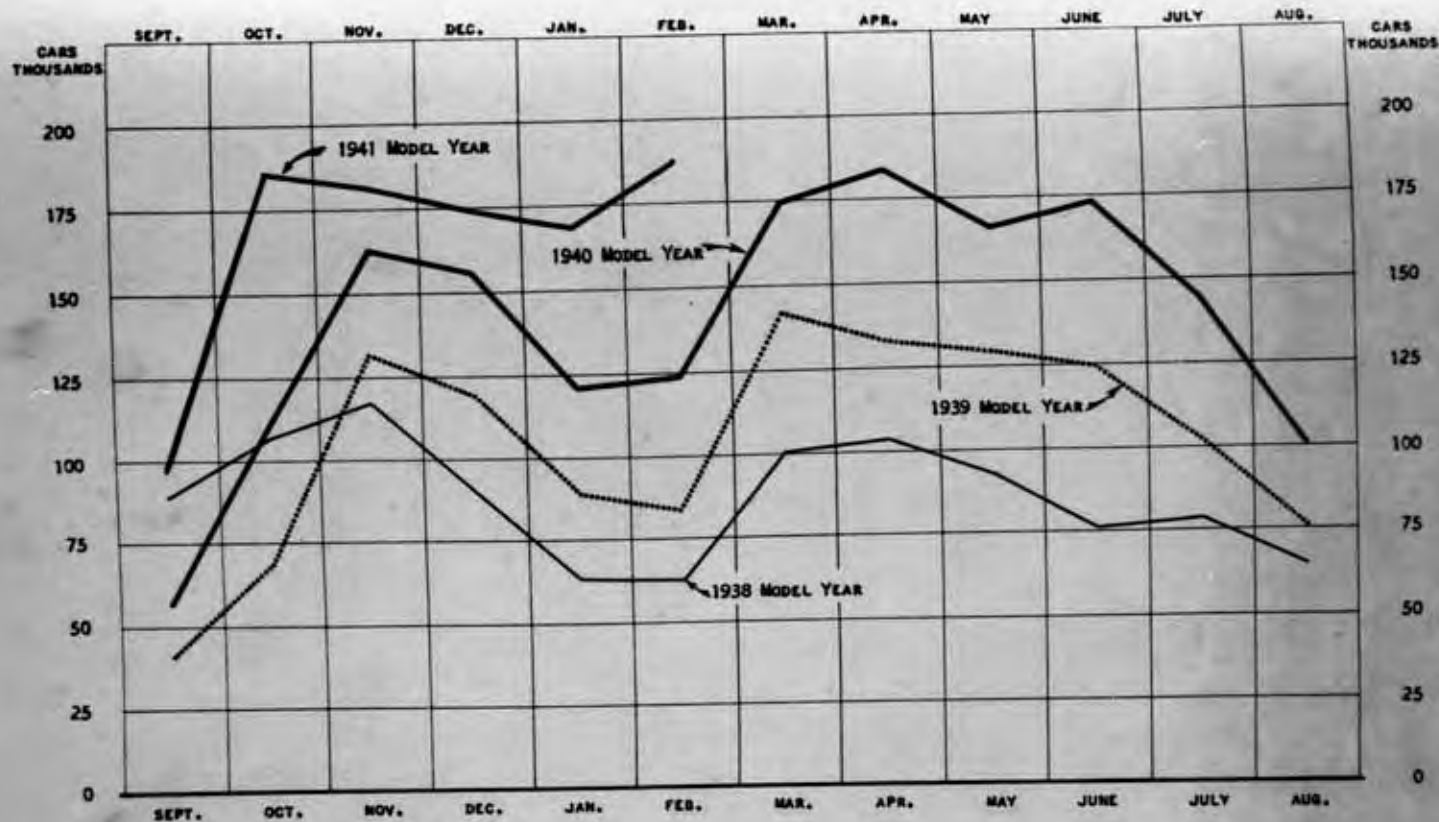
237

Urban and Rural Sales of General Merchandise

1929 = 100, ADJUSTED

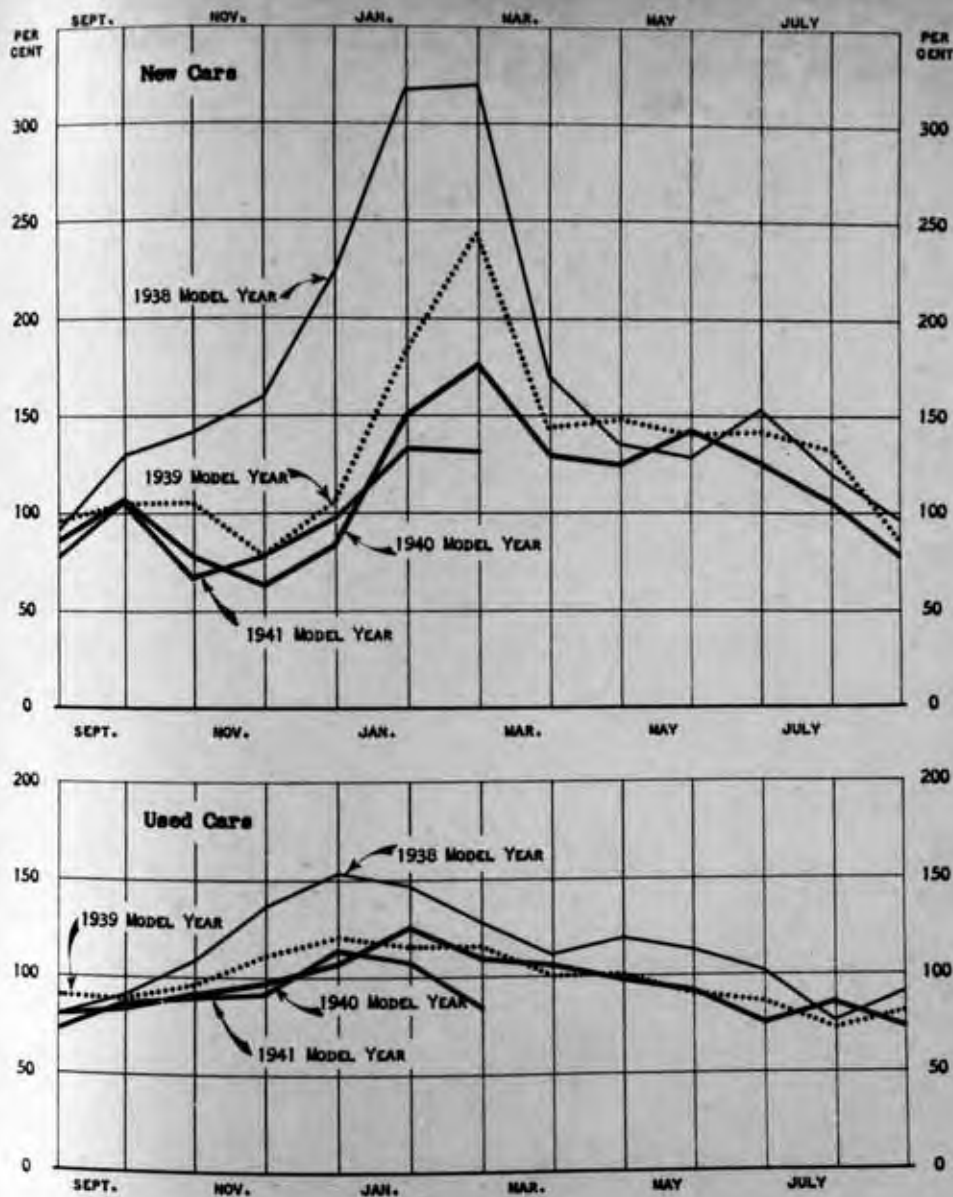


GENERAL MOTORS
Retail Sales of New Cars during Model Years 1938 - '41



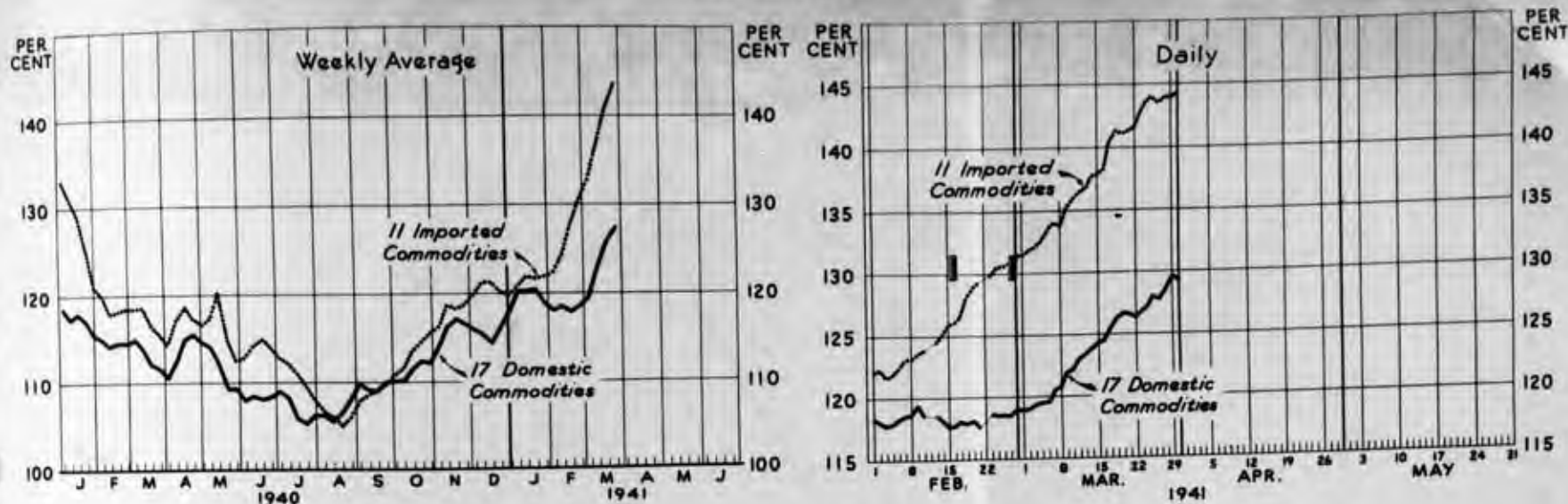
STRICTLY CONFIDENTIAL

GENERAL MOTORS
Stocks of New and Used Cars, Ratio to Sales

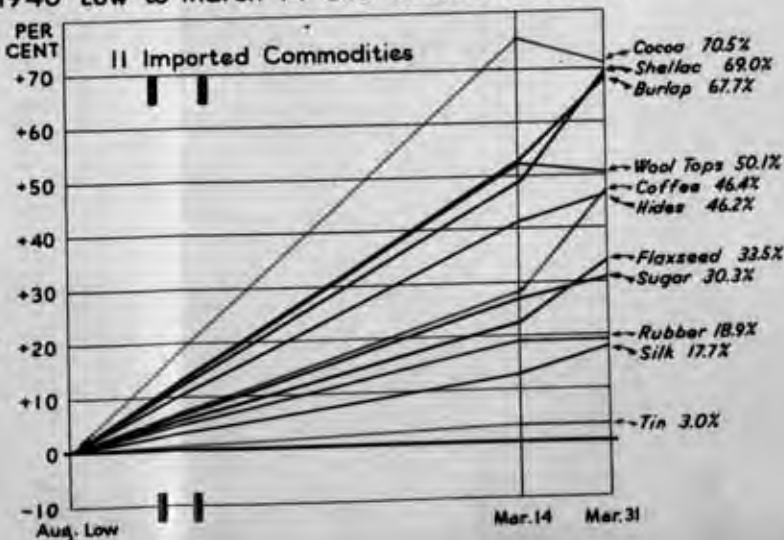
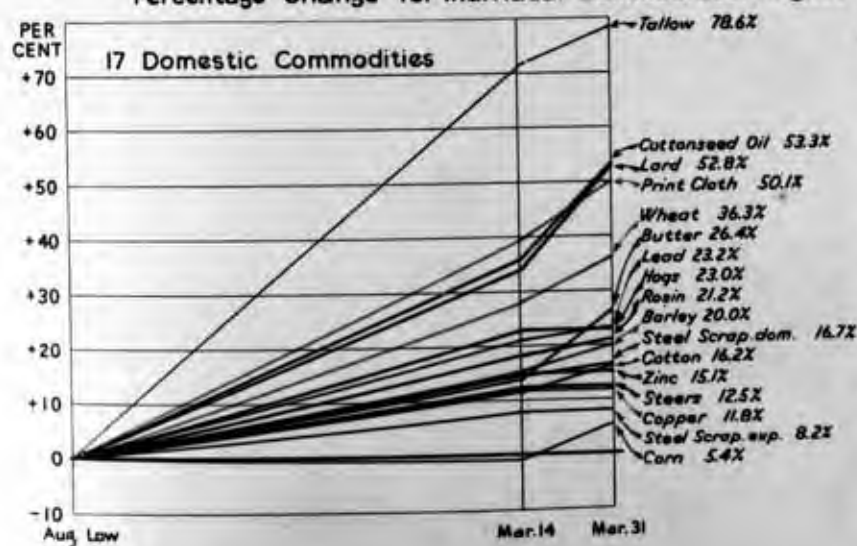


MOVEMENT OF BASIC COMMODITY PRICES Domestic and Imported

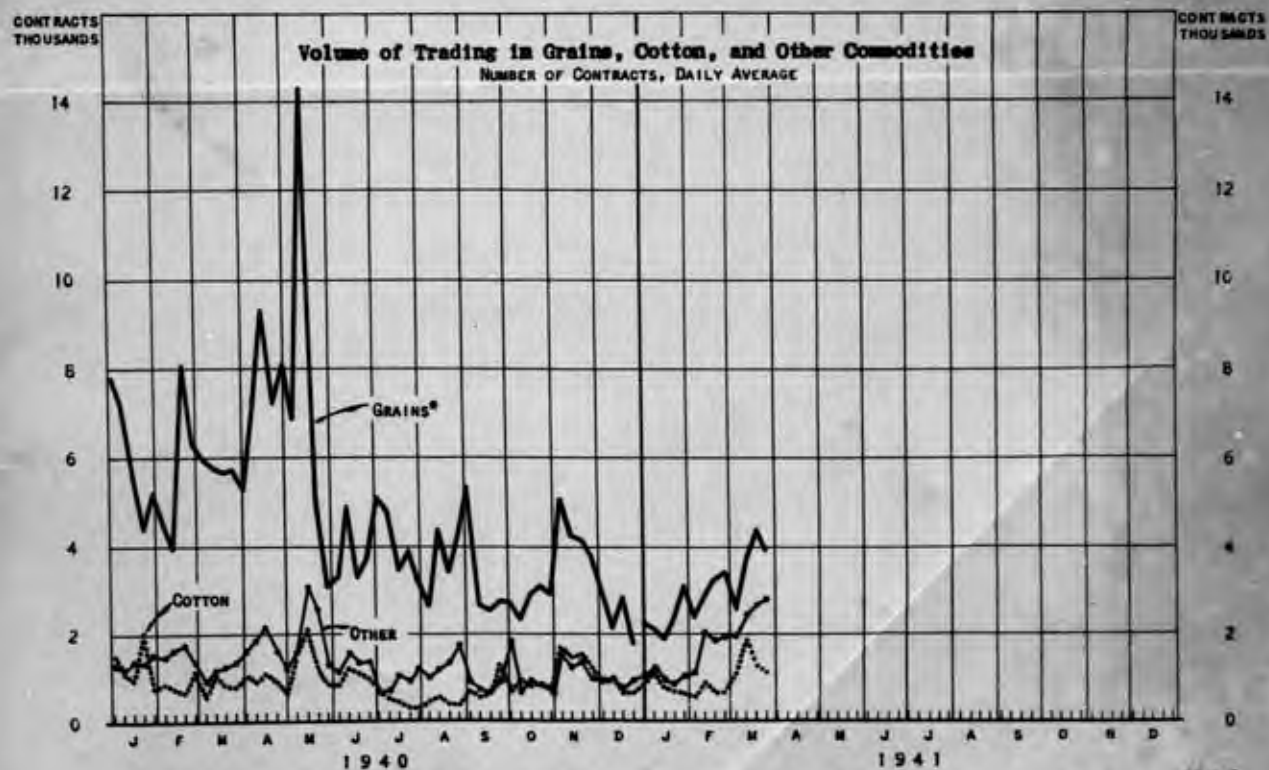
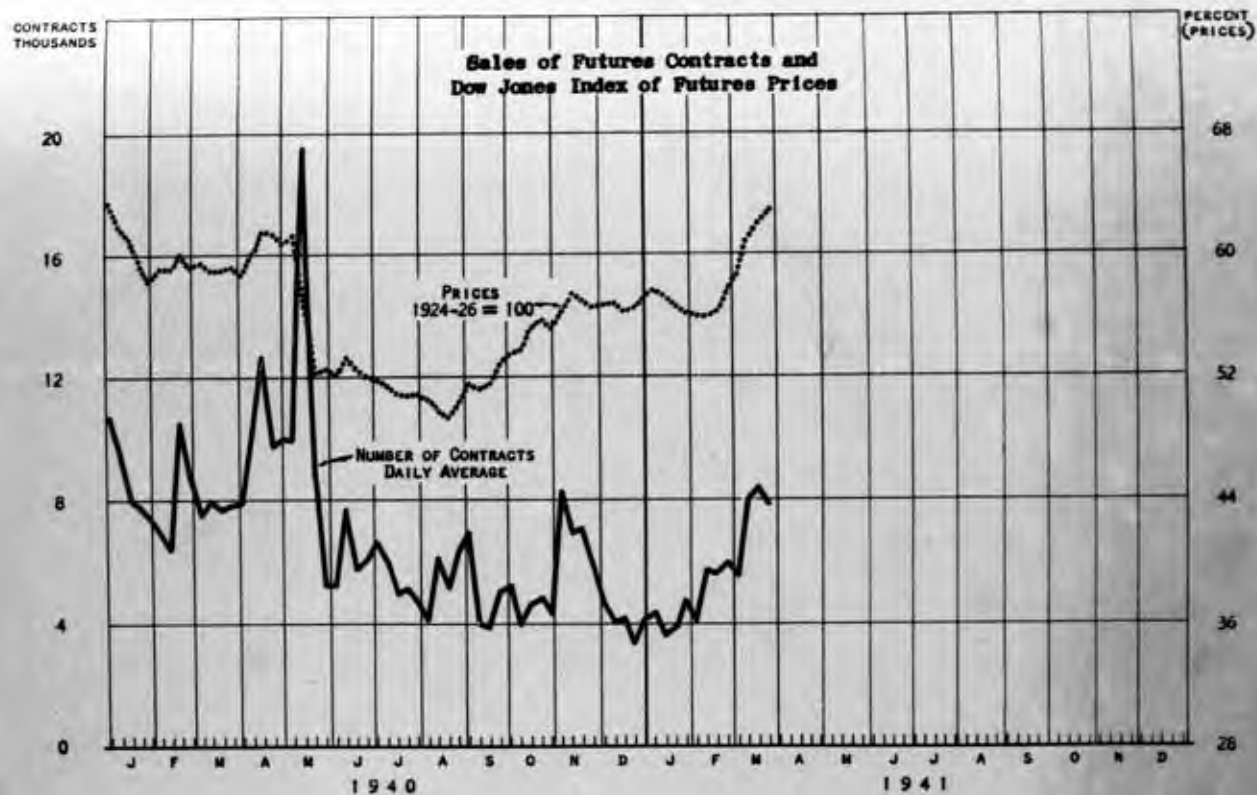
AUGUST 1939 = 100



Percentage Change for Individual Commodities, August 1940 Low to March 14 and to March 31, 1941

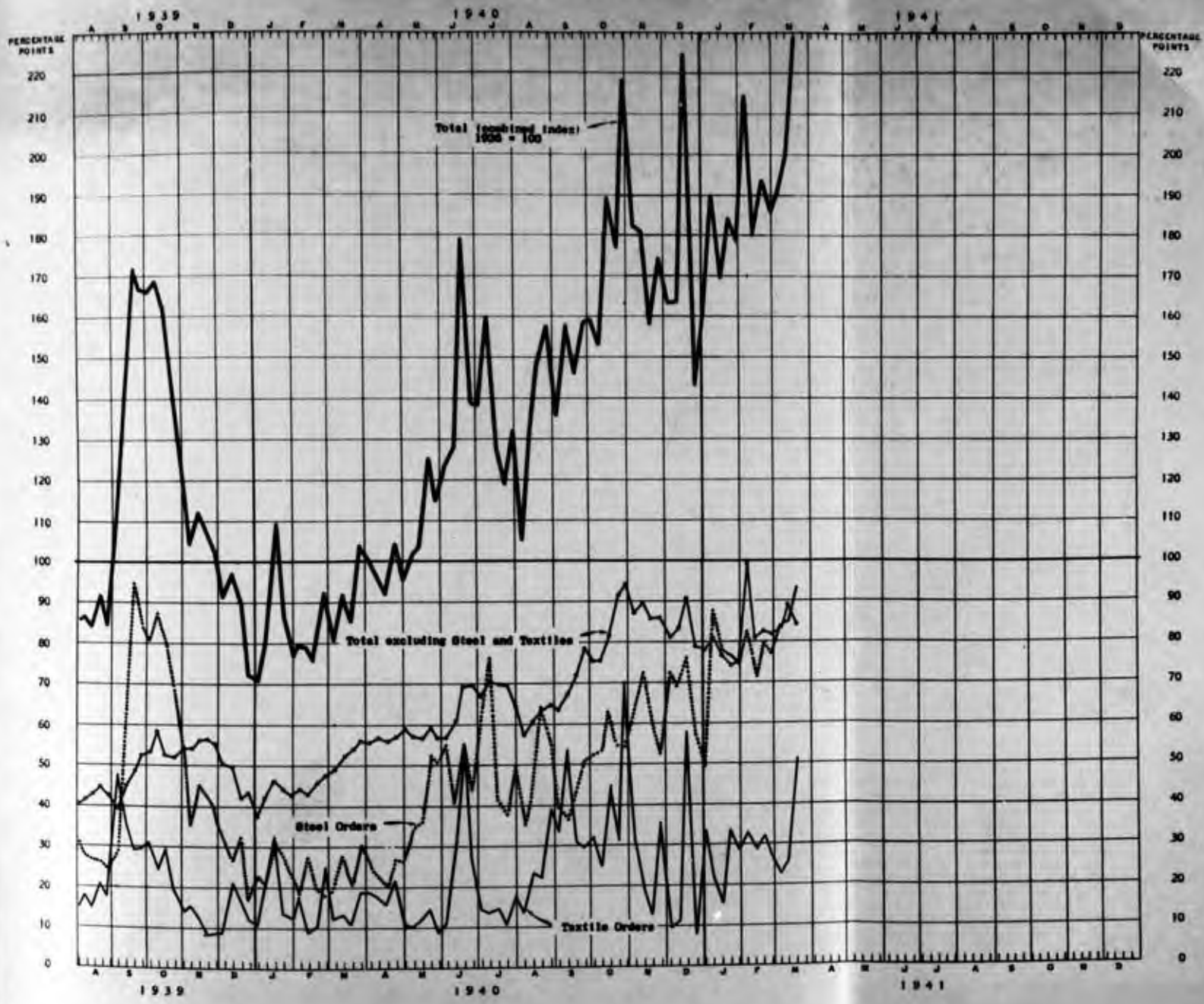


VOLUME OF TRADING AND FUTURES PRICES



* BEGINNING JANUARY 1941 INCLUDES SOYBEANS

INDEXES OF NEW ORDERS Combined Index of New Orders and Selected Components



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE

4/2/41

TO Secretary Morgenthau

FROM Mr. Haas

Work Projects Administration employment declined 28,000 persons to 1,736,000 during the week ended March 19, 1941.

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

244

Week ending 1940-41	Number of Workers (In thousands)
August 7	1,709
August 14	1,708
August 21	1,698
August 28	1,691
September 4	1,690
September 11	1,687
September 18	1,689
September 25	1,704
October 2	1,747
October 9	1,762
October 16	1,768
October 23	1,776
October 30	1,779
November 6	1,783
November 13	1,785
November 20	1,806
November 27	1,820
December 4	1,832
December 11	1,855
December 18	1,872
December 25	1,878
January 1	1,880
January 8	1,887
January 15	1,893
January 22	1,896
January 29	1,895
February 5	1,892
February 12	1,893
February 19	1,885
February 26	1,867
March 5	1,806
March 12	1,764
March 19	1,736

Source: Work Projects Administration

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

	Number of Workers (In thousands)
1938	3,053
July	3,171
August	3,228
September	3,346
October	3,287
November	3,094
December	
1939	2,986
January	3,043
February	2,980
March	2,751
April	2,600
May	2,551
June	2,200
July	1,842
August	1,790
September	1,902
October	2,024
November	2,152
December	
1940	2,266
January	2,324
February	2,288
March	2,092
April	1,926
May	1,665
June	1,701
July	1,691
August	1,704
September	1,779
October	1,820
November	1,878
December	
1941	1,895
January	1,867
February	

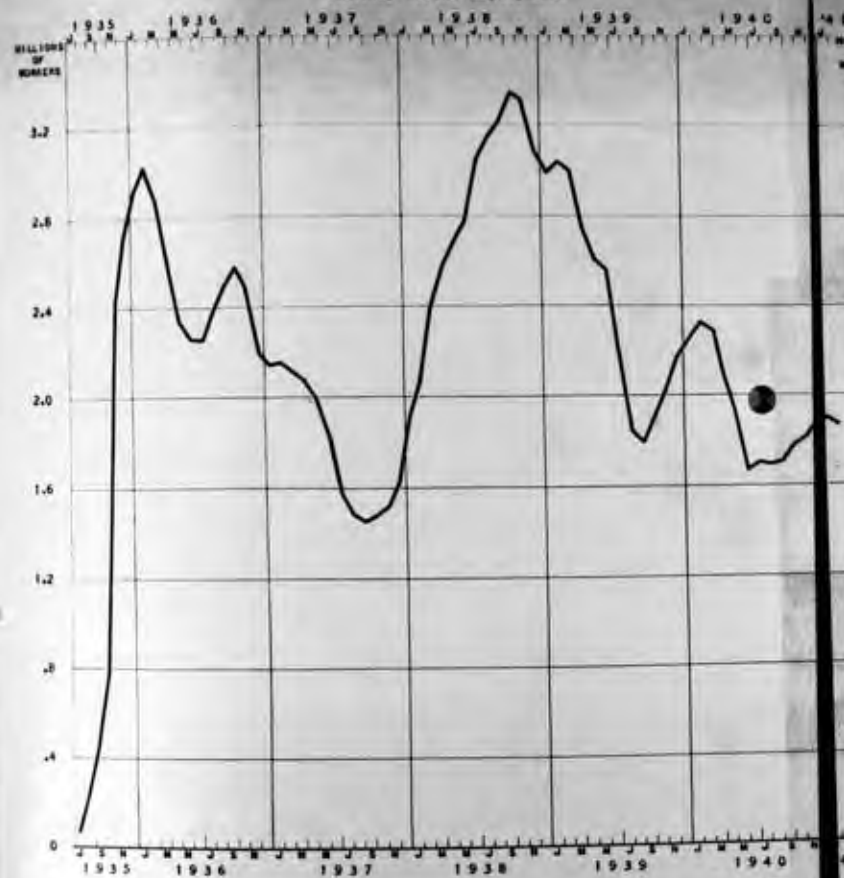
Source: Work Projects Administration

Monthly figures are weekly figures for the latest week of the month.

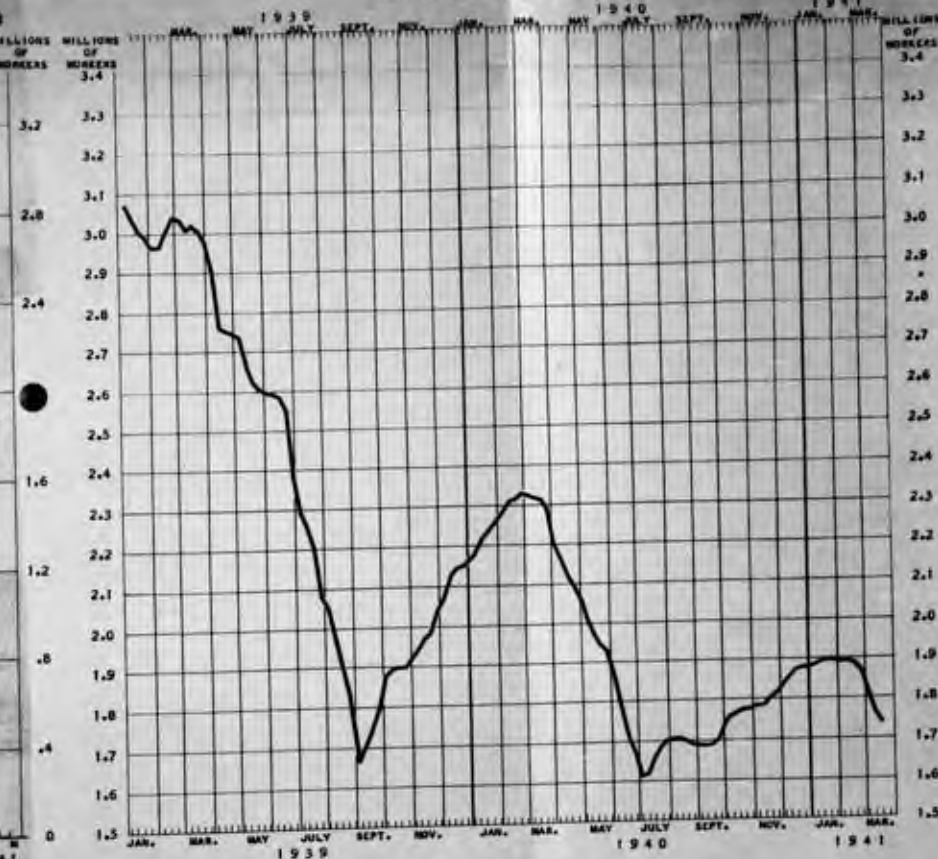
They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 2, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns.....£78,000
Purchased from commercial concerns.....£13,000

The Federal Reserve Bank of New York sold £15,000 in registered sterling to the American Express Company.

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

Sold to commercial concerns.....£ 6,000
Purchased from commercial concerns.....£ 1,000

The reaction in the Canadian dollar rate that began late yesterday afternoon continued this morning. From an initial quotation of 12-1/2% discount, it moved to 13-1/4% by noontime. It subsequently recovered, however, and the closing quotation was 13%, as against 12-3/8% yesterday.

The Cuban peso, which has moved off during the past few days from the current high of 3-5/16% discount touched on March 28, declined sharply today. The closing discount was 5-7/8%, as compared with yesterday's final rate of 4-1/8%.

In New York, the closing rates for the foreign currencies listed below were as follows:

Swiss franc (commercial)	.2322
Swedish krona	.2384-1/2
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2315
Brazilian milreis (free)	.0505
Mexican peso	.2066

In Shanghai, the yuan was again quoted at 5-9/32¢, and sterling was unchanged at 3.92-1/2.

There were no gold transactions consummated by us with foreign countries today.

No new gold engagements were reported.

-2-

We were informed that the Bombay gold price for March 29 was equivalent to \$35.31, representing a gain of 15¢ over the quotation of March 22. Silver was equivalent to 44.83¢ on March 29, up 1/16¢.

In London, the spot and forward silver prices remained at 23-1/2d and 23-7/16d respectively. The U.S. equivalents were 42.67¢ and 42.56¢.

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

We made one purchase of silver amounting to 200,000 ounces under the Silver Purchase Act. This consisted of new production from foreign countries, for forward delivery.

The report of March 26 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 \$7,119,000, an increase of \$41,000 in the short position. Net changes were as follows:

Country	Short Position March 19	Short Position March 26	Change in Short Position*
England**	\$ 464,000	\$ 571,000	+ \$107,000
Europe	3,383,000	3,465,000	+ 82,000
Canada	283,000 (Long)	318,000 (Long)	- 35,000
Latin America	260,000	319,000	+ 59,000
Japan	1,883,000	1,819,000	- 64,000
Other Asia	1,339,000	1,340,000	+ 1,000
All others	32,000	77,000 (Long)	- 109,000
Total	\$7,078,000	\$7,119,000	+ \$ 41,000

*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.



CONFIDENTIAL

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 2, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

	<u>No. of Shares Sold</u>	<u>\$ Proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
March 24	9,867	299,188	83,000	47,907
25	73,165	1,523,401	513,000	530,517
26	47,679	1,804,826	38,000	21,348
27	277,368	6,507,664	5,000	5,500
28	24,499	1,205,120	77,000	68,117
29	<u>1,760</u>	<u>71,017</u>	<u>16,000</u>	<u>13,483</u>
	434,338	11,411,216	732,000	686,872
Gift to Treasury	<u>30</u>	<u>80</u>		
	434,368	11,411,296		
Sales from 2/22/40 to 3/22/41	<u>6,611,840-1/2</u>	<u>211,317,654</u>	<u>25,972,650</u>	<u>25,276,400</u>
TOTAL 2/22/40 TO 3/29/41	7,046,208-1/2	222,728,950	26,704,650	25,963,272

Miss Poate reported sales of non-vested securities for the week ending March 22 totaled \$1,000,000.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 2, 1941

TO Secretary Morgenthau
FROM Mr. Haas
Subject: United States Government Securities; Market
Adjustments to the Issuance of Taxable Treasury
Securities.

SUMMARY

- (1) Prices of long-term Treasury bonds rose almost two points during the first half of March, but a subsequent decline reduced the net gain for the month to about one point. Net changes in the prices of intermediate Treasury bonds were considerably smaller than those of long bonds, and the prices of Treasury notes showed almost no net change from February 28 (Chart I). The average yield of long-term Treasury bonds, moving inversely to prices, has decreased by seven basis points on balance since the end of February (Chart II).
- (2) The market has not yet settled upon the proper tax allowance to be applied to the new taxable Treasury securities. Although one would expect the tax allowance to decrease with lengthening maturities, actual observations of the yields of the five outstanding taxable issues show no systematic variation of the allowance in relation to maturity. The spreads between the yields of the two outstanding taxable bonds and of comparable partially tax-exempt bonds have undergone considerable variation since the first trading in the taxable securities (Charts III and IV).
- (3) High-grade corporate bonds advanced in price during the first half of March, but have lost some of those gains since March 15 (Chart II). Municipals gained for the month as a whole (Chart V). The weaker tendency in corporates, particularly for maturities in the fifties, may reflect in part the competitive effect of the issuance of taxable Governments and in part an adjustment of the market to the yields of the new 2-1/2 percent taxable bond, and of the new series F and series G savings bonds.

Secretary Morgenthau - 2

I. Price and Yield Movements of Government Securities

Prices of long-term Treasury bonds have enjoyed a net increase of about one point since the end of February, while intermediate bonds have risen on balance about 1/3 of a point (Chart I). As the chart and following table indicate, however, the net change was composed of two movements -- a net price rise through March 15, and a lesser price fall since that time. Treasury notes have fluctuated within narrow limits, remaining practically unchanged on balance. Price changes since February 28, 1941 are shown in the following table:

	Average price change	
	Feb. 28-Mar. 15	Mar. 16-Apr. 1
(Decimals are thirty-seconds)		

Notes

1 to 3 years	.00	.00
3 to 5 years	.00	-.04

Bonds

5 to 15 years to call	+ .14	-.04
15 years and over to call	+1.28	-.26

The average yield of long-term Treasury bonds, moving inversely to prices, has decreased on balance by seven basis points since the end of February. This change, also, comprises two movements -- a net yield decrease of eleven basis points to March 15 and an increase of four basis points from March 15 to yesterday's close (Chart II).

II. Tax-Exemption

The market has not yet settled upon the proper tax allowance to be applied to the new taxable issues of Treasury securities. This is made evident by the following table, which compares the yields of outstanding taxable notes and bonds with

Secretary Morgenthau - 3

the yields of wholly and partially tax-exempt obligations of corresponding maturity.*

Issue	Yield of Taxable Security	Yield of Corresponding Tax-Exempt Security		Tax Allowance (As Percent of Coupon) Compared with Tax-Exempt Security	
		Wholly Exempt	Partially Exempt	Wholly Exempt	Partially Exempt
		(Percent)			

Notes

3/4 percent	3/15/43	.30	.06	.18	32%	16%
3/4 percent	9/15/44	.81	.49	.61	43	27
3/4 percent	12/15/45	.89	.64	.82	33	9

Bonds

2 percent	3/15/48-50	1.81	-	1.41	-	20
2 1/2 percent	3/15/52-54	2.25	-	1.77	-	19

It will be observed that the implied tax allowances vary irregularly from one issue to another. Those of the notes are particularly difficult to interpret as the price of practically every security involved in the comparisons is heavily affected by some special factor other than tax-exemption. The yields of the taxable notes of September 15, 1944 and December 15, 1945, for example, -- particularly the latter -- are kept down because they are selling at a discount; while the yields of the corresponding partially tax-exempt securities are kept up by their

* When there is no wholly or partially tax-exempt security of exactly corresponding date with the taxable issue, an estimate has been obtained by interpolating between the yields of the adjacent issues. There are, of course, no wholly tax-exempt securities of over 5 years maturity.

Secretary Morgenthau - 4

large premiums. The computed tax allowances, therefore, as compared with partially tax-exempt securities, are probably lower than those actually being assumed by the market. The allowances as compared with the wholly tax-exempt securities, on the other hand, are probably considerably affected by the high rates of the individual surtax and so are of relatively little use as clues to the appropriate rates on the longer bonds where the comparisons must be made with partially tax-exempt securities.

The situation with respect to the taxable bonds is a little less confusing but scarcely more encouraging. Here the outstanding point is that the new issue (the 2-1/2's of 1952-54) has so far disappointed the hope that the tax allowance would be sharply lower on longer issues. This hope -- based on the much larger proportion of holders of the longer bonds who are not subject to the corporation tax -- may yet be realized, but, in the meantime, the pricing of a taxable 2-3/4 percent bond still presents major difficulties.

The various implied tax allowances are still in a highly dynamic state. The spread between the taxable 2's of March 1948-50 and the partially tax-exempt 2-3/4's of March 1948-51 increased from 32 basis points at the beginning of March to 48 basis points at the time of the offering of the second taxable bond on March 19. Since then it has decreased to 40 basis points (Chart III). The maximum spread -- 59 basis points -- between the yield of the new taxable 2-1/2's of March 1952-54 and that of the nearest partially tax-exempt maturity, the 2-1/4's of December 1951-53, occurred on the day when the new issue was first quoted on a "when-issued" basis. This spread has since decreased to 47 basis points at the close yesterday (Chart IV).

III. High-Grade Corporate and Municipal Bonds

High-grade corporate bonds rose in price during the first half of March, but declined during the second half of the month. At the end of the month they stood about half way between their low at the beginning and their high in the middle of March (Chart II). Municipal bonds rose sharply during the first two weeks of March and made a slight additional net gain during the second half of the month (Chart V).

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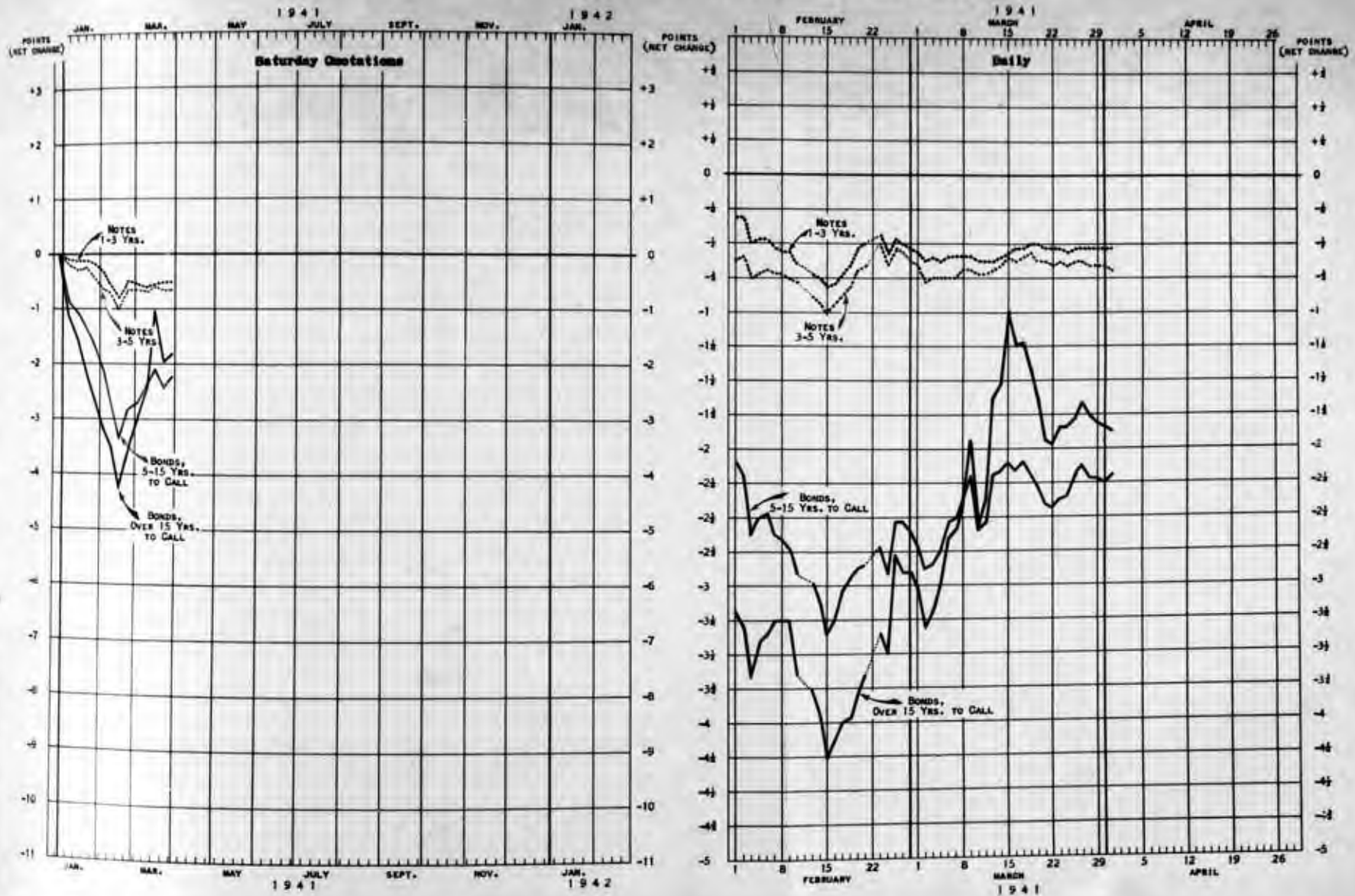
The weaker tendency of corporates, particularly for maturities in the fifties, during the latter portion of March probably reflects in part the growing competition of taxable Treasury bonds in the market for high-grade securities among those investors to whom the tax-exemption privilege is of no especial value, and in part an adjustment of interest rates to conform to the yields on the new 2-1/2 percent bond and on the new series F and series G savings bonds. The extent of this adjustment is indicated by the table below which shows the prices and yields on March 15, before the announcement of the terms of the last cash offering, or of the new series of savings bonds, and on April 1, of five* selected high-grade corporate bonds maturing between 1949 and 1953. It will be seen that the yields of all five bonds have increased, the average increase for the group being about 20 basis points.

Issue	Prices			Yields		
	March 15	April 1	Change	March 15	April 1	Change
	(Percent)					
United States Steel 2.10's 4-1-49	102	100-1/4	- 1-3/4	1.85	2.07	+ .22
United States Steel 2.20's 11-1-50	103	100	- 3	1.86	2.20	+ .34
United States Steel 2.25's 5-1-51	101-1/2	100-1/2	- 1	2.08	2.19	+ .11
Liggett and Myers 5's 8-1-51	126-5/8	124-1/2	- 2-1/8	2.13	2.32	+ .19
Standard Oil of N.J. 2-3/4's 7-1-53	104-7/8	104	- 7/8	2.29	2.37	+ .08

* These are five of the six bonds cited in our memorandum of March 17, 1941, written in connection with the last financing operation. The remaining bond there cited has not traded on the Board since that time.

Chart I

CHANGES IN THE PRICES OF U.S. SECURITIES
 Points Plotted Represent the Difference from December 29, 1940 Price of Each Maturity Class



The figure consists of four line charts arranged in a 2x2 grid, all sharing a common x-axis representing time from January 1940 to May 1941. The y-axis for all charts is 'PER CENT'.

- Top Left Chart:** Titled 'WEEKLY, Saturday Quotations'. It shows two data series: 'Long Term Treasury (12 years or more to earliest call date)' and 'Corporate'. The y-axis ranges from 18 to 36. The Long Term Treasury line starts at approximately 23% in Jan 1940, peaks at 25% in Mar 1940, drops to 24% in May 1940, then rises to a peak of 28% in Dec 1940 before declining. The Corporate line starts at 28% in Jan 1940, peaks at 30% in Mar 1940, drops to 29% in May 1940, then rises to 32% in Dec 1940 before declining.
- Top Right Chart:** Shows the 'Long Term Treasury' and 'Corporate' lines on an inverted scale. The y-axis ranges from 1.8 to 3.6. The Long Term Treasury line starts at approximately 2.3, peaks at 2.5 in Mar 1940, drops to 2.4 in May 1940, then rises to a peak of 2.8 in Dec 1940 before declining. The Corporate line starts at 2.8 in Jan 1940, peaks at 3.0 in Mar 1940, drops to 2.9 in May 1940, then rises to 3.2 in Dec 1940 before declining.
- Bottom Left Chart:** Titled 'Spread Between Long Term Treasury and Corporate'. It shows the difference between the two rates. The y-axis ranges from 0 to 100. The spread line starts at approximately 35% in Jan 1940, fluctuates between 30% and 40% until Oct 1940, then rises to a peak of 75% in Dec 1940 before declining.
- Bottom Right Chart:** Shows the 'Spread' line on an inverted scale. The y-axis ranges from 0 to 100. The spread line starts at approximately 35, rises to a peak of 75 in Dec 1940, then declines.

Office of the Secretary of the Treasury
Bureau of Economic and Financial

F-50-C-3

YIELDS OF TREASURY 2% BONDS OF MAR. 1948-'50
AND 2½% BONDS OF 1948-'51

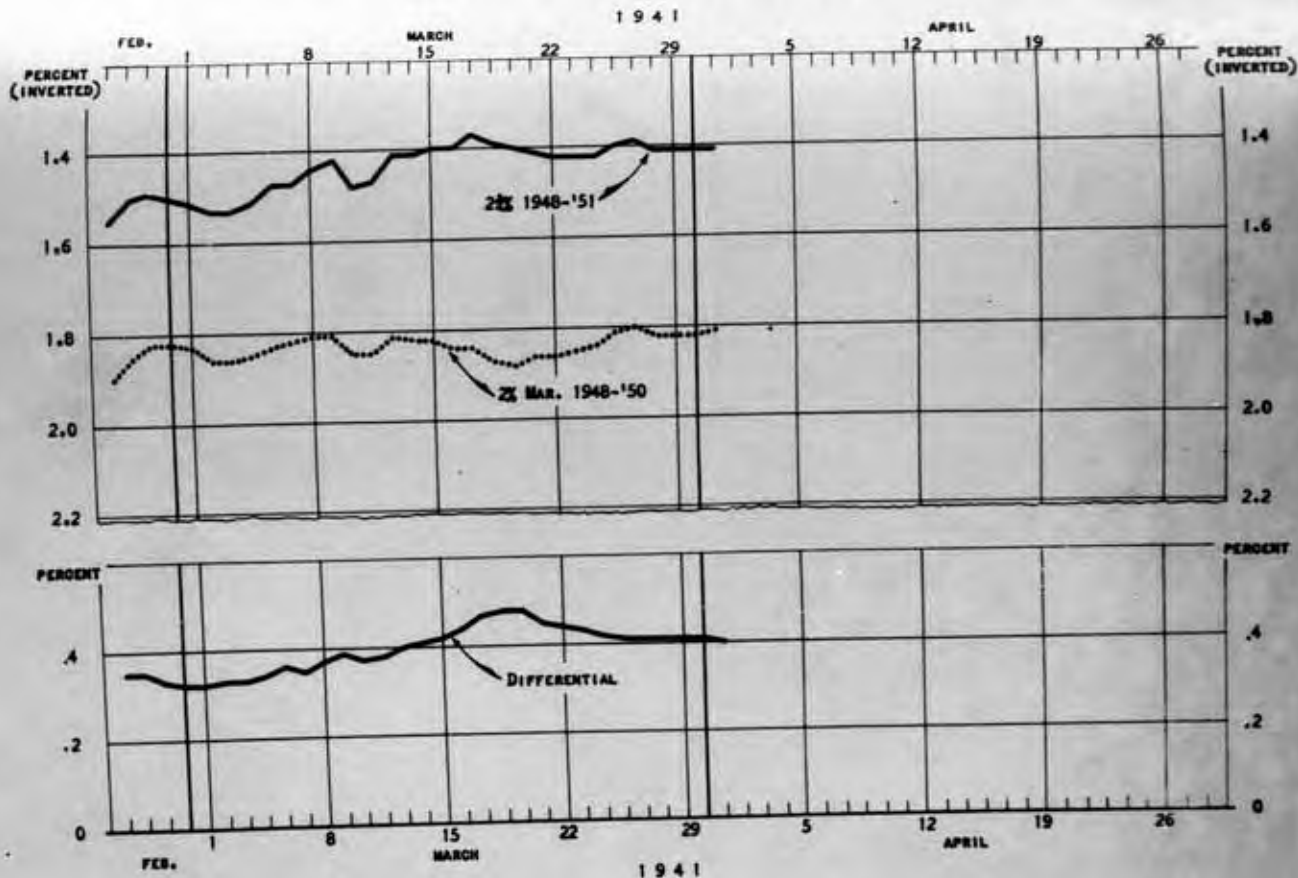
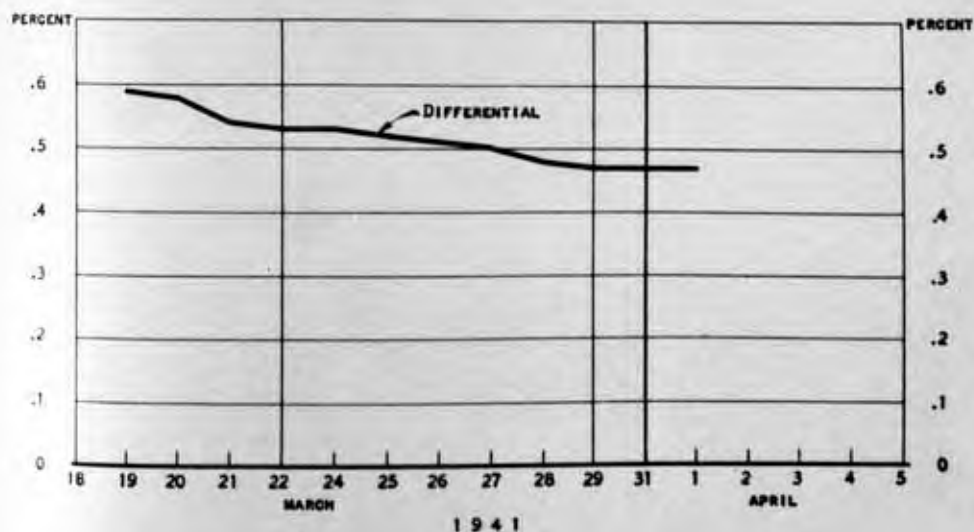
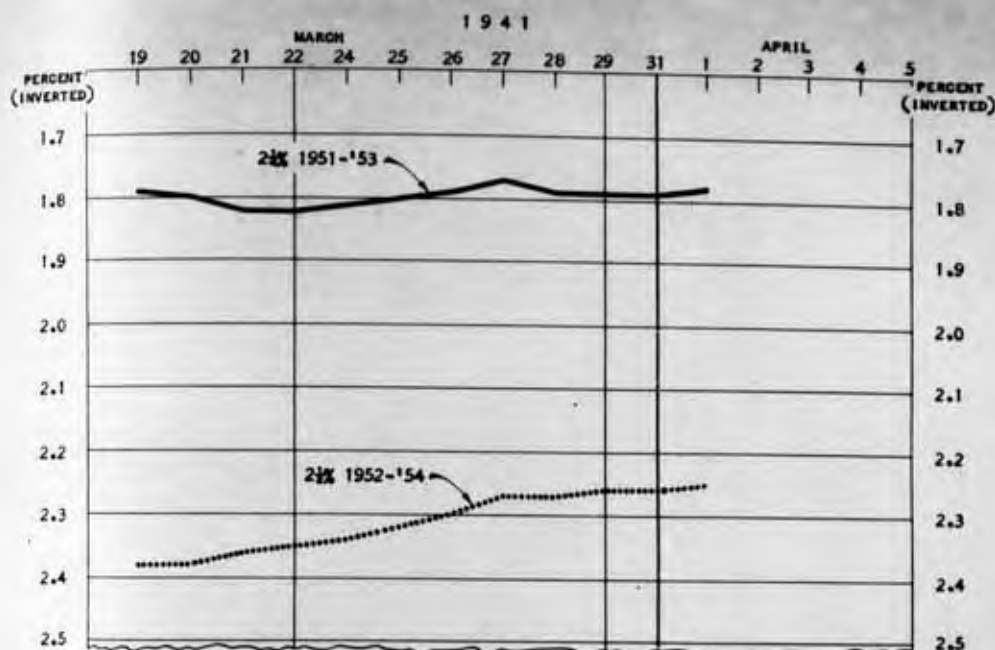
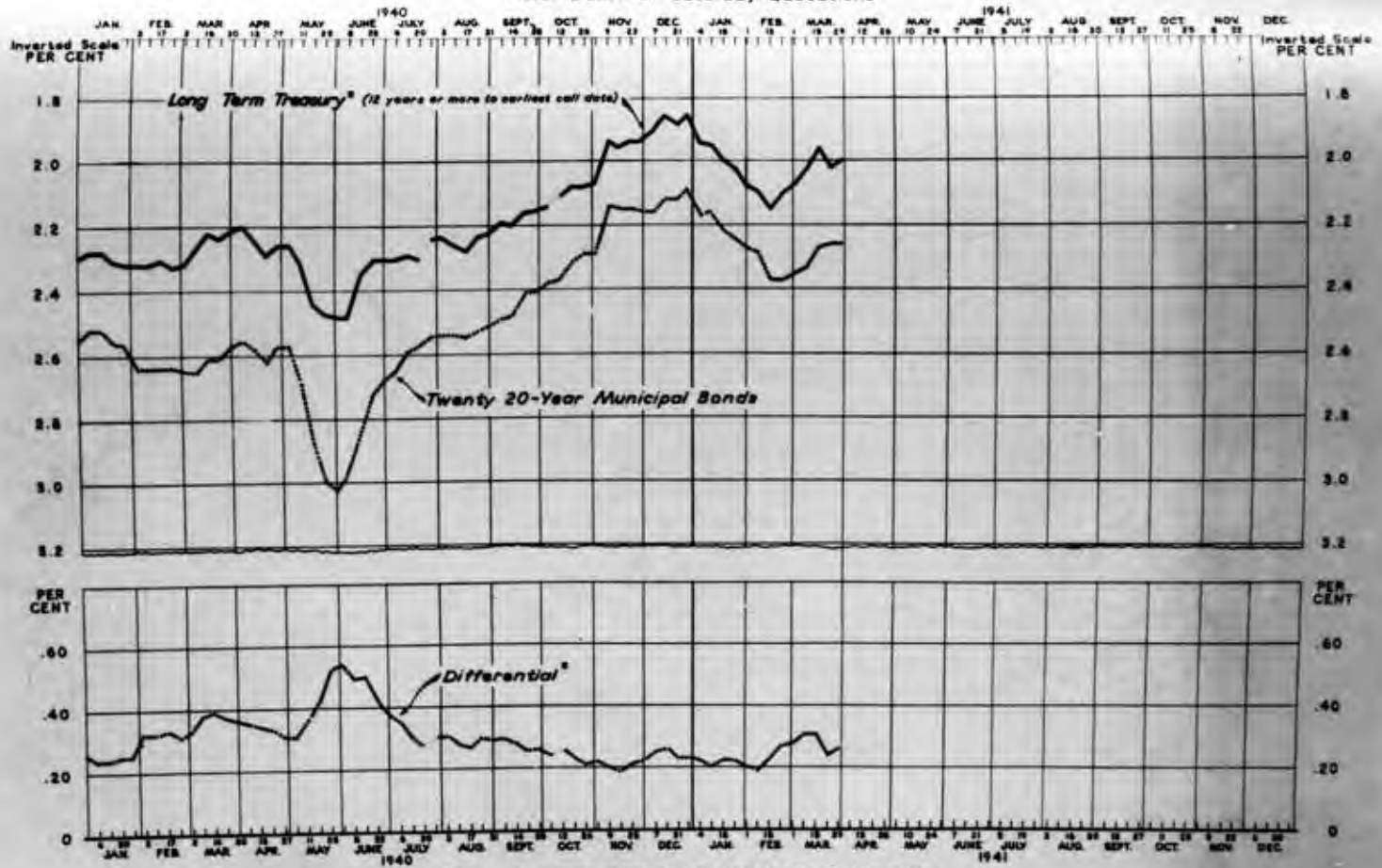


Chart IV

**YIELDS OF TREASURY 2½% BONDS OF 1952-'54
AND 2½% BONDS OF 1951-'53**



COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY
AND DOW-JONES AVERAGE OF MUNICIPAL BONDS
Yields Based on Saturday Quotations



*Break in line indicates change in composition of Long Term Treasury average.

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE 4-2-41

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Working Capital and Business Volume.

In accordance with your request for a study of the relationship between working capital and business volume, the following has been prepared:

I. Annual Figures from Statistics of Income

The attached chart compares the working capital and gross receipts of all corporations submitting balance sheets to the Bureau of Internal Revenue for the years 1928-1939 inclusive. Gross receipts for each year have been compared with working capital at the beginning of the year (i.e., the close of the preceding year). Gross receipts for 1939 have been estimated upon the basis of the movement of national income between 1938 and 1939.

It will be seen that there is very little to indicate that movements in the amount of working capital precede changes in gross receipts. As a matter of fact the chart would seem to suggest the opposite, for the turning points in the curve of gross receipts during the period under consideration generally occur one or two years before the corresponding turning points in working capital. It will also be seen that the business recession of 1937-38 was reflected in a sharp decrease of gross receipts, but that working capital only slackened its rate of increase.

It is also interesting that the principal factor affecting the ratio of working capital to gross receipts (shown at the bottom of the chart) is gross receipts rather than working capital. Movements of gross receipts have covered a range twice as great as that of working capital. In consequence, working capital has ranged from about 40 percent of gross receipts to about 70 percent of gross receipts.

Secretary Morgenthau - 2

II. Alexander Sachs' Analysis Purporting to Show
that the 1937 Recession was due to a
Restriction of Working Capital

In an article published in the Annalist in January 1938 Mr. Alexander Sachs maintained the thesis that the business recession of 1937 was due primarily to impairment of working capital brought about by the undistributed profits tax. He cited figures to show that the current liabilities of 16 corporations in the durable goods field increased by about 60 percent from June 30, 1936 to June 30, 1937 while their current assets increased by only about 30 percent, with the result that their combined ratio of current assets to current liabilities fell from about $4\frac{1}{2}$ to 1 to about $3\frac{1}{2}$ to 1.

It should be noted, in analyzing Mr. Sachs' study, that it pertains to only 16 corporations. These corporations actually enjoyed a substantial increase in net working capital during the period covered, on the basis of Mr. Sachs' own figures. It was only their ratio of current assets to current liabilities which fell and such a fall would be expected during a period of rising business activity such as that from June 1936 to June 1937. It appears, therefore, that there is very little basis for Mr. Sachs' allegation that the 1937 recession was caused by a shortage of working capital brought about by the undistributed profits tax, or otherwise.

III. Time's Index of Business Conditions Based in Part
upon a Derived Series Assumed to
Represent "Working Capital"

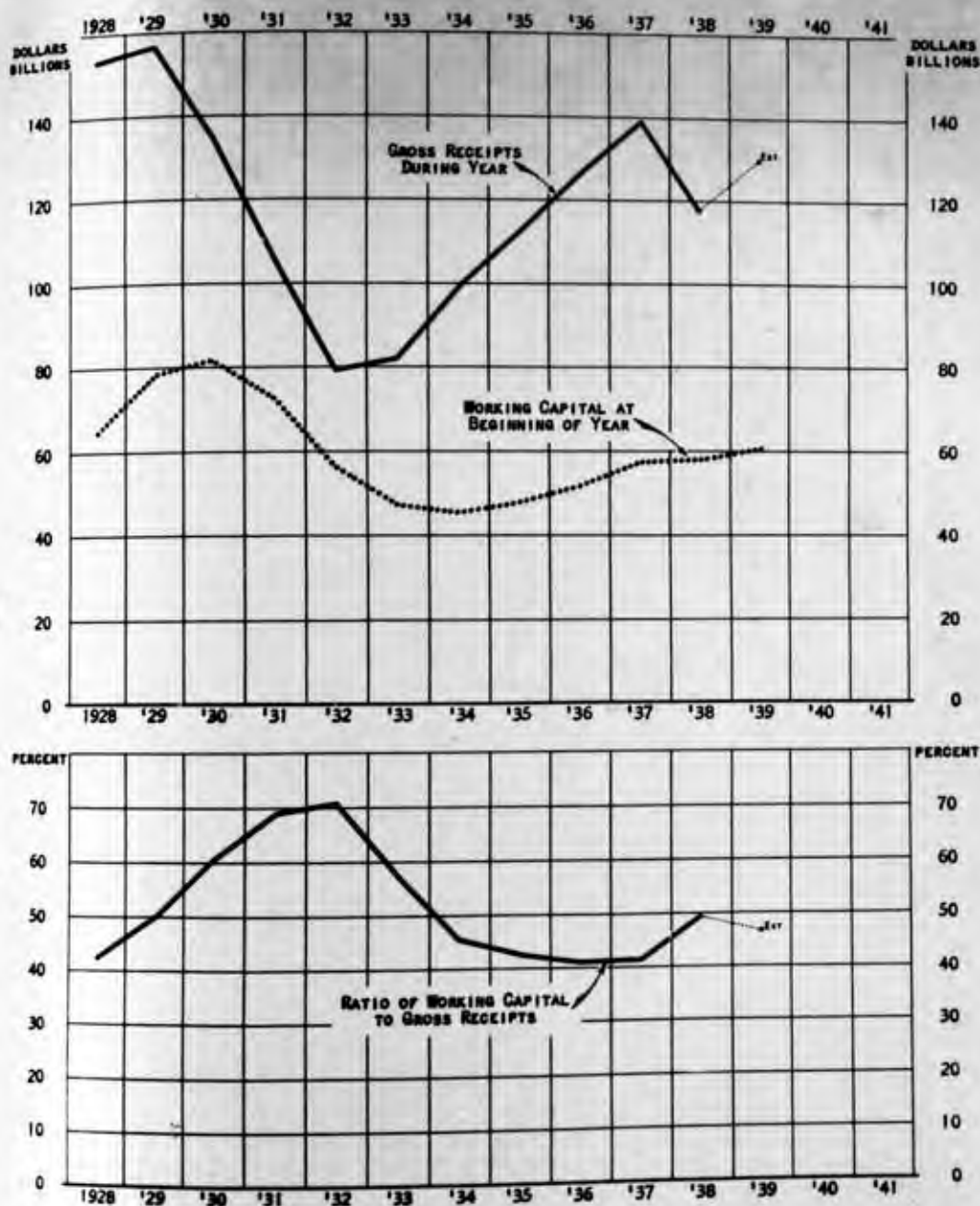
One of the principal elements in the Time Magazine Index of Business Conditions is the "aggregate working capital position" of industry -- supposedly measured by the ratio of bank deposits minus bank loans to bank investments. Another important element in the index is the ratio of bank debits to bank loans. This ratio is supposed to represent the rate of turnover of inventories. A comparison of these two measures -- supposed to represent "working capital" and "sales turnover", respectively -- shows a general tendency for them to agree in their long-time movements, and an occasional but none too clear tendency for changes in "working capital" to be followed by corresponding changes in "sales turnover" after a lapse of about six months.

Secretary Morgenthau - 3

The Time index, first presented early in 1939, was notably lacking in forecasting value during the entire period of its publication. Its abandonment was announced in Time for March 31, 1941.

Attachment

CORPORATION GROSS RECEIPTS AND WORKING CAPITAL



Source: Bureau of Internal Revenue, Statistics of Income.

STRICTLY CONFIDENTIAL
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

264

DATE April 2, 1941.

TO Secretary Morgenthau
 FROM Mr. Haas

For internal use in connection with the Defense Financing Program, we have revised the revenue estimates for the fiscal years 1941 and 1942. These revisions have been made in light of the March income tax returns. An upward revision has also been made in the business base assumption used in estimating fiscal year 1942 returns in order to take account of enlarged defense expenditures. A table giving the revised estimates in detail is attached.

Briefly, the revised estimates compare with the estimates used in the January 1941 Budget, as follows:

	Revised Estimates	Budget Estimates	Increase	
			Amount	Percent
<u>Fiscal Year 1941</u>				
Total Receipts	8,060,150	7,653,210	406,940	5.3
Deduct: Net appro- priation for Federal old-age and survivors insurance trust fund *	640,880	640,280	600	.1
Net Receipts	<u>7,419,270</u>	<u>7,012,930</u>	<u>406,340</u>	<u>5.8</u>
<u>Fiscal Year 1942</u>				
Total Receipts	9,935,530	8,971,735	963,795	10.7
Deduct: Net appro- priation for Federal old-age and survivors insurance trust fund*	712,000	696,300	15,700	2.3
Net Receipts	<u>9,223,530</u>	<u>8,275,435</u>	<u>948,095</u>	<u>11.5</u>

Money figures in thousands of dollars)

Representing an amount equal to taxes collected and deposited under the Federal Insurance Contributions Act, less reimbursement to general fund for administrative expenses.

Estimates of receipts in fiscal years 1941 and 1942
Comparison of the April 1941 revised estimates and the January 1941 Budget estimates
(Money figures in thousands of dollars)

STRICTLY CONFIDENTIAL

General and special accounts (on the basis of the daily Treasury statement (unrevised))	April 1941		January 1941		Increase (+) or decrease (-)		Increase (+) or decrease (-)	
	Revised estimates		Budget estimates		April over January		April over January	
	Fiscal year		Fiscal year		Fiscal year 1941		Fiscal year 1942	
	1941	1942	1941	1942	Amount	Percent	Amount	Percent
1. Internal Revenue								
(1) Income taxes:								
Corporation, current	1,640,000	2,457,000	1,443,000	2,092,000	+ 197,000	+ 13.7	+ 375,000	+ 17.9
Individual, current	1,331,000	1,930,000	1,222,000	1,604,000	+ 109,000	+ 8.9	+ 326,000	+ 20.3
Back taxes	255,000	260,000	255,000	260,000	—	—	—	—
Excess-profits tax	181,000	679,000	106,000	522,000	+ 75,000	+ 70.8	+ 157,000	+ 30.2
Declared value excess-profits tax	26,000	32,000	24,000	29,000	+ 2,000	+ 8.3	+ 3,000	+ 10.5
Unjust enrichment tax	8,000	4,000	5,000	2,500	+ 3,000	+ 60.0	+ 1,500	+ 60.0
Total income taxes (collection basis)	3,441,000	5,372,000	3,055,000	4,509,500	+ 386,000	+ 12.6	+ 862,500	+ 19.1
Adjustment to daily Treasury statement basis	—	—	—	—	—	—	—	—
Total income taxes (daily Treasury statement basis)	3,441,000	5,372,000	3,055,000	4,509,500	+ 386,000	+ 12.6	+ 862,500	+ 19.1
(2) Miscellaneous internal revenues:								
Capital stock tax	166,500	189,600	166,800	193,400	- 300	- .2	- 3,800	- 2.0
Estate tax	320,700	350,700	317,300	341,700	+ 3,400	+ 1.1	+ 9,000	+ 2.6
Gift tax	33,000	35,400	31,300	32,800	+ 1,700	+ 5.4	+ 2,600	+ 7.9
Liquor taxes	783,000	839,300	810,500	839,500	- 27,500	- 3.4	- 200	- .2
Tobacco taxes	669,330	723,530	691,930	716,630	- 2,600	- .4	+ 6,900	+ 1.0
Stamp taxes	41,050	44,180	36,240	39,980	+ 4,810	+ 13.3	+ 4,200	+ 10.5
Manufacturers' excise taxes	599,900	676,000	623,500	666,400	- 23,600	- 3.8	+ 9,600	+ 1.4
Miscellaneous taxes	196,870	203,420	193,440	198,920	+ 3,480	+ 1.8	+ 4,490	+ 2.3
Total miscellaneous internal revenue (collection basis)	2,850,350	3,062,130	2,871,010	3,029,335	- 40,660	- 1.4	+ 32,795	+ 1.1
Adjustment to daily Treasury statement basis	—	—	—	—	—	—	—	—
Total miscellaneous internal revenue (daily Treasury statement basis)	2,850,350	3,062,130	2,871,010	3,029,335	- 40,660	- 1.4	+ 32,795	+ 1.1
(3) Employment taxes:								
Taxes on employment by other than carriers:								
Federal Insurance Contributions Act	668,100	741,000	667,500	725,300	+ 600	+ .1	+ 15,700	+ 3.2
Federal Unemployment Tax Act	99,300	105,700	88,400	91,100	+ 10,900	+ 12.3	+ 14,600	+ 16.0
Total	767,400	846,700	755,900	816,400	+ 11,500	+ 1.5	+ 30,300	+ 3.7
Taxes on carriers and their employees (Chap. 9, Subchap. B of the Internal Revenue Code)	135,300	144,900	135,300	144,900	—	—	—	—
Total employment taxes	902,700	991,600	891,200	961,300	+ 11,500	+ 1.3	+ 30,300	+ 3.2
Total internal revenue	7,174,050	9,425,730	6,817,210	8,500,135	+ 356,840	+ 5.2	+ 925,595	+ 10.9
2. Railroad Unemployment Insurance Act	6,900	7,400	6,800	7,200	+ 100	+ 1.5	+ 200	+ 2.8
3. Customs	352,000	333,000	302,000	235,000	+ 50,000	+ 16.6	+ 38,000	+ 12.9
4. Miscellaneous revenues and receipts	527,200	169,400	527,200	169,400	—	—	—	—
Total receipts, general and special accounts	8,060,150	9,935,530	7,653,210	8,973,735	+ 406,940	+ 5.3	+ 963,795	+ 10.7
Deduct: Net appropriation for Federal old-age and survivors insurance trust fund representing an amount equal to taxes collected and deposited under the Federal Insurance Contributions Act, less reimbursement to general fund for administrative expenses	640,880	712,000	640,280	696,300	+ 600	+ .1	+ 15,700	+ 3.3
Net receipts, general and special accounts	7,419,270	9,223,530	7,012,930	8,277,435	+ 406,340	+ 5.8	+ 948,095	+ 11.5

April 2, 1941.

Treasury Department, Division of Research and Statistics.

1/ First six months July - December includes receipts from the tax originally levied by Title II of the Social Security Act on carriers with respect to employment prior to July 1, 1939.

2/ Less than .05 percent.

* Tentative

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 3, 1941.

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£51,000
Purchased from commercial concerns	£25,000

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

Sold to commercial concerns	-0-
Purchased from commercial concerns	£ 4,000

In New York, the closing rates for the foreign currencies listed below were all unchanged from yesterday's final quotations:

Canadian dollar	13% discount
Swiss franc (commercial)	.2322
Swedish krona	.2384-1/2
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2315
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	5-7/8% discount

In Shanghai, the yuan was unchanged at 5-9/32¢. Sterling was again quoted at 3.92-1/2.

There were no gold transactions consummated by us with foreign countries today.

No new gold engagements were reported.

The London silver prices were unchanged at 23-1/2d for spot and 23-7/16d for forward delivery. The U. S. equivalents were 42.67¢ and 42.56¢.

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

We made one purchase of silver amounting to 200,000 ounces under the Silver Purchase Act. This consisted of new production from foreign countries, for forward delivery.

DEPARTMENT OF STATE
Washington

In reply refer to
FE 893.01B11/84

April 2, 1941

My dear Mr. Secretary:

There is transmitted herewith a copy of a communication dated March 20, 1941, from the Chinese Ambassador in which it is stated that the Foreign Trade Office of the National Resources Commission, which is a department of the Chinese Government, has established a branch office in New York and has appointed Mr. Yin Kwo-Yung as its Director, and that Mr. Yin is authorized, in connection with contracts between the National Resources Commission and the Metals Reserve Company dated respectively October 22, 1940, and January 31, 1941, to sign checks and other documents, arrange for delivery of the orders, and to perform other acts necessary or appropriate under the aforementioned contracts.

Copies of this communication are being mailed also to the Export-Import Bank and to the Metals Reserve Company.

Sincerely yours,

For the Secretary of State:

(S) Wells

Under Secretary

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

Enclosures:

Copy of letter dated
March 20, 1941, from
Chinese Ambassador.

eh:copy

CHINESE EMBASSY
WASHINGTON

March 20, 1941

Sir:

I have the honor to inform you that the Foreign Trade Office of the National Resources Commission which is a department of the Chinese Government, has established a branch office in the city of New York and has appointed Mr. YIN Kwo-Yung as its Director. The function of this office is principally to carry on the business of selling various metals produced in China.

As representative of the National Resources Commission, Mr. Yin is authorized, in connection with the contracts between the National Resources Commission and the Metals Reserve Company dated respectively October 23, 1940, and January 31, 1941, to sign checks and other documents, arrange for delivery of the ores and to perform other acts necessary or appropriate under the above-mentioned contracts.

I shall be greatly obliged if you will be so good as to transmit the above information to the appropriate authorities of the American Government.

Accept, Sir, the renewed assurances of my highest consideration.

HU SHIH

Honorable Cordell Hull

Secretary of State

eh:copy

EH

GRAY

Berlin

Dated April 2, 1941

Rec'd 12:40 a.m., 3rd.

Secretary of State,
Washington.

2235, April 2, 5 p.m.

By 869, March 7, 3 p.m.

FOR TREASURY FROM HEATH.

According to the statement of the Reich's short term debt at the end of January just released by the Finance Ministry the Reich's short term borrowings increased by 1905 million marks during January to a total of 38,357 million marks. Since sales of Government long term paper were probably large during January it is likely that the total increase in indebtedness during that month was at least equal to the average monthly borrowings of over 3 billion marks since the spring of 1940 and thus well above December's total of 2.55 billion marks.

During January Treasury bills and certificates outstanding increased by 2,294 million marks to 32,996 million marks and other short term loans by 121 million marks

EH -2- 2235, April 2, 5 p.m. from Berlin.

to 1634 million marks whereas the Reich's utilization of its operating credit at the Reichsbank decreased by 500 million marks to the very low figure of 71 million marks.

MORRIS

EMB

COPY

BERLIN

Dated April 2, 1941

Rec'd 3 p.m.

Secretary of State,
Washington.

1225, April 2, 1 p.m.

By order of the Reich Minister of Economics restrictions on exchange transactions and payments between the Reich and the Netherlands were canceled on April 1, 1941. Henceforth payments between the two territories regardless of the purpose for which they are ~~made~~ made and the amount involved may be effected without special permits.

One of the consequences of this measure which according to official comment means a further step towards the adjustment of economic and financial conditions of the Netherlands to those of the Reich is that holders of Dutch currency in the Reich are no longer required to surrender it to the Reichbank. By an agreement between the two banks of issue the existing clearing exchange rate of 132.70 marks for 100 Dutch guilders will be maintained as the basic rate for all payments between the two.

Inform Commerce and Treasury.

MORRIS.

Letter from Shanghai, April 2, 1941.

On my return to Shanghai I found decidedly changed conditions over those prevailing at the time of my departure last year. The number of foreign residents has been reduced, particularly in the American and British communities. Most all of the Continentals continue to remain in Shanghai, primarily, I believe because most of them have no place to go to, in view of the wartime conditions prevailing in Europe. One of the most noticeable features in Shanghai that greets the new arrival is the widespread misery and poverty of the Chinese people. According to the index maintained by the Municipal Council's Industrial Section, the cost of living for Chinese workers is now about 5 times what it was in 1936. The price of rice has risen to unheard of levels. Before the Sino-Japanese hostilities, the price of rice ranged around CN\$15 or less per picul. Today the price is around CN\$120, and as you know, this is a tremendous hardship on the Chinese.

This rise in living costs is due not only to unavoidable war inflation and the depreciation of the Chinese currency but also to heavy taxation which has been imposed by the invader on the movement of cargo in the Interior. As you know, Shanghai has to import about 90% of its foodstuffs, and heavy taxes are paid on these food arrivals from the Interior. The invader has diverted most of the Chinese rice crop to their own country and there is only a mere trickle that arrives in Shanghai, with the result that we are dependent for our rice supplies largely from Saigon, Bangkok and Rangoon. The cost of freight from Saigon is almost as much as the Transpacific freight rate.

With the continuous rise in the price of rice there has been a marked tendency to hoard this commodity, so that actually the stocks of rice in Shanghai are today above normal. However, there is the fear that shipments from abroad may be interfered with in the event of a further shortage of shipping, and then, too, there is always the grim spectre of possible hostilities breaking out in the Western Pacific. To complicate the rice situation the Japanese are now diverting a large portion of the French Indo-China surplus rice for shipment to Japan.

Since the Sino-Japanese hostilities the Shanghai Power Co., which normally consumes around 60,000 tons of coal monthly, which was supplied largely from North China, now finds they can only obtain a portion of their requirements from North China, where the coal supply is controlled by the Japanese. Thus, today, the Kailan Mining Administration is practically our sole source of coal supply and the Japanese dole it out as they please, as most of the Kailan production is destined for the munition industries of Japan, for Japanese requirements are unusually heavy in that there has been a shortage of rainfall in Japan, resulting in less hydroelectric power, and thus greater consumption of coal for the supply of power.

Shortage of ships on the China Coast is very acute. Since the outbreak of hostilities Shanghai has been obtaining most of its coal from Haiphong and the requirements of the Power Company have come from Calcutta, but with the withdrawal of most of the British shipping from the Far East there are no more ships available for the Shanghai-

Calcutta coal trade. It has now become necessary for the Shanghai Power Co. to reduce its power output by 30%, and, as you know, most of the mills and factories of Shanghai are operated on power produced by the Shanghai Power Co. This reduction in power means a curtailment in the activity of the mills, with resulting unemployment of many Chinese laborers. If this phase of the situation worsens, it is not improbable we may have serious food riots and civil commotion in Shanghai. The economic pressure on the lower classes is very heavy.

Political terrorism in the International Settlement and French Concession has been on the increase. The currency struggle in the Settlement has brought to a dramatic head the political feud between Nanking and Chungking. The Nanking regime is doing its utmost to push the use of their notes in the Settlement and thus far they have met with little success. In this struggle many Chinese bankers and their employees have been intimidated, and in fact, a number of them have lost their lives. Mass murders and kidnappings have occurred. Recently Chinese gunmen invaded the dormitories of the Kiangsu Farmers Bank and shot and killed several employees while they slept in their beds. 128 employees of the Shanghai branch of the Bank of China were "arrested" at midnight in their dormitories and are being detained by the Nanking authorities. Two branches of the Central Bank of China in Shanghai were demolished by heavy time bombs recently, which were delivered by Chinese disguised as postmen. Recently one of the secretaries of the Central Reserve Bank, which is sponsored by the Nanking regime, was shot down within a few feet of me at the noon hour at one of Shanghai's busiest downtown corners -- Nanking and Szechuen Roads.

There have been any number of cases of political kidnapping. Many of the cases do not get into the Press. Many of them are not of a political nature but are due to the increasing lawlessness in and outside the Settlement. There are a number of groups who are now active in this business, which has become quite widespread. At first the main group was confined to political kidnappings and it was known as "76 Jessfield Road", which was a group closely affiliated with the Japanese regime and enjoyed Japanese protection, maintaining their headquarters outside the Settlement. Now a number of other groups are active in the business. It is not an uncommon practice for the smaller groups to resell their victim to more powerful groups who, in turn, hope to collect a higher ransom than what they have paid to the smaller group. Sometimes the amounts asked are considerable. Recently, one of my Chinese friends was kidnapped. The kidnapping in this case was by a guerilla group who maintain headquarters at Minghong, which is about 15 miles away from Shanghai. They needed cash and this was their method of raising it. They asked for 10 million Chinese Dollars but I believe the price is now down to one million Chinese Dollars. You may recall I, as we had dinner in his garden many years ago. As I recall, it was a very large dinner party and the food was not very good. A number of my Chinese friends have been kidnapped and after prolonged negotiations have been released, upon payment. Very few of the kidnappers have been caught. In view of the increasing political terrorism and widespread kidnapping, many of the important and wealthy Chinese have left Shanghai.

One or two of our mutual Chinese friends will probably be

leaving soon for the United States, where they expect to stay as much as possible in seclusion, avoiding interviews with anyone of prominence in New York or Washington. Such interviews are reported back to the pro-Japanese element in Shanghai with unpleasant repercussions on the family and the business of the person involved.

I might mention to you that an interesting development in Shanghai has been the increased number of new, small industries that have sprung up. Much machinery is now being made in Shanghai and actually exported abroad. Locally they are now able to manufacture textile, printing and papermaking machines, electrical apparatus, power presses, etc. Some of this machinery is being exported to Malaya and India. The influx of refugees from Austria and Germany has brought much skilled knowledge which is now being used in many small, new industries locally. As a friend of mine said to me a few days ago, a great mistake which the British Government made was not to allow the Jewish refugees from Austria and Germany to proceed to Australia. In coming to Shanghai they will be able to develop industries which eventually, with the low cost of labor, will undersell British manufacturers. Had they been able to go to Australia where labor costs are high, future Chinese competition would not have been accelerated as it has today. These refugees have brought new vitality to the industrial section of Shanghai.

The fear that Chungking may not be able to maintain the value of its currency has caused a great deal of speculation and hoarding in commodities, and also in local securities. It is estimated that there are over 300,000 bales of cotton yarn in Shanghai, which represents a value close on to 450 million Chinese Dollars. This stock is considerably in excess of local needs and little of it can now be exported to South China, owing to the tightening up of the Japanese blockade in that region. Until recently there was a great flow of freight which was smuggled onto the Kwangtung mainland and then transported overland to motor roads leading to the Interior and Chungking. The Japanese now have landed troops in Kwangtung and seriously interfere with this trade. Money is extremely easy in Shanghai and there are heavy bank deposits. Yet, many Chinese fear to keep their money in cash and have bought gold bars and commodities, viz., cotton piece goods, cotton yarn, paper, rice, metals, lumber, etc. Metal prices in Shanghai have risen fantastically recently, owing to the belief that it will be impossible to obtain further metal from the U. S., and local prices for metal are far in excess of those prevailing in the States.

Outside the Settlement, located chiefly on the extra-Settlement roads in Japanese protected territories, are large gambling establishments which are thronged with many Chinese gambling furiously. The Japanese are also maintaining narcotic establishments; in fact, any activity which will bring in revenue and undermine the moral fibre of the Chinese. Chinese night clubs appear to be doing a good business, as they are still crowded, as are the cinemas. As one Chinese explained it to me, the home of the average Chinese is so pecked with relatives, as living quarters are difficult to obtain, that many people prefer to stay out of the home as long as possible, and thus, those who have money go to the cinema, night clubs, etc.

All of us seem to have taken a fatalistic view of the situation. About all we can do is meet our problems as they arise day by day. If major hostilities should break out in the Western Pacific, it is likely that Shanghai will be blockaded as far as accessibility to non-Japanese shipping is concerned. There are some who believe that the British and American residents in occupied China will be interned. It is my guess that we would not be interned by the Japanese but that we would be required to report to the Japanese gendarmerie at frequent intervals and have to buy our own food. Why should the Japanese want to establish large internment camps where they would have to feed the foreigners when they can make the foreigners buy their own food? Thus the Japanese could continue to levy tribute on all foods brought into Shanghai from the Interior.

As to the probability of hostilities in the Western Pacific breaking out, it is really anybody's guess. From a logical point of view one would think that Japan, who is already on war rations, would not embark on another major conflict, but the leaders are not rational; they are consumed with a colossal ambition to establish an empire on the mainland of Asia and they are determined to have a clash, if necessary, to push aside anyone who interferes with their plans. Much will depend upon whether or not they are able to obtain an understanding with Russia. On this one point we all agree, and I believe even the Japanese embarked upon what they term "The China Incident", where they have been veering themselves out in a struggle which has now lasted nearly four years. Had they not been involved in this struggle they would have had their Army intact and would have been in a marvelous position for trading. Their merchant marine, a large portion of which is now absorbed in the China venture, would have been able to benefit from the prevailing high freight rates, as would their factories and export markets. Thus from an economic point of view they have not benefitted from the present war in any measure compared with the benefits they obtained in the first World War.

In any case if hostilities should break out, it is my opinion that it would be a long-drawn out affair and the status of the Americans and British in Shanghai would be unpredictable but I think our business would be brought to a standstill. The foreign exchange market would undoubtedly close and in that event how would Shanghai be able to buy its food, coal, cotton, etc. from abroad? Certainly the seller would not be interested in accepting Military Yen in payment.

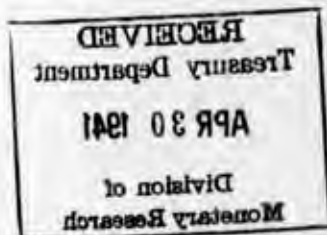
The financial situation is very confused. Even though the Japanese have permitted the Wang Ching Wei regime to set up a central bank, yet they have not given much assistance to the note circulation of that institution. The Japanese are primarily concerned with furthering the circulation of their Military Yen, which I might mention are numbered and unsigned and have no purchasing value in Japan itself. The interior railway fares, freight, passenger fares on inland steamers, utility bills, etc. are all payable in Military Yen. The circulation of this currency in the lower Yangtze continues to increase and the amount of the circulation is pure guesswork.

As to the Chinese Dollar, people do not hold the fear that

they did formerly; in fact, there are a number of people who are over-sold on the foreign exchange market on the theory that inasmuch as war between Japan and the U.S. is inevitable, when it does occur the Chinese Dollar will appreciate, as many holders of US\$ would want to sell them, inasmuch as America will be involved in a long and costly war which will mean a drain on U.S. resources, and so the US\$ will be affected, in their opinion.

As you know, the Yangtze River is only open to Japanese trade and steamers. A German friend of mine who has lived for many years in Hankow, China, was able to get to Shanghai only recently, although he applied for a permit from the Japanese in Hankow some four months ago. He was only able to obtain a permit when he produced a doctor's certificate that he had to go to Japan for his health. Thus, he was compelled to go to Japan, although he did not want to do so, in order that he might get to Shanghai, and in obtaining a permit in Hankow he had to sign a document that he would not return to Hankow. He has not been able to bring in any imports into Hankow as no space is available to non-Japanese shippers. In Hankow there resides a handful of foreigners -- representatives of larger firms who have investments in Hankow -- waiting for a return of normal conditions.

This is a rather cheerless recital of conditions in Shanghai. It is amazing the manner in which the Chinese conduct what little business remains in Shanghai. There is a certain amount of business which continues in spite of what appear to be insurmountable obstacles, i.e. what we of the West consider insurmountable. However, as you know, Chinese trade for decades has been conducted under abnormal conditions. The Chinese always appear to find ways of getting cargo through, either by means of bribery or other methods. Japanese military commanders in the Coast ports and the Interior have been waxing fat and this has disturbed Tokyo.



CONFIDENTIAL

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, April 2, 1941

TENTATIVE LESSONS BULLETIN
No. 87
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 ON THE GERMAN ARMYSOURCES

This bulletin is based upon recent reports from American official observers in Germany and in Yugoslavia.

CONTENTS

1. RECENT CHANGES IN EQUIPMENT OF PANZER DIVISIONS
2. ORGANIZATION OF PANZER GROUPS
3. IDENTIFICATION OF GERMAN UNITS IN ROMANIA

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CONFIDENTIAL1. RECENT CHANGES IN EQUIPMENT OF PANZER DIVISIONS

German Panzer divisions are now being re-equipped, with medium tanks replacing most of the light tanks. The latter are being retained for reconnaissance and liaison functions only.

The construction of Merk I tanks - light tanks with two-man crews - has been discontinued, but few Merk II tanks - light tanks with three-man crews - are still being built. Re-equipped Panzer divisions will be composed largely of 18-ton Merk III and 22-ton Merk IV tanks.

It is possible that still heavier tanks are now being built. The characteristics of these new models are unknown, but there are rumors to the effect that they weigh 36 tons or more.

2. ORGANIZATION OF PANZER GROUPS

A foreign observer in Germany recently stated to an official American observer that he had received information from a usually reliable source to the effect that the Germans in the English Channel coastal areas were organizing small, mobile, relatively hard-hitting tank groups to be used in a land attack against England. This information is unconfirmed.

The general organization of each of these Panzer groups is as follows:

- 1 company of heavy tanks - probably the M-IV, or a heavier tank heretofore undisclosed;
- 1 or 2 companies of medium or light tanks;
- 1 company of motorized infantry in carriers;
- 1 battery of artillery;
- 1 platoon of pioneers;
- 1 communications platoon;
- Appropriate supply and maintenance elements.

In spite of the fact that the reliability of this information is questionable, the formation of such groups seems to be logical for armored elements of a German force landing against England. These small groups offer fewer logistical and control difficulties in water transportation and movement on land in England than comparatively large unwieldy Panzer divisions. It appears also that small groups can be employed to better advantage tactically in England, where terrain suitable for large armored forces is relatively restricted. The formation of such groups, moreover, would be in accord with the known German principle of

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organizing the force to suit the task. These groups could be disemberked quickly and used to enlarge beach heads, to neutralize local counterattacks, and eventually to form units for a large armored force if the need for such a force should occur.

3. IDENTIFICATION OF GERMAN UNITS IN RUMANIA.

The task of obtaining positive identifications of German divisions in Rumania has been practically impossible because the Germans have discarded numbers and adopted characters and brands for unit and organization designation. In addition, unit designations are shifted with each major movement, so that knowledge of such designations as they exist in one theater will be of no use when the units have been shifted to another.

Of the six motorized German divisions in Rumania in mid-February, five were identified as follows:



Horizontal black line



Two horizontal black lines



A black Y with a line across it



A black X



A circle with three arcs

The Germans use the following basic color schemes for various arms: Infantry, white; artillery, red; engineers, black; armored units and tanks, pink; signal communications, yellow.

Company designations within a battalion are as follows: 1st Company, solid red circle; 2d Company, solid blue circle; 3d Company, solid green circle.

Infantry battalion designations within a regiment are as follows: 1st Battalion, red circle with white border; 2d Battalion,

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blue square with white border; 3d Battalion, green diamond with white border.

Artillery group designations are as follows: 1st Group, yellow circle with red border; 2d Group, blue square with red border; 3d Group, green diamond with red border; 4th Group, violet triangle with red border.

Similar differentiations are made for regimental C.P.'s and large units.

Intelligence organizations have been baffled by this "hieroglyphic" system. It is even reported that a German soldier may refer to himself as a member of the Y-Bar Division without actually knowing its number. A few days later, when the unit has been shifted, he may refer to himself as a member of the X Division.

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RESTRICTED

G-2/2657-220
No. 355

M.I.D., W.D.
April 2, 1941
12:00 M.

SITUATION REPORTI. Western Theater of War.

Air: German. Small scattering attacks by day and night on Great Britain. Continued attacks on shipping.

British. No important operations.

II. Balkan Theater of War.

Bulgaria. No change.

Yugoslavia. No change.

Albania. Local ground and air action.

III. Mediterranean and African Theaters of War.

Ground: Eritrea. Asmara, the capital of Eritrea, capitulated to the British April 1.

Libya. German and Italian mechanized units have occupied Marsa El Brega, which is about 30 miles northeast of El Agheila (occupied March 24), on the Libyan coastal road linking Benghazi and Tripoli.

Abyssinia (Ethiopia). The British report their advance from Direedawa astride the railway and road to Addis Ababa is making rapid progress.

Air: Italian. Benghazi, Libya, was raided.

British. Close support of operations in East Africa is assumed to have continued.

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
at 13:54, April 2, 1941.

Rome, filed April 2, 1941.

The Army of the Po is moving its motorized transportation back to the north. These trucks had previously been moved south by railroad, presumably for employment in the African campaign. Information at hand is not very extensive. However, troops seem to be moving in general toward the Yugoslav frontier. The Germans have some of their four-motor bombing planes operating in Sicily. The number of these planes stationed there is as yet unknown to me.

FISKE

Distribution

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

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Paraphrase of Code Radiogram
Received at the War Department
at 10:01, April 2, 1941

London, filed 14:30, April 2, 1941.

1. British Air Activity over Continent

a. Daylight April 1. The Royal Air Force attacked by bombing and direct fire mosquito flotillas and mine sweepers off the Belgian coast without success having been reported.

b. Night March XI-April 1. Heavy attacks were made on Bremen and Emden (scale 39 bombers) and lighter (two bombers) on the port of Rotterdam. Widespread destruction and serious fires were reported.

2. German Air Activity over Britain

a. Night April 1-2. There were scattered light raids over the following localities (number of planes given in parentheses): Banff (1), Norwich (1), Plymouth and St. Eval (3), Orkneys (1), Pembroke (1). Extent of damage unreported.

b. Daylight April 1. Raids and the number of planes engaged in each were as follows: mining Humber estuary and spotting seaborne traffic, 27; mining off mouth of Humber, 15; off coast of France and in the Channel, 60; over Basingstoke (near Kidderminster), 1; airfield at Leeming, 3; airfield at Warrwell, 3; Northumberland, 1. Extent of damage is not known.

3. Aircraft losses. European Theater

a. British. Night March XI-April 1. One plane failed to return after bombing German ports.

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b. Axis. Night April 1-2. In the course of activity over Britain a British fighter succeeded in damaging one Focke-Wulf plane.

Daylight April 1. Five German bombers were shot down and two damaged in air.

4. British Air Activity Middle Eastern Theater.

Daylight April 1. (Libya) Royal Air Force bombers scored hits on traffic in the harbor, and harbor and rail facilities of Tripoli for the third night in a row. A ten-ship convoy also was bombed ten miles at sea with what success is not known. (Albania) Auto convoys and Infantry columns on the Busi-Glava road were again targets for British attack.

5. Axis Air Activity Middle Eastern Theater.

a. Night April 1-2. (Libya) Ten German and Italian planes bombed the British airfield at Agadabia with some success. (East Africa) An attack was made on the British airfield at Jijiga by two Italian planes without any success being reported. (Aegean) A scouting patrol was executed near Crete by German distance bombers.

6. Aircraft losses in Middle Eastern Theater.

a. Night April 1-2. In the attacks on Agadabia British fighters shot down one German and damaged three Italian planes. Both the Italian planes which attacked Jijiga were damaged.

7. In the Humber estuary a naval tender struck a mine and went to the bottom.

8. The two sister battleships (26,000 tons) GNEISENAU and

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SCHANNHORST remain at Brast.

9. British authorities suspect that it was the design of the Axis staff to cover large transport of German forces to Libya by the recent excursion of the Italian Navy.

10. The British War Ministry report the surrender of Asmara and the taking of Diredausa.

SCANLON

Distribution:

Assistant Chief of Staff, G-2
Secretary of War
State Department
Secretary of Treasury
Assistant Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps
Assistant Chief of Staff, G-3

-3-

CONFIDENTIAL

April 3, 1941
9:30 a.m.

RE DEFENSE SAVINGS BONDS

Present: Mr. Bell
Mr. Graves
Mr. Haas
Mr. Kuhn
Mr. Edwards
Mrs. Klotz

H.M.Jr: Is Kuhn here to soften us up? Is that his job?

Kuhn: I don't think he was even invited. (Laughter)

Klotz: You and I both.

H.M.Jr: Before you people get down to business, how was the bankers' convention at Louisville? How did it go?

Edward: We thought it went over very well. They were very nice to us. All of them were very eager to have us tell them to go.

H.M.Jr: No sour note?

Edward: Not the slightest indication. As a matter of fact, Mr. Johnson and I practically took over the convention.

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H.M.Jr: Where is Johnson? I thought he was here.

Bell: No, he wasn't invited in.

H.M.Jr: You said Johnson?

Bell: I didn't intend to.

H.M.Jr: You took over the convention?

Edward: Yes.

H.M.Jr: They stopped talking about all the money they were lending for national defense and tried to explain that and went on to this, did they?

Edward: Didn't say much about that. Mr. Secretary, I think most everybody now is in favor of this program.

Bell: They got pretty good publicity down there at Louisville.

H.M.Jr: The banks?

Bell: Well, our end of it. The president's statement got pretty good publicity, cooperating with the Treasury. It mentions Mr. Edward and Mr. Johnson being there, and Burgess' statement got some publicity along with it.

Edward: They mimeographed and distributed my little speech and Johnson's and the American Banker also carried the full text of what I had said and it was in a good many papers--

H.M.Jr: Did you enjoy going down there?

Edward: I had a real good time.

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Bell: I think the president used almost word for word what Ferdie Kuhn wrote in his suggestion.

Kuhn: Did he? I didn't see it.

H.M.Jr: Which president?

Bell: President of American Bankers' Association. He made a speech and-- (Laughter)

Haas: You are in a new capacity, Ferd.

Edward: I think he did. Here is what he said. I think Mr. Kuhn wrote this one.

H.M.Jr: Incidentally, coming up on the plane yesterday was our Internal Revenue agent from Austin, Texas, and he says there is a man in Austin who is president of the American something or other bank in Austin, age 68 or 78, and he says he is a rip-snorting Roosevelt Democrat and the whole board of directors is. It is American Security or American Trust. The man is 78 years old, and he said in fact he is about the only bank president in the whole of Texas who is. But Harold had this fellow come up yesterday. He is coming up to see us.

Graves: Yes, I was with him most of yesterday.

H.M.Jr: He says, "Come on down with me, you know I am past president of the Shorthorn Cattle Association, and you and I will kind of go around and wherever you go they will ask you to stay a day or a month. I want to take you through the best cattle country in Texas. Any time you have got a month or so that you want to come down - " he was a very nice fellow.

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Graves: Yes, he is. A very able fellow.

H.M.Jr: What was his name?

Edward: This is Houston. I think this is - they had my speech in there. They had it all. They gave us everything in the world that we asked for and more. As a matter of fact--

H.M.Jr: It is good to get this publicity.

Edward: As a matter of fact, Mr. Secretary, we told the bankers over there that we were leaving a little bit afraid of the situation because they wanted to do too much.

H.M.Jr: Well, I think it is all very nice because in about a week or 10 days we start on our tax program, and it is very nice for once to have good publicity because just as soon as we start on our tax program we will see how they change.

Well, Bell, I am at your disposal. Let's have the works.

Bell: Well, there are a number of questions we would like to ask concerning most of the banks and the part they will play in the distribution and sale of these bonds. One is the issuing agent for the Series E bonds, which is the small bond, five thousand dollar limit. We think that any bank, if it so wishes, should be designated an agent to sell Series E savings bonds. That is the five thousand dollar limit. And they should keep a stock in their bank to sell right across the counter just the same as the post offices do. It would be probably unfortunate if we designated the banks to take applications and a person could walk right across

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the street and buy the same bond over the post office counter. We think they both ought to be put on a par with respect to the small bond and also the postal savings stamps, if the Post Office Department approves.

Graves: They will approve.

Bell: They will approve.

H.M.Jr: Well, now, does that work both ways? Are you going to let the post office sell the others too?

Bell: No, we are going to let the post offices sell the small baby bond and the savings stamps.

H.M.Jr: How about if you go to the post office and you can't get that and you go across the street? You can get it at the bank.

Bell: Well, we don't contemplate allowing anybody to go across the street and get the larger bonds. They can go to the bank and put in an application for the larger bonds.

H.M.Jr: Well, the idea is that you would let the banks sell everything if they want to?

Bell: No, let the banks sell - be the issuing agent for only the small bond. If we let them be a sales agent or take applications, in other words, for the 50 thousand dollar bond--

H.M.Jr: What is the difference?

Bell: The difference - what do you mean?

H.M.Jr: Between being issuing agent and taking applications.

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Bell: An issuing agent would have a stock of bonds in their bank or in the post office and the person comes in to buy a bond and it is immediately given to him; but if they come in to buy a 50 thousand dollar bond, they merely take the application and the remittance and forward it to the nearest Federal Reserve Bank, which fills the order, returns the bond through either - through the bank to the individual.

H.M.Jr: Let me see if I have got this straight. The post office is going to do what?

Bell: Going to sell the five thousand dollar bonds--

H.M.Jr: And the stamps.

Bell: and the stamps.

H.M.Jr: And are they going to stock them and issue them?

Bell: Yes, just like they are doing now.

H.M.Jr: That is first class post offices?

Graves: First, second, and third, and a few fourth. Sixteen thousand in all.

H.M.Jr: Well, that takes care of the post offices.

Bell: Yes, sir.

H.M.Jr: Then on the banks, what are you going to let them do?

Bell: Let the banks do the same thing with respect to those.

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H.M.Jr: But in the case of the F and--

Bell: And G, we thought we would allow, at least for the time being, the banks to take applications only and the remittances and submit those applications and the remittances to the nearest Federal Reserve Bank, which would fill the order.

H.M.Jr: How much delay would there be on that?

Bell: There hadn't ought to be much delay because they send it to their on Federal Reserve Bank, I wouldn't say - a week would be the most.

Edward: They ought to be able to get it in 48 hours.

Bell: And sometimes you would get it in much less than a week.

H.M.Jr: And the only question before the house is, shall we let the banks take the five dollar stamps?

Bell: Bonds and stamps. That is the only one.

H.M.Jr: Is everybody in favor of that?

Edward: I would like to ask this, Danny. When you said "all banks," now you are speaking of principally the commercial and savings banks? You don't mean these home loan banks?

Bell: Well, there is that question. I said here at least commercial and savings. Now, I think there is some feeling among the group that we should eliminate federal savings and loan associations and the home loan banks. I have some--

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H.M.Jr: Can you hold everything?

Bell: Yes.

H.M.Jr: Let's just for the moment say insured banks. Would that cover the field? And then we will come to the others.

Bell: No, I would put all commercial and savings banks.

H.M.Jr: Even though they are not insured?

Bell: Yes, sir.

Edward: Most of the mutual savings banks are not insured. They do not belong to the FDIC. There are only four in the United States that belong to the FDIC. I think I see, Mr. Secretary, what you have in mind about protecting the Treasury. That comes a little later. We are going to get collateral.

H.M.Jr: You are?

Edward: Yes, sir.

Bell: There is some question about including the federal savings and loan and home loan banks.

H.M.Jr: Why not?

Bell: Some of the federal savings and loans are really not equipped to do this, and they have got only, say, one or two clerks in the organization, but I don't see how the Federal Government can sponsor a home loan bank system and create members and put capital in them and then deny them the privilege of - at least to issue these savings bonds.

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H.M.Jr: You can't. That goes with Farm Credit.

Bell: I have got in federal land banks.

H.M.Jr: I want to be sure of Farm Credit.

Bell: I would like to eliminate them, but I don't see how they can.

H.M.Jr: You can't. They have asked for it, too, haven't they?

Bell: Yes. They have already investigated it.

H.M.Jr: You can't eliminate it.

Bell: I don't think you can either.

H.M.Jr: I think it would be a mistake.

Edward: Mr. Secretary, the only reason that I see why you shouldn't, those institutions in reality do not accept deposits. They sell stocks. They advertise deposits; but, as a matter of fact, it is really stock. They also advertise it is insured up to five thousand dollars. That insurance, of course, is as - not as to liquidity but as to liquidation. Then these other banks, the commercial and savings banks, aren't going to be a very definite competitor to this program because of the prevailing rate of interest that is now being paid by the banks, which is running around one to hardly - in very few instances above two percent. These particular institutions pay interest anywhere from three - some of them four percent, so just from a hardboiled business proposition, you are more or less sending your customer into a competitive shop who is going to offer him - who is going to have a sign

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on the window advertising a higher rate than we are going to be able to pay. I am not particularly arguing against it, I am just stating facts.

H.M.Jr: Well, I think your facts are correct, but I don't see how the Secretary of the Treasury can say that an organization like the Home Owners Loan Bank, who are already our fiscal agent, can't handle this.

Bell: That is what I think. I think you just couldn't live down the pressure that will come from that group.

Edward: Well, personally, it is going to make it a great deal easier for Harold Graves and myself if you leave them in there. It is going to be easier on us if we can do it.

H.M.Jr: We can do it, and the other thing is, we say, "Well, now, we want all the outlets," but here is a group whom we won't even let sell it. Personally, it isn't terribly important, is it?

Bell: I doubt if you will sell a lot of bonds through them.

H.M.Jr: Because if they pay a higher rate, they are not going to be the best outlet.

Bell: That is right. Mr. Edward is right about that. You are going to walk into the bank for the purpose of buying a two and a half percent bond and see on the wall, "We will pay you three percent." They will change their mind in many cases.

H.M.Jr: How do you feel about it, Harold?

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Graves: I don't think it would do any harm, especially.
I don't think it would do you very much good.

H.M.Jr: Well, it is a nuisance value to do it, isn't it?

Graves: Yes, I think that is correct.

H.M.Jr: All right, let's do it.

All right, what is the next thing?

Bell: The next one is the sales agents, which we talked about some. Any bank, if it wishes, may be designated as an agent to take applications for Series F and G bonds. That is the 50 thousand limit. Which applications with remittances will be forwarded to a Federal Reserve Bank and the Federal Reserve Bank will issue the bonds and send them to the applicant through the forwarding bank.

Now, we did discuss the question of allowing the post offices to also take applications for those bonds. I think the men who have discussed it have come to the conclusion they would like at least for the present to leave out post offices on the larger bonds.

H.M.Jr: That is all right with me until we get started.
That is all right.

Bell: The next one is one that may be controversial and that is permit banks to buy F and G savings bonds. A number of us feel that they should be permitted to buy those bonds. I think Mr. Haas probably thinks it shouldn't be permitted because it is contrary to what we - or at least our original thoughts in this program. I have had Schwarz look up your statements to the public and--

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H.M.Jr: Do you take those seriously? (Facetiously)

Bell: Yes, I do. (Laughter)

Haas: I am glad of that. It helps my side.

Bell: And your statement before the committees of Congress and he gives me this memorandum.

"A perusal of the Secretary's public utterances with respect to the new Defense Savings bonds fails to produce a single instance in which a definite commitment was made regarding whether banks would, or would not, be permitted to purchase these securities. The issue was left clearly wide open."

(See Attachment)

H.M.Jr: That is what I told you this morning.

Bell: Yes, that is right. And there is nothing stated before the committees other than you hoped that you would tap the real savings of the people through this means. Now, the banks have cooperated. They have come in enthusiastically and they are going to do an awful lot of work without any reimbursement. And I think if we don't permit them to buy these bonds, they are going to feel rather badly, and I feel to the extent that we do permit the banks to buy these bonds that we are just cutting down on our other financing, which will have to be done through the banks. Now George can speak for himself. I don't want to argue this out.

H.M.Jr: Go ahead, George.

Haas: Mr. Secretary, I think this is one of the -

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I think there will be a good many decisions that you will have to make which are not the easiest, or not along the lines of least resistance. As I see this, there are at least three reasons why I am inclined to recommend that the banks - the commercial banks be not allowed to buy these bonds.

The first one is that the bonds were not designed for that purpose. They were designed to tap real savings and in designing the bond, there was some cost to the Treasury. You made them demand obligations. You have indicated publicly that you are going to make an effort and the public has taken it very seriously, going to make an effort to tap real savings, and I think that is very important. As you start appraising the whole situation you become more convinced of the importance of doing that. In the memorandum that you sent out to the Federal Reserve Banks, there was only one bank that raised a question, and that was out in the Pacific Coast. It said in the memorandum the banks would not be allowed to buy. Pacific Coast raised the question as to how to define a commercial bank. So the instrument is not designed for that. You wouldn't have to put out that type of an instrument to sell it to commercial banks, and I don't think you are gaining anything by coming out with a - if the program shows a large volume of sales and quite a proportion of them are sold to commercial banks, it just means you have increased bank deposits, which in essence is the same thing as issuing money because bank deposits are money.

The second reason is the psychological one.

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There are a good many people who are very much concerned about inflation now, and they don't know just what the policy is going to be in the Treasury. The last 10 years we had around a good deal of inflation material in terms of excess reserves, high deposits and so on, but the Administration each time has taken moves when the thing got dangerous. You have got some people now, largely because of your efforts, working strenuously on the price situation, and I think they will look - even - this is not important in terms of magnitude - they will look at this as a feather in the wind to indicate which direction - whether you are going to go right down the straight line on it, and they will begin to - the psychological effect is very important because the public becomes convinced - I don't think they are yet - but if they do that, a large proportion of this is going to be financed by bank deposits, it is a very important inflationary factor.

The third thing is that - say you do it and you are asked to explain why up on the Hill or publicly. It is very difficult - you can explain it easily why you didn't allow them, but to explain why you did, the reasons are, one, that the banks are helping us to cooperate in the program. I think they will cooperate in any case. I think what is involved here is more important than some of the questions that the banks feel it is inequitable that they shouldn't be allowed in, that the whole problem facing this country is more important than that one. I think it would be difficult to explain up on the Hill or publicly - at least I haven't heard an explanation which I think would sound well in the press. That is about all I have.

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Bell: I should think that those arguments would be all right if we thought we were going to raise all this money from real savings. We know that we can't possibly get this nine billion dollars that we have got to raise next year from the savings of the people, and we have got to go to the banks for a large part of it, and if we have to go to the banks, we might as well go through this method as to go through our major financing issues.

Of course, you are building up a demand obligation. On the other hand, the banks certainly are not going to turn them in for redemption unless you have some turbulent times. If you have some turbulent times, why wouldn't it be a good thing for the Treasury to step in. It is refunding obligations held in this type of institution rather than going through RFC for a stock purchase or something like that.

I think it is just as broad as it is long. We have to furnish the money one way or the other.

Haas: That gives me another argument for not doing it. Once the banks get this they will say, "Why not issue this kind to us all the time, this demand obligation?"

H.M.Jr: Do you want to get in on this?

Edward: Yes. I want the banks to have this privilege. There has been a wonderful response on the part of the banks to this program. They have men that they want to send here and wanted to send here today. We told them not to send them until Tuesday, because we would probably know by then how we could proceed. They want to get out a pamphlet something like this asking and answering all the questions to the banks and to the public about these bonds.

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As to the type of investment, as a banker, I think I could go out and persuade banks that this was not the best investment for them to buy, that we have something better; but you know if you want a person to really want something, the thing to do is tell them they can't have it. That is the reason we can't have prohibition. In prohibition you have the same thing.

I think that the smaller bank and the medium sized bank really want to invest in this bond. They think it is the type of investment that would be good for them. I don't think the larger banks would go into it extensively.

My estimate is that out of the 16,000 banks in the United States that you would probably sell five hundred million of these bonds a year. I think that is about the maximum. I do not regard it as any serious - that it would have any serious effect on the financial program of the Government or the fiscal program of the Treasury Department.

You know we started out, Mr. Secretary, here - Mr. Graves was to put on a real campaign to cover the entire country about the sale of these bonds. It is a very big program, and very far reaching in its scope and it is a tremendous task. It is going to take some time to get it underway. We would be foolish if we didn't take time because anything that is as big as this or involves as many things - if you put it into effect hurriedly, you will probably have to back up. You will make some mistakes. I don't think Mr. Graves intends to try to put it into effect except in a few states on May first.

In the meantime, all of us want to try to do a real job for you. We have 16,000 banks

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in the United States with several hundred thousand employees, officers and employees. They are organized. They are ready to take over your front line trenches and go, and they will do it; and I think that we ought to give them every encouragement in the world - this is entirely too long for you to read, but here is practically a whole page editorial in the American Banker yesterday. "Reasons Why The Treasury Is Going To Allow Banks To Buy Series F And G Defense Bonds - We Hope."
(Laughter)

H.M.Jr: That is wonderful.

Edward: It is a good editorial.

H.M.Jr: American Bankers? It is a lousy magazine.

Edward: I am not talking to you, Mr. Secretary, about the magazine, because I am somewhat again' it.

H.M.Jr: This is written by the fellow that represents them here. (Referring to book entitled "Bankers Be Damned.")

Edward: Yes, sir. Well, I do not subscribe to that book. Any banker in this country today that has any troubles, it is his own fault. If he had gone to work and run his business right the last six or seven years, he wouldn't have any troubles. Who says that a banker can't sometime get religion?

H.M.Jr: Now listen, can you hold your religion for a minute? (Laughter)

Edward: Yes, sir.

H.M.Jr: And let me just - have you got any feelings on this, Kuhn?

Kuhn: I would like to ask George whether he thinks

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that the purchase of Series F Bonds by the banks, the discount bonds, would have the same disadvantages as the purchase of Series G?

Haas: Yes, the same thing.

Kuhn: No, I think we are going to get a great deal of soreness openly expressed or otherwise because the banks would feel that corporations - other groups were being allowed to buy these Series F and G and they were being discriminated against.

Haas: For a very good purpose.

Kuhn: Yes.

H.M.Jr: Are you through? Harold?

Graves: I think Dan has stated the case as I believe it to be. I am not competent to pass on Mr. Haas' points.

H.M.Jr: Well, I lean very strongly with George Haas, and I will tell you why.

We are going into this thing with our eyes open to get the people of this country National Defense minded and savings minded. This thing is especially designed to reach the small person. It wasn't designed for the banks. I can't give you an example of insurance, but - Johnson not being here, it is like the difference between this industrial insurance plan where you design a plan for the worker to give twenty-five cents a day or where you insure a man's life at two million dollars. The expense of the twenty-five cents a week industrial must be very much more, particularly if it is worthwhile.

But this inflation thing certainly ranks up amongst the two or three things in my mind

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and I have read all of these things very carefully, these editorials, and I am very much impressed that they got the point which we put in the statement. This is to tap the savings - to put it in the simplest language, as I understand it, instead of people taking their excess earnings and spending the money and creating this extra demand, this extra volume for goods, they are going to put it in savings and that way there won't be this extraordinary increase in production at this time, and we get their savings and spend it on national defense.

Now, if we take this fifty thousand dollar bond and let the banks buy it, it isn't designed for the banks. I couldn't explain the thing. It just goes against the whole underlying philosophy of this thing. We don't want commercial banks' money this way.

Bell: But you are going to have to take the commercial banks' money.

H.M.Jr: Granted, and I will even say to you, Dan, that with my eyes open I am prepared to pay a higher interest rate to get the banks' money later on. I know that sounds inconsistent as far as the banks are concerned, but I think right now the public reaction is so wonderful that I would hate to have a whole flock of editorials, "Well, Morgenthau is insincere, he is back right where he was, the bulk of this stuff is going to come from the banks, and he is camouflaging it with a lot of little ten cent stamps."

Let me - would you feel very much hamstrung, Edward, if I decided at this time not to let the banks invest in this?

Edward: Do you want me to give you - tell you what I think?

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H.M.Jr: When you can't, I would much rather have you go home.

Edward: The banks will not understand it. They are worked up over this thing, and think they ought to have it. One argument is, they will say, "Well, a customer comes in to buy one of these bonds and we tell them the bank can't own it," and what is the answer? Is it too good for the bank to have or is it the fact that it isn't good enough for the bank to have?

In other words, Mr. Secretary, it is our intention to make salesmen out of the banks. It is a rather hard job to sell a fellow something that you can't sell to yourself.

I recognize all you say, though, I know that there are arguments on both sides of it; but if banks are permitted to buy the bond, I think it will not only get some money from the banks which you say you would rather have in a different way and so would the rest of us - but I think it will encourage them to get out and push the program. I certainly feel that way.

H.M.Jr: Of course it will, but now I will tell you what I am willing to do. Just so that you get this thing. I have always taken the position that we can - we can call a spade a spade in this room - in order to do my financing, I have never had to bribe the banks. Let's call a spade a spade. And I don't feel that I have to bribe them, and even if I thought that I had to bribe them, you see, to do this thing, I don't think I would sit here, stay at my desk, you see. Let's be terribly frank.

Now, when the time comes that I have got to bribe the banks in order to do this kind of

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thing, well, I am not the fellow for this job, you see. I don't think - after all, this tastes sweet, and it is designed and fashioned for an entirely different purpose.

Right now this whole question of how we are going to go on prices and inflation is so important that I don't want to even add a little straw which might make the people think, "Well, the lid is off," and let this thing go through the roof.

All you have got to do is pick up this morning's papers. There are two things in it. One is on freezing soft coal prices. Then there is this discussion by Miss Elliott on the price of coffee. All these things are relatively unimportant, but they all fit into inflation.

To show you two and two don't make four, but to be fair to the banks and where I think we haven't been fair to them, you see, I am willing at this time to give them a two per cent bond against these deposits, against these payrolls, Dan, you see.

Bell: Of course that affects relatively few.

H.M.Jr: True, but now in order to be fair. Where we are asking the banks to handle these WPA payrolls and they have got to put up Government bonds against it - I mean, in order - I just feel this way. So that Edward can say, "Well, Morgenthau is fair, this thing has been brought to his attention, a lot of small banks have to handle WPA payrolls and they have got to put up Government securities, they are losing money on it. He doesn't want them to do that, lose money. Therefore, he is willing to create a two per cent bond and let them have that, any bank that wants to buy it."

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That has got nothing to do with the thing, but I think it would enable you to show them that I am trying to be fair.

Edward: That is true, Mr. Secretary, and I see very definitely that you have been thinking about this matter and it really is something that you are very much concerned about. I agree with you, you certainly don't want to bribe the banks and wouldn't want to do it, but I think I might take issue that this might not be exactly a bribe, it might be a slap on the back and say, "Come along fellow, and let's go."

H.M.Jr: Yes, and now again let's be a little hard-boiled. I mean, I am looking at this thing. I can do this thing without the banks.

Edward: That is true.

H.M.Jr: You see? But again, I have never taken advantage, I don't want to take advantage of a bank or anybody to do the Government business. I want to be fair with them. I think it is good business for the banks that they sell these things, but we could get along without them; but I am not - I don't want to take advantage of them, and we have been, I think, taking advantage of them on this thing of cashing these Government WPA payrolls for us.

It has cost them a lot of money, and I think this would be an excellent time to get out this two per cent bond, and Bell has been wanting me to do it for a long time as a gesture of good will toward the banks, and simply say that we have considered the matter.

Leave it this way. Let's decide at this time not to let them have the fifty thousand dollar bond to invest, and let's sort of sit back and

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get this thing by the first of May, and see what happens; and we can always do it, but it would be very hard to take them away from them, wouldn't it?

Edward: It would. It would create quite a bit of talk when you took it away from them. It did on this last small ten thousand dollar issue.

Well, Mr. Secretary, whatever your decision is in the matter, you may rely on me, regardless of what I would like to do or any argument that I put up, that whatever you say, that is what is going to be done.

H.M.Jr: Well, the way I feel --

Edward: And so far as you say, that you could do this without the banks, I think you are absolutely right. I will say this, however, that the banks are not going to allow you to do it without them, because they are coming in and help do it.

H.M.Jr: I want them, but I don't want to have to pay a price, you see. Looking at this thing all around, this whole question of inflation, now just as Haas says, if anybody asks me, "Why do you create a bond like this and let the banks increase their deposits and therefore there is another tendency toward inflation when you say this whole thing is to draw these deposits down and put them to work?" It just cuts them right across the thing. And I have got to face the newspapers or Congressional committees, and I haven't got a good answer.

I have got a very good answer on giving them this two per cent bond, and I can explain that to anybody, Dan. You see?

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Bell: Yes.

H.M.Jr: What? And I think we have been unfair in asking the banks to do that so long and I think the quicker we correct that, the better. But this other thing, I would like to just sit tight on it.

Bell: Are you talking about commercial banks? You are not talking about savings banks?

H.M.Jr: No, the philosophy of this plan goes to savings banks. We are tapping the savings and we are tapping their deposits. We are not creating an additional deposit when we take it from savings banks. Is that right?

Bell: If you limit it to savings banks, that don't accept deposits, where they deposit their cash in another commercial bank. But if you have a commercial bank - say you had a National Savings Bank and Trust Company across over here. They are a savings bank. They are a trust bank, and they are a commercial bank.

H.M.Jr: Would it make you any happier to say we will eliminate all banks?

Bell: My difficulty is to define --

Haas: I think Rouse's definition seems O.K.

H.M.Jr: I don't know what Rouse's definition is.

Haas: He said any commercial bank may be defined as any bank which accepts demand deposits. You remember the other day when he was down here.

H.M.Jr: Yes.

Haas: Now, there is some inequity in that. As the Secretary pointed out, though, the problem

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involved is so much bigger that it overshadows - there are going to be a good many inequities in some of the procedures the Government will have to carry on to keep this whole situation in control.

H.M.Jr: We have got an investment in this editorial reaction which I wouldn't take a million dollars for. It is a marvelous editorial reaction, and you can just see that thing just fade away when they begin to see that we permit the banks to do this thing, and the very fact that the banks squawk - if they squawk publicly, it just backs up the Treasury's position that we are going to do everything that we can - as I said, I would shout it from the housetops - to keep us from having inflation in this country. I intend to do it. If the banks squawk, it will just be helpful, that is all. It will help prove that I am sincere. I want you to get my point on this, Ferdie. I lay great stress on it. Does it make sense?

Kuhn: Yes.

H.M.Jr: I mean, how could you explain to an editorial writer, on the one hand we want to reduce reserves and reduce the amount of demand deposits, and on the next hand we create them through this special issue? How are you going to explain that?

Kuhn: You couldn't, except that the amount that the banks are taking under this would be relatively small and is limited by the terms of the offering.

H.M.Jr: All true, and it is all true that the next month I may come out with a two and three-quarters per cent bond, and ninety-five per cent of them will be banks, but the fact remains that here is a specially designed obligation which you can cash at any time, and it

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is made for the little fellow for his savings, and it is not designed for the banks. It is just the same thing - you have a street in the middle of the modern housing thing for children to play on, and the fellow says, "I want to drive my automobile down there." Well, this thing is designed for children. It isn't designed for a sixty-mile-an-hour automobile.

Kuhn: Or trust funds or --

H.M.Jr: Trust funds are all right, But this thing that George said, a bank that has - what, demand deposits? It would be limited. Is that what you said?

Haas: That is what Rouse said, and I think that is O.K.

H.M.Jr: What do you think on that, Edward?

Edward: I think that is a very good line of demarcation possibly. I don't know whether Mr. Haas has looked into it or not, but the statistics that I have been able to gather indicate that the mutual savings banks in this country have had practically no increase in their deposits in four or five years, whereas the savings deposits in the commercial banks who operate savings departments have increased some five or six billion dollars in spite of the fact that interest rates have been going down all the time. I mean, the interest paid.

H.M.Jr: How would that apply to what we are talking about?

Edward: I mean to say, that is, that I think if you allow these mutual savings banks to buy these bonds that you will not be investing these

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funds into deposits that are now coming into the banks, because their deposits are not increasing.

H.M.Jr:

Well, I am not going to hold any --

Bell:

I think you are eliminating an awful lot of savings that are coming into the commercial banks who have trust departments and savings departments by saying that you will not accept a bank that has demand deposits.

Haas:

I say, Mr. Secretary, Mr. Edward points --

H.M.Jr:

But I am not going to hold any brief for the mutual savings banks. If these gentlemen want to eliminate them, I am not arguing for them. I am just arguing for the philosophy that I have got to maintain before the country. The mutual savings banks don't mean a damn to me.

Edward:

I think we will have a better argument with the commercial banker if you eliminate them.

H.M.Jr:

It is all right with me.

Haas:

Eliminate the mutuals?

Edward:

Yes.

H.M.Jr:

Well, I don't think - there isn't a whole lot of money - deposits haven't increased --

Bell:

There is just that trouble in writing the regulations.

H.M.Jr:

That decision doesn't bother me. As long as I have crossed the first bridge, I don't care about the next one. That doesn't bother me a

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bit.

Bell: You eliminate a lot of money.

Haas: The trouble is, about the savings, you take commercial banks in certain sections of the country, like out West. There is a tendency more out there than in the East, for example, to combine all the functions, savings and everything in one institution, whereas in the East, you have got more these mutuals and so on. But if you leave out the mutual savings institutions and put in insurance companies, you work up another argument. If you stop at the commercial banks on that definition, there is some inequity, but it seems to me that is the best cleavage line you could make. If you start going over any further, it makes it a little bit - the question is asked why the insurance companies if the mutual savings banks are out in terms of real savings. I would stop at the definition of commercial banks. It is the easiest stopping place. It is not ideal, but that is the way it looks to me.

H.M.Jr: When do you have to make up your mind? I made up my mind as far as commercial banks or banks that take deposits are concerned. For the time being, I would say they are out. Now, mutual savings banks --

Bell: Well, it takes some time to draft regulations and get them printed and into the hands of some 30,000 institutions, so we really ought to get going. That is the reason I asked for this conference.

H.M.Jr: Well, if it was left to me, I would go on Rouse's definition. If I had to make up my

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mind, I would do it on Rouse's definition. Any bank that accepts deposits is out. Is that right?

Haas: Demand deposits.

H.M.Jr: Demand deposits. But I don't feel strongly on it. I do feel very strongly on the other thing, you see. I don't feel strongly on that. Think it over, and you can come back this afternoon if you want to on that, Dan. I mean, if it was left to me, if I had to decide it, I would say I take Rouse's definition.

Bell: Well, if you give us the decision on the policy question that banks generally cannot - will not be permitted to buy Series F and G Savings Bonds and then we will have to work out some definition that will fit the case.

H.M.Jr: I will leave it to you. I don't want to --

Bell: And get as many of the savings in as we can.

H.M.Jr: I don't want to write the definition. Is that all right?

Bell: Yes.

Edward: Yes.

Haas: Yes.

H.M.Jr: I will leave the rest to you.

Bell: Now, the question of collateral. We feel that the Treasury will have to be protected by some kind of collateral against loss of any stocks and bonds that will be held by the banks and cash remittances that they might get in in accepting applications. We thought that we might

- 30 -

accept a five thousand dollar FDIC insurance if it can legally be done and that any United States Savings Bonds may be accepted as collateral.

H.M.Jr: Say that over again, will you, Dan?

Bell: We want collateral to protect us against loss in these banks holding stocks or bonds or in getting in cash remittances. It is a little difficult to ask the banks to do a lot of work for you for nothing and then ask them to put up collateral to secure you against loss.

H.M.Jr: That is right.

Bell: But we feel there is no way out of it. We are trying to make it as easy as we can for them. First we will see whether or not we can accept five thousand dollars FDIC insurance, if it can be done legally, and we can call the placing of the stocks or bonds there the deposit. At least, when they sell them it goes through a deposit procedure, and we may be protected under that insurance, and Mr. Edward thinks that that five thousand dollar limit probably would cover almost half the banks.

Edward: About half the banks.

H.M.Jr: Well, again, I will leave this to you gentlemen. Whatever you decide on that, I will accept it, Dan. Whatever you men decide, I will accept.

Bell: Heretofore we have never permitted the pledging of United States Savings Bonds as collateral except in a few cases where the Secretary of the Treasury is the bond-approving officer, but we feel here that we ought to go further and allow any United States Savings Bonds, new or

- 31 -

old series, to be pledged as collateral, and not only these stocks or bonds that they hold, but also the deposits in case they should like to.

H.M.Jr: You fellows decide that.

Bell: And the other securities that we might accept are any of those received in Circular 92 that could be put up on the war loan account.

H.M.Jr: I am not interested.

Bell: We thought we might permit the banks to pay for these savings bonds for account of their customers. Of course, it would be for their own account, too, if we allowed them - but you say that comes out. But for account of their customers by crediting the Government's war loan account on the books. There are some twenty-two hundred designated depositories and that increases from time to time.

H.M.Jr: Do you recommend it?

Bell: Yes. It facilitates the payment, and we get the record, and we can call it down whenever we want to.

H.M.Jr: It is all right with me.

Bell: The other one is a redemption of Series G, the income bond, at par upon death of an owner or co-owner or the death of any person which results in the termination of the trust. We said once there was a slight insurance cost in it, and we would provide that that redemption would have to be made, or at least the request for redemption, would have to be made within four months after the date of death. We had a number of people down from New York, Federal

- 32 -

Reserve, Guaranty, New York Trust, and a number of others. We went into the thing rather thoroughly, and the type of trust that would be affected. The New York banks figured that the maximum cost would be five-hundredths.

H.M.Jr: Where is the decimal point?

Bell: Five-hundredths of one per cent. Your bond yields two and a half per cent, and this would make it probably somewhere in the neighborhood of .255.

H.M.Jr: You mean it is decimal 05 or decimal 005?

Bell: Decimal 05. Mr. Reagh has gone into it. He is in Mr. Haas' office. He gets a range of costs, and he says that the maximum would be .07 or seven-hundredths and the minimum would be two, so the figures are pretty close to the New York computations.

H.M.Jr: How do you feel about it?

Bell: We think that the cost is so small that it is a nice provision and will sell a lot of bonds.

H.M.Jr: That is the one the President was interested in. He thought that was very nifty.

Bell: Did he?

H.M.Jr: Oh, yes; he liked that. He asked me a lot of questions on trusts which I couldn't answer. He was very much interested in that one.

Bell: Well --

H.M.Jr: He thought every trust in the country that had the money would buy these.

- 33 -

Bell: Well, we talked to a number of bankers, at least I have, and they are all very much interested in this.

H.M.Jr: But he liked this on every trust fund in the country.

Bell: The people that were down from New York say that their general counsel has advised them that they could not legally put their money in a security that they knew that before maturity might be redeemed at something less than par.

H.M.Jr: But this --

Bell: But this provision protects them.

H.M.Jr: Wonderful.

Bell: And they say that a lot of money will go into it. We are in favor of it.

H.M.Jr: All right, I will take it. What else?

Bell: That is all I have.

H.M.Jr: How many questions did you have there?

Bell: Five.

H.M.Jr: No, you have got more than five you put up to me.

Bell: No, I had six general questions.

H.M.Jr: Well, you got your way five-sixths of the way.

Bell: I think the other one will come along, too, later. (Laughter.)

- 34 -

H.M.Jr: He is one of these fellows that burrows from within.

Bell: No, I think it is too wide spread.

H.M.Jr: I saw it. How did they make up that general statement?

Bell: Warren gave it up. That is a regular picture of Warren.

H.M.Jr: I hope you notice I was smiling.

Bell: Yes, that was a good picture.

The other matter I wanted to talk about a minute, I haven't been able to find a savings bank man. I have had two of the top people that were recommended by the savings institutions, the National Savings Association, and they are both, while they are good men, they are kind of rabid Republicans, and I have had two more that have come in this morning investigated, but I had had further letters from Sandstedt on Smith. He is from Burlington, Vermont. There are a number of officials in Washington who say he is a first-class man, and you ought to forget the politics at this time, that he is perfectly willing to cooperate and do everything he can in the program. They all recommend him very highly.

Edward: Mr. Bell, I know Mr. Smith, and he is a very fine man.

Bell: He is?

Edward: Yes.

Bell: Everybody says he is. There is one paragraph that says the subject of this investigation is

- 35 -

not considered by some of the persons interviewed as having a strong, forceful personality. He is said to be somewhat lacking in self-confidence and to make no important decisions or take any action without consulting the attorneys for the banks. He is said to be a cautious individual who will not take an opposing position openly on any question. He is regarded as a hard-working, conservative, typical of his Vermont background. All the rest of the report praises him to the sky.

H.M.Jr: Why do we need anybody? Why can't we just use their Association?

Bell: I think Sandstedt would probably prefer you to do that. So would Oliver. Oliver was one of the men in the group.

H.M.Jr: I don't know who they are.

Bell: Sandstedt is the executive secretary of the Association, and Oliver, I don't know what he is in the Association, but he was down here with Bruere, and they say that the mutual savings banks are probably more closely knit together than any other organization in the country, and that the banks will follow on most anything they get from headquarters. There are a number of banking groups, but this pretty well covers --

H.M.Jr: Why not use Sandstedt?

Bell: Well, I like him very much. He looks like an up and coming youngster, and he knows - Oliver says he knows everybody in the country in the savings bank field by their first name, and they all know him well.

H.M.Jr: Well, he is the executive secretary.

- 36 -

Bell: That is right.

H.M.Jr: Why not use him?

Bell: The only difficulty with using him is that he is pretty well tied up on the national Association meeting which is in Philadelphia on the 7th, 8th, and 9th.

H.M.Jr: Of what?

Bell: May. He probably could do a little, but he couldn't do as much as he could after.

H.M.Jr: Well, who could do it from now until then? Who is Oliver?

Bell: Oliver, I don't know who he is, but he is something in the Association. He is head of one of the banks. He was down here with Bruere on that committee.

H.M.Jr: Would the Association like to take Sandstedt?

Bell: I don't know. I didn't discuss it. I think probably Bruere would. Bruere highly recommends Smith, and he also highly recommends Hastings.

H.M.Jr: I don't want him. If you can't get a Democrat, I would rather take an official on the lend-lease basis and just have him come down here to help us out and let him stay on their pay roll.

Bell: Sandstedt is a Democrat.

H.M.Jr: Is he a Democrat?

Bell: He and Oliver both are Democrats.

H.M.Jr: Did he vote for Roosevelt?

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Bell: I assume so. Oliver said, "We do know that two of us are Democrats, Sandstedt and myself."

H.M.Jr: What is Oliver's position?

Bell: I don't know. I can get it. He was in that list of people who came down to see you, and I can find out.

Edward: Do you know about Mr. Smith politically?

Bell:- Publicly.

Edward: I have known Mr. Smith for four or five years. His bank was one of the first banks in the country that went out to buy FHA insured mortgages, and I have made for his bank and his insurance company in the neighborhood of a million dollars of FHA loans, made them for him and sold them to him. He started it. He brought the other insurance people into the field. I have always thought he was rather praising the Administration. I have never heard him say anything against it.

Bell: Well, Sandstedt did mention that, that he was certainly for the Administration on the FHA program, even though he was a Republican. He went down the line on that program.

H.M.Jr: Well, why not find out. You like Sandstedt, don't you?

Bell: Yes, I do.

H.M.Jr: I have got to stop now. Why not find out about Sandstedt and see if he can help us along, you see. I think if you can get a Democrat to contact these fellows, I would much rather have one.

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Bell: Sandstedt, of course, is in New York City.

H.M.Jr: That is all right.

Bell: That is one thing against him.

H.M.Jr: Well, I know, but he must know all these people.

Bell: He knows them all, Oliver says, knows them all by their first name, and they all know him. He is well acquainted throughout the country.

H.M.Jr: Would you explore Sandstedt?

Bell: Do you want an investigation on him?

H.M.Jr: I think so. And Oliver, too. Who is Oliver?

Bell: Well, I don't know Oliver's position.

H.M.Jr: I kind of like Sandstedt. He is there and is the secretary and must know all these fellows by name, and I should think he could carry the whole Association along, couldn't he?

Bell: I think he could.

Edward: The New York State Association and the Massachusetts State Association practically dominate the national.

Bell: Do they?

Edward: Yes. It is a small outfit, you see, and the membership is largely in New York State and Massachusetts.

H.M.Jr: Well, isn't Sandstedt for the national Association?

Bell: Yes, he is an officer of the national Association,

- 39 -

but Mr. Edward's point is that your mutual savings banks are mostly in that area.

April 3, 1941.

MEMORANDUM

TO: Under Secretary Bell
FROM: Mr. Schwarz (By Mr. Shaeffer)

A perusal of the Secretary's public utterances with respect to the new Defense Savings bonds fails to produce a single instance in which a definite commitment was made regarding whether banks would, or would not, be permitted to purchase these securities. The issue was left clearly wide open.

In a formal statement before Congressional committees considering the Public Debt Act of 1941, as well as at his press conference announcing the defense financing program, the Secretary stressed continually that the primary appeal would be made to the populace, serving the two-point objective of aiding national defense while contributing to the security of the individual at the same time.

Before the Subcommittee on Finance of the Senate, on February 12, Mr. Morgenthau said in his formal statement: "In times such as these, it is our desire to borrow as much as possible from real savers rather than from banks." Later, in response to questions by Senator Brown, the Secretary told of the extreme popularity of the present Baby Bonds as bank paper, adding the Treasury was forced to discontinue sales to corporations early in 1940. "No corporation can buy these now," Mr. Morgenthau added. Said Senator Brown: "They can if we pass this bill?" to which the Secretary replied "That is granted * * *."

Again, during a colloquy with Senator Byrd regarding where the bonds should be placed - "how much with the banks and how much with the individuals?" - the Secretary replied as follows: "Senator Byrd, we are going to try to get every dollar we can, without any high-pressure methods, from the peoples' savings, and when that is exhausted, and I do not yet know how they will respond - -." Byrd interrupted at this point and the answer was never completed.

Before the House Ways and Means Committee, Secretary Morgenthau stressed that the appeal and the effort would be made to the individual. Replying to Mr. Reed who asked if the banks and insurance companies would be expected to absorb the supply unpurchased by individuals, Mr. Morgenthau replied "We expect the people who own the money to take them and on a basis which they consider attractive." At other points, however, before this committee, the Secretary permitted hypothetical questions as to Banks' procedures in the event these new bonds should prove more attractive than those already held, and, in replying, sought to allay any fears that difficulties would be encountered in this direction.

April 3, 1941
10:51 a.m.

H.M.Jr: Hello.

Operator: Senator Austin.

H.M.Jr: Hello.

Senator Austin: Secretary Morgenthau?

H.M.Jr: Talking.

A: This is Warren Austin.

H.M.Jr: How-do-you-do.

A: I'm concerned about the cargoes on those ships you seized. I want to tell you the story.

H.M.Jr: Please do.

A: I had a telephone call this morning from Burlington, Vermont, my home town. We've got a factory there that imports fiber from Mexico. The Arauca, which is down at Port Everglades, has a cargo of fiber from Mexico destined for Germany, I think. In any event those Burlington people this morning waked up with a headache fearing that this fiber would be dumped on the market here and break their necks.

H.M.Jr: Well, I'll look into it and let you know.

A: Will you?

H.M.Jr: I'll do that. I'll get right after it.

A: Well, that's bully. Say, there's of course a question of policy involved in the whole set-up of cargoes throughout. I don't know whether anybody has really determined on that policy or not.

H.M.Jr: If they have I haven't heard it.

- 2 -

A: Yeah. Well, I want to know what I am properly entitled to know and no more but

H.M.Jr: I'll let you know everything that we get on it.

A: Thank you ever so much.

H.M.Jr: We'll do it promptly.

A: Thank you.

April 3, 1941
11:00 a.m.

H.M.Jr: Hello.

Jesse
Jones: Hello.

H.M.Jr: How are you, Jesse?

J: Pretty good. How are you?

H.M.Jr: I'm fine.

J: Have a nice vacation?

H.M.Jr: Very good.

J: Fine. Well, I ran into - I didn't have quite
as good a one as you but I'm better for it
nevertheless.

H.M.Jr: Bad weather?

J: A little bad weather, yeah.

H.M.Jr: Oh.

J: What's the news with you?

H.M.Jr: Well, I was talking with Dan this morning
and we'd kind of like to borrow some money
for you next week.

J: All right. I'd like to see you soon.

H.M.Jr: All right. When do you want to do it?

J: Well, I'd like to see you as soon as I can.

H.M.Jr: Well, do you want to do it tomorrow
morning?

J: That would suit me fine.

H.M.Jr: What's a good time for you?

J: Any time that you say after 10:00.

- 2 -

H.M.Jr: Well, let's say 10:15.

J: 10:15 in the moring.

H.M.Jr: Tomorrow morning.

J: O.K.

H.M.Jr: Thank you.

J: Good-bye.

April 3, 1941
11:20 a.m.

H.M.Jr: Hello.

Operator: Mr. Leon Henderson calling.

Leon
Henderson: Hello, Henry. This is Leon.

H.M.Jr: How are you?

H: I'm in very, very good shape.

H.M.Jr: I was asking about you this morning.

H: Well, I've been pretty active. I called you late one night just as you were about ready to leave and I found you were so tremendously busy I thought I'd let you get as much fun as you could.

H.M.Jr: Good. When am I going to see you?

H: Well, I can drop in this afternoon. There are a couple of things I want to tell you about, or make it at your convenience.

H.M.Jr: Well, I could do it a little bit better tomorrow morning. How are you fixed in the morning?

H: Well, I'm going to be busy until about noon.

H.M.Jr: Well, let me just - will you hold the wire one second? (Pause) Hello.

H: Yeah.

H.M.Jr: You get up early, don't you, in the morning.

H: Sure, I get up early.

H.M.Jr: Well, I mean, wouldn't you want to come here early tomorrow? Are you booked early tomorrow?

H: Not very early. I'm booked around 9:00 o'clock.

- 2 -

H.M.Jr: Oh. Well, that's too early. What are you doing at 2:30?

H: Today?

H.M.Jr: Yeah.

H: I've got an appointment I can change. I'll come in there at 2:30.

H.M.Jr: Supposing you do that, Leon.

H: All right.

H.M.Jr: 2:30.

H: And is Stephens on the phone? I want to give you my private numbers.

H.M.Jr: No, nobody is on the phone.

H: Well, I'll give them to you this afternoon then.

H.M.Jr: All right.

H: All right.

MEMORANDUM

April 3, 1941.

TO: Secretary Morgenthau

FROM: Mr. Sullivan

SUBJECT: Conference with Congressman Doughton at 3:00 p.m.
Present: Secretary Morgenthau
Congressman Doughton
Mr. Sullivan

It was agreed that a meeting should be held Tuesday, April 15th, at 10:00 a.m. Mr. Doughton is to bring one or two Democratic members of his Committee with him. There is to be no publicity about this meeting. Mr. Doughton said he thought Senator George was leaving in a day or two and he had some doubt as to when he would return. The Secretary asked me to get in touch with the Senator. When I called his office, I learned that he was on the Floor and I thought he might be leaving tonight so I went over to talk with him. He is leaving April 10th and will be gone until the 24th. He said it would be possible for him to come back on the 15th, but it would be very inconvenient. He also said he had hoped that nothing would be done until near the end of the month, because when Senator Harrison read about it in the papers, he would likely get restless and come back sooner than he should. If we are obliged to have a meeting before Senator Harrison returns, Senator George says he thinks he should telephone the Senator and reassure him of the unimportance of the meeting. I agreed to call Senator George tomorrow after talking with the Secretary.

Senator George enthusiastically approved Mr. Doughton's suggestion that ranking Republican members should be invited to subsequent conferences, but that they should not attend the first meeting.

Several newspapermen saw us talking and Senator George and I agreed to tell them my call was on a purely personal matter and that there was no discussion of taxes. They tried to get me to name the date on which I thought the conferences would start and I told them I was unable to help them. As I left, Mike Flynn, newspaper man, walked to the door with me and I explained that I was merely reporting to Senator George on a personal matter he had asked me to look into for him.

JLS

TO:

Miss Chauncey

4-1-41

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Photostat of incoming letter and
carbon of reply sent to Admiral Waesche.
Original of incoming kept in Secretary's
office.

From: MR. GASTON

April 8, 1941.

My dear Mr. President:

I was greatly pleased to receive your letter of March 30, expressing commendation of the service rendered to the Presidential detachment during the recent ten days stay in Florida waters by the officers and personnel of the Coast Guard stations at Fort Lauderdale and Miami.

Your letter will, as you direct, be made a part of the official records of the officers named -- Lieutenant Perry L. Stinson, commanding the Fort Lauderdale base, and Lieutenant K. P. Malley, in command of the Miami Air Station.

Faithfully,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

Copy to Mr. Thompson

WJH
By Messenger 4-25
m 4/2

April 3, 1941.

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Saithfully,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The President,

The White House.

By Messenger

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Photostat to Mr. Gaston 4/1/41

THE WHITE HOUSE
WASHINGTON

March 30, 1941.

My dear Mr. Secretary:

During a ten day stay in Florida waters just completed, the Coast Guard Stations at Ft. Lauderdale and Miami rendered excellent and outstanding service to the Presidential Detachment, consisting of the U.S.S. POTOMAC and U.S.S. BENSON. I make particular reference to the prompt, accurate and frequent weather forecasts furnished by the Miami station, the expeditious handling of ship-shore communications relayed through this station, and to the exceedingly efficient harbor service rendered by the base at Ft. Lauderdale.

I believe the performance described in the foregoing paragraph reflects great credit on Lieutenant Perry L. Stinson, U.S.C.G., commanding the Ft. Lauderdale base, on Lieutenant K. P. Maley, in charge of the Miami station, and the personnel of their respective commands.

It is requested that a copy of this letter be made a part of the official records of the above named officers.

Sincerely yours,



The Honorable,

The Secretary of the Treasury.

April 3, 1941.

My dear Mr. Purvis:

I appreciate the thoughtfulness of Mr. Churchill in presenting to me an autographed set of the limited presentation edition of his "Marlborough - His Life and Times."

Please convey to the Prime Minister my thanks and an expression of my appreciation of the gift.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Mr. Arthur B. Purvis,
British Purchasing Commission,
Washington, D. C.

ms

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British Purchasing Commission,
Washington, D. C.

Marlborough
His Life and Times
4 volumes

Limited Presentation
Edition

343



10, Downing Street,
Whitehall.

With the Prime Minister's compliments.

Inscription in vol.

10, Downing Street,

Whitehall, 344

11th March, 1941.

My dear Purvis

The Prime Minister says
that Mr. Secretary Morgenthau
is a book collector.

He has also heard a great
deal about Mr. Morgenthau, who
is looked upon here as one of
England's most faithful friends.

He, therefore, hopes that
you will induce Mr. Morgenthau
to accept these volumes.

Yours sincerely
Brendan Bracken

The Right Hon. A. B. Purvis,
British Purchasing Commission,
Washington.



EMBASSY OF THE
UNITED STATES OF AMERICA

London, England, April 3, 1941.

Dear Henry:

It was thoughtful of you to cable me at Lisbon (3-10) and I appreciate very much your good wishes.

Since I arrived in London a couple of weeks ago life has been rather hectic. I now have a member of my staff covering each subject and I find it more possible to think again. The work here is useful and of course intensely interesting. If there is any information that I can give you, or interpretation of the situation here, please do not hesitate to call on me. I am in touch with everyone, from the Prime Minister down.

With my regards,

Sincerely,

W. A. Harriss

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

THE WHITE HOUSE
WASHINGTON

H.M.J.
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APR 3 1941

My dear Mr. Secretary:

I have allocated the sum of \$8,500,000 from the appropriation provided by the "Defense Aid Supplemental Appropriation Act, 1941," under the item "Agricultural, industrial and other commodities and articles". You are authorized to enter into commitments at this time as follows:

Steel	\$3,000,000
Brass rods and wire	750,000
Fire hose	700,000
Hoof and horn meal	70,000
Agricultural implements	1,000,000
Road-building equipment	1,500,000
Nitrates	500,000
Phosphate rock	250,000
Phosphates	500,000
Miscellaneous equipment	230,000
Total	\$8,500,000

Within the total amount of commitments above authorized, necessary minor adjustments may be made between the amounts specified for the various articles.

No factories, quarters or other buildings, no highways or other improvements to real estate, and no purchase of real estate or land shall be made out of these allotments or any future allotments from the appropriations provided by the "Defense Aid Supplemental Appropriation Act, 1941," without specific approval by me in each individual case.

Sincerely yours,

Franklin D. Roosevelt

The Honorable,

The Secretary of the Treasury.

THE WHITE HOUSE
WASHINGTON

APR 3 1941

My dear Mr. Secretary:

Under the provisions of the Act entitled "An Act to Promote the Defense of the United States", approved March 11, 1941, I hereby make the following allotments of funds to the several departments and agencies listed below from the appropriations provided by the "Defense Aid Supplemental Appropriation Act, 1941", approved March 27, 1941, as follows:

WAR DEPARTMENT

Ordnance and ordnance stores, supplies,
spare parts, and materials, including armor
and ammunition and components thereof \$ 153,470,000

Aircraft and aeronautical material,
including engines, spare parts, and
accessories 679,585,000

Tanks, armored cars, automobiles, trucks,
and other automotive vehicles, spare parts,
and accessories 90,767,000

Miscellaneous military equipment, supplies,
and materials 17,000,000

Facilities and equipment, for the manu-
facture or production of defense articles, by
construction or acquisition, including the
acquisition of land, and the maintenance and
operation of such facilities and equipment 8,000,000

Total, War Department \$ 948,822,000

NAVY DEPARTMENT

Ordnance and ordnance stores, supplies,
spare parts, and materials, including armor
and ammunition and components thereof 73,563,000

Aircraft and aeronautical material,
including engines, spare parts, and
accessories 34,980,000

Facilities and equipment, for the manufacture or production of defense articles, by construction or acquisition, including the acquisition of land, and the maintenance and operation of such facilities and equipment . . . 15,000,000

Total, Navy Department \$ 123,543,000

TREASURY DEPARTMENT

Agricultural, industrial, and other commodities and articles 8,500,000

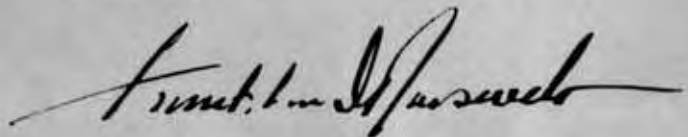
DEPARTMENT OF AGRICULTURE

Agricultural, industrial, and other commodities and articles 11,300,000

Grand Total \$1,092,165,000

Please arrange for the necessary transfers of funds and advise the departments and agencies concerned when this has been done.

Sincerely yours,



The Honorable,

The Secretary of the Treasury.

LONDON — RADIO LONDON HAS REPORTED TODAY THAT THE TANKER WESTERN CHIEF HAS BEEN IMPROVED 600 MILES WEST OF IRELAND, ACCORDING TO SURVIVORS ARRIVING AT LISBON. IT SAID 20 OF A CREW OF 45 HAD BEEN SAVED.

(THE WESTERN CHIEF, 2,759 TONS, IS LISTED IN LLOYD'S REGISTER AS OWNED BY THE U. S. MARITIME COMMISSION) REGISTERED OUT OF PORTLAND, ORE.

4/3--RSE36A

Jan 3 - 41. Oct 10 " "

TO:

The Secretary

Western Chief Not
an American ship.

It was transferred
to British register
Jan 3, 1941.

[Signature]

From: MR. GASTON

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE April 3, 1941

TO Secretary Morgenthau
FROM O. S. Cox
Subject: Coast Guard Cutters.

Mr. Hopkins asked me to get up a letter of authorization from the President to you on the Coast Guard cutters.

Annexed is a copy of this letter of authorization.

OS Cox

My dear Mr. Secretary:

Consultation having been had with the Chief of Naval Operations of the Navy and with the Commandant of the Coast Guard, I find that:

(1) The defense of the United Kingdom is vital to the defense of the United States;

(2) Sections 4 and 7 of the Act of March 11, 1941 have been complied with by the necessary agreement on the part of His Majesty's Government in the United Kingdom;

(3) It would be in the interests of our national defense to transfer the defense articles set forth in the annexed schedule.

I therefore authorize you immediately to make the transfer to His Majesty's Government in the United Kingdom of the defense articles set forth in the annexed schedule.

I would appreciate it if you would arrange with the Chairman of the British Supply Council in North America for the time, method, and other details of the disposition.

Very sincerely yours,

The Honorable

The Secretary of the Treasury.

VESSEL NAME	YEAR BUILT	BEAM MOLDED	DRAFT MAX.	DIS-PLACE-MENT	GROSS TONS	HULL MATERIAL	SPEED KNOTS	H. P.	POWER	FUEL	FUEL OIL CAP.	CRUISING SPEED	RADIUS MAX. Speed
CAYUGA	1932	42'	16'	1979 T.	1573 T	Steel	16	3200	Turb.El.	Oil	90500 gals.	6050	3600
ITASCA	1930	42'	16'	1979 T.	1573 T	Steel	16	3200	" "	"	"	7542	4560
SARANAC	1930	42'	16'	1979 T.	1573 T	Steel	16	3200	" "	"	"	7542	3600
SERAGO	1930	42'	16'	1979 T.	1573T	Steel	16	3200	" "	"	"	7542	3600
SHOSHONE	1930	42'	16'	1979 T.	1573 T.	Steel	16	3200	" "	"	"	7542	4560
CHAMPLAIN	1929	42'	16'	1979 T.	1632 T	Steel	16	3000	" "	"	"	7542	3600
MENDOTA	1929	42'	16'	1979 T.	1632 T	Steel	16	3000	" "	"	"	7542	4560
CHILAN	1928	42'	16'	1979 T.	1632 T	Steel	16	3000	" "	"	"	7542	3600
PONTCHARTRAIN	1928	42'	16'	1979 T.	1632 T	Steel	16	3000	" "	"	"	7542	3600
TAHOE	1928	42'	16'	1979 T.	1632 T	Steel	16	3000	" "	"	"	7542	3600

NOTE: All of the above vessels are single screw.

DEFENSE ARTICLES AUTHORIZED FOR TRANSFER
BY THE SECRETARY OF THE TREASURY TO THE
UNITED KINGDOM

April __, 1941

352

April 3, 1941

Secretary Morgenthau

O. S. Cox

Subject: Coast Guard Cutters.

Mr. Hopkins asked me to get up a letter of authorization from the President to you on the Coast Guard cutters.

Annexed is a copy of this letter of authorization.

(Signed) Oscar S. Cox

OSC:djb
4-3-41

4-1-41

My dear Mr. Secretary:

Consultation having been had with the Chief of Naval Operations of the Navy and with the Commandant of the Coast Guard, I find that:

(1) The defense of the United Kingdom is vital to the defense of the United States;

(2) Sections 4 and 7 of the Act of March 11, 1941 have been complied with by the necessary agreement on the part of His Majesty's Government in the United Kingdom;

(3) It would be in the interests of our national defense to transfer the defense articles set forth in the annexed schedule.

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Very sincerely yours,

The Honorable

The Secretary of the Treasury.

- DESCRIPTION OF 250-FOOT CUTTERS -

VESSEL NAME	YEAR BUILT	BEAM MOINED	DRAFT MAX.	DIS- PLACE- MENT	GROSS TONS	HULL MATER- IAL	SPEED KNOTS	H. P.	POWER	FUEL	FUEL OIL CAP.	CRUISING RANGE. Speed	RADIUS MIL. Speed
CATUQA	1932	42'	16'	1979 T.	1573 T	Steel	16	3200	Turb.El.	Oil	90500 gals.	6050	3600
ITASCA	1930	42'	16'	1979 T.	1573 T	Steel	16	3200	" "	"	"	7542	4560
SARANAC	1930	42'	16'	1979 T.	1573 T	Steel	16	3200	" "	"	"	7542	3600
SERAGO	1930	42'	16'	1979 T.	1573T	Steel	16	3200	" "	"	"	7542	3600
SHOSHONE	1930	42'	16'	1979 T.	1573 T	Steel	16	3200	" "	"	"	7542	4560
CHAMPLAIN	1929	42'	16'	1979 T.	1632 T	Steel	16	3000	" "	"	"	7542	3600
MINNOTA	1929	42'	16'	1979 T.	1632 T	Steel	16	3000	" "	"	"	7542	4560
CHRYSLER	1928	42'	16'	1979 T.	1632 T	Steel	16	3000	" "	"	"	7542	3600
PONTCHARTRAINE	1928	42'	16'	1979 T.	1632 T	Steel	16	3000	" "	"	"	7542	3600
TAHOE	1928	42'	16'	1979 T.	1632 T	Steel	16	3000	" "	"	"	7542	3600

NOTE: All of the above vessels are single screw.

DEFENSE ARTICLES AUTHORIZED FOR TRANSFER
BY THE SECRETARY OF THE TREASURY TO THE
UNITED KINGDOM

MEMORANDUM

April 3, 1941

To: Secretary Morgenthau
From: O. S. Cox
Subject: Shipments to the Middle East

For your information:

Mr. Hopkins asked me for some ideas about the shipment of lend-lease articles to the Middle East. I pointed out to him the possibility that undocumented Army and Navy vessels might be used. My tentative opinion was that this could be done without violating the Neutrality Act.

Mr. Hopkins mentioned this possibility to the President, who is interested in it and wants it explored some more. I am doing so now.

Cox

April 3, 1941.

To: The Secretary
From: Mr. Young

There are being forwarded to you today the first British requests for material prepared on the new form "Requisition for Defense Articles (Under the Act of March 11, 1941)".

Henceforth when material coming within the purview of the Treasury Department is involved, these requisitions will be sent to you or to your appointee without a covering letter. In all instances a copy will be routed to Mr. William S. Knudsen, Director General of the Office of Production Management, for his general information.

There is also attached a copy of a letter from Mr. Arthur B. Purvis, Chairman of the British Supply Council in North America, to Mr. Harry Hopkins, in which are contained the names of those officers of the various British Missions who have been officially nominated as signing officers with respect to these requisitions.

dy.

Attachments.

Note: On April 3rd the Secretary said that in the future Mr. Young may route these requisitions to Mr. Mack, Procurement Division.

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

Copy to Philip Young, Esq.

Box 660
Benjamin Franklin Station
Washington, D. C.

March 31, 1941.

Dear Sir:

With reference to the arrangements for the signature of Requisitions for Defense Articles under the Lend-Lease Act of March 11, 1941, the following - in addition to myself - are nominated as signing officers:

On behalf of British Air Commission

Sir Henry Self
Mr. A. O. Boddie
Mr. J. R. Keel
Mr. F. W. Musson

On behalf of British Food Mission

Hon. R. H. Brand
Sir F. St. Quintin Hill
Mr. M. I. Euston

On behalf of British Purchasing Commission

Sir Olive Ballien
Mr. M. B. U. Dewar
Mr. F. Johnson
Mr. J. M. Nicely
Mr. H. D. Hancock

The names of further officers to sign on behalf of these and other Missions will be sent to you from time to time.

Yours sincerely,

Arthur B. Purvis
Chairman

Hon. Harry Hopkins,
The White House,
Washington, D. C.

CONFIDENTIAL(To Keep You Posted)

April 3, 1941

To: The Secretary

From: Mr. Young

Re: Activities of Colonel Donovan

Colonel Donovan called me yesterday afternoon to find out what was going on. I advised him that the British and Greek representatives had gone over the list of available goods which Donovan had given to Purvis and that requisitions for particular items would be forthcoming within a day or two. Also that a very large proportion of the list would be requested by the British for the Greeks.

Colonel Donovan asked me to advise you that he was still working with the Maritime Commission, and that he considered he was making progress.

RY.

April 3, 1941

MEMORANDUM FOR THE SECRETARY:

This morning you assigned the following work to Mr. Sullivan and me, and asked to have as much as possible completed in time for a conference at 10:15 Monday, April 7:

1. Determine for defense contracts made since July 1, 1940, the extent to which such contracts are concentrated in a few companies.
2. Prepare a tabulation showing for the years 1939 and 1940 the following information for as many companies as possible, grouped into companies making munitions and those not making munitions and also grouped by industries:

Gross receipts
Gross operating profits
Total expenses
Wages
Federal taxes
Other taxes
Net profit to common stockholders

3. Study the effect the excess profits tax will have on concerns making munitions.
4. Draft a letter suitable to be sent to the Governors of the 48 States, challenging them to follow the lead of the Secretary of the Treasury by issuing securities that are fully taxable.

The above is submitted, as requested, for your information and for correction if necessary.

Roy Blough

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE April 3, 1941

TO Mr. White
FROM Mr. Kemarck

Subject: Railways in the Near East

1. The Trans-Iranian Railway from the Persian Gulf to the Caspian Sea is 900 miles long. This is a single track, standard gauge railway first opened for operation in December 1938.

The rails are somewhat lighter than rails used in this country, having a weight of 75 pounds per yard compared to 120 pounds per yard in the United States.

There is no information available on the volume of traffic now being carried but the belief is that it is fairly small. There are 50 locomotives and 800 freight cars on the road. The Iranian government which owns the railway has been attempting to purchase equipment in the United States. It is in the market for 25 locomotives and 1,000 freight cars.

2. The Persian Gulf, Bagdad, Mosul, Istanbul Railway is about 1,300 miles long and is single track throughout practically all of its length. The first section, from Basra on the Persian Gulf to Bagdad, about 300 miles long, is a narrow gauge railway. At Bagdad goods are trans-shipped to a standard gauge railway, on which gauge they travel for a thousand miles to Hayderpasa opposite Istanbul. Goods are lighted across to Istanbul.

The present freight rates are around \$45 per metric ton from Basra to the Turkish border and \$45 from the Turkish border to Istanbul. The entire trip takes about three weeks on an average.

At the present time, the railway facilities from Basra are inadequate to handle the large shipments (mainly of military supplies for Turkey) which have been arriving at that port. The railway from Basra to Bagdad has apparently not been handling more than 2,000 tons a month due to the shortage of railway cars. There is an alternate route from Basra to Bagdad via the Tigris River. However, this route has not been well organized and apparently there is not a large movement of freight over it.

April 4, 1941

Mr. White

Mr. Kinnear

Subject: The Ports of Basra and Bandar Shapur on the Persian Gulf

1. Basra

The port is 80 miles up a river from the Persian Gulf. There are two bars in the river, but the dredged channel will take vessels up to 20 feet 6 inches at low water. The rise and fall of the tide varies from 4 feet to 8 feet. The wharves, which are 4,000 feet long, take steamers of any length, and up to 25 feet draught at low water.

Basra is equipped with all the customary modern cargo handling devices. The main wharves are served by 15 traveling cranes having up to 8 tons capacity. There is a floating self-propelled steam crane capable of lifting 25 tons at a 65 foot radius and a floating steam derrick which can lift 60 tons at a radius of 35 feet. Cargoes can also be loaded and discharged in the stream.

The port has powerful tugs and a small fleet of steel barges and pontoons. Ample shed accommodation is available for storage of cargoes. It is estimated the warehouses can accommodate up to 150,000 tons. There are railway sidings on the wharves which connect with the Iraq Railway system.

2. Bandar Shapur

This recently developed port is 80 miles from the Persian Gulf. The channel will take ships drawing up to 20 feet at low water and up to 25-1/2 feet at high water. The pier at Bandar Shapur, at low water, will take a ship alongside that draws up to 25 feet.

The pier is 350 feet long. There are a number of lighters available for the unloading of ships if the dock is already occupied.

Cargo can be unloaded at the pier with ship's tackle directly into railroad cars. There is a 10 ton traveling crane available. The port has recently acquired a 6,000 ton floating dock.

Five 4,000 and 5,000 ton German ships have been at anchor in the port since the war began.

ANX/mw
4/4/41

Treasury Department
Division of Monetary Research

363 ✓

Date..... April 3, 1941

To: Secretary Morgenthau

From: Mr. White

British report on German Aviation gasoline

1. German fuels are of good quality - - ranging from 87 to 94 octane.
2. Technical characteristics do not suggest a shortage of fuel.
3. Tetraethyl lead content is high - - but is not as high as the maximum allowable under U.S. military specifications.
4. Messerschmidt samples have a high proportion (40% by weight) of aromatics. Composition based on natural and synthetic gasolines of mixed octanes. The high proportion of aromatics is probably to improve performance, rather than to conserve stocks.

MR. WHITE
Branch 2058 - Room 208

BRITISH EMBASSY,
WASHINGTON, D. C.

March 31st, 1941

By Hand

Dear Dr. White,

With reference to my letter of December 3rd, I enclose further information contained in a telegram from Sir Andrew Agnew in regard to the quality of German aviation gasoline. We have added to the message from London certain notes (the attached memorandum) which may help to bring out the significance of the telegram.

With kind regards,

Yours sincerely,

A. D. Marris

(A. D. Marris)

Dr. Harry White,
United States Treasury Department,
Washington, D.C.

Enemy Aviation Fuels

Second Summary to January 1st

1. The fuels are all of good quality, ranging in octane (motor method) from 87 to 94. The distillation range is normal, the gasoline is gum stable, low sulphur and the fuel contains no alcohol or ketones. The vapor pressures run 1 to 1 1/2 lbs. lower than the normal British quality, which may be the result of weathering, i.e., storing for a long period.

Note. Alcohol and ketones have high octane numbers but on account of low heat content their use materially reduces either useful load or flying range. If present, this slight have suggested a shortage of suitable fuel. Low sulphur and low vapor pressure are advantageous. Low sulphur tends to confirm the composition reported below.

2. Tetra-ethyl lead averages 5.5 milliliters per Imperial gallon. Normal samples show that "one T. Ethyl" (a branded name for aviation quality tetra-ethyl lead) is used, but two samples showed 40% excess Ethylene Dibromide.

Note. The tetra-ethyl lead content is not excessive as previous U.S. military specifications have allowed up to 6 milliliters per U.S. gallon, equivalent to 7.2 milliliters per Imperial gallon. However, with the higher lead contents difficulties are frequently experienced with engine deposits, so that excess Ethylene Dibromide is probably used for the purpose of controlling lead deposits in the engines, ethylene dibromide being one of the agents mixed with tetra-ethyl lead to carry lead out of the cylinders after combustion is completed.

3. All recent Messerschmidt samples have 40% by weight of aromatics including 15% "above" (?) Xylenes. It is not yet known whether this is to improve performance or to conserve stocks. The composition is generally based upon straight run gasoline from at least two sources, hydro petrol aromatics and, in some cases, 5 to 15% mixed octanes.

Note. This composition indicates that the fuel contains very little, if any, straight run aviation gasoline, to being largely composed of mixed octanes, probably similar to H.A. octanes or alkylate octanes, aviation gasoline from hydro-awation units and aromatics, possibly from coke oven installations. To date, largely because aromatics have a lower heat content /

content than paraffins and in the motor method test respond less favourably to lead than paraffins, the general practice has been to restrict the use of aromatics in aviation gasolines. However, recent work with the newer "high output" engines indicates that aromatics under "high output" conditions give better performance than is shown by motor method octane number. This behaviour of aromatics is still controversial but there is good probability that the aromatics are in fuel for improving performance./

C
O
P
YDEPARTMENT OF STATE
WASHINGTONIn reply refer to
FR 701.4211/259

April 3, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and informs him of the receipt of a note dated March 31, 1941 from the Minister of Canada at Washington stating that Mr. J. E. Coyne has been appointed Financial Attache to the Canadian Legation.

imc

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MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, April 3, 1941.

SUPPLEMENT TO
AIR BULLETIN
No. 17
G-2/163-314

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed.

This document is being given an approved distribution and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction see Letter TAG 350.05 (9-19-40) M-B-M.

TACTICAL AND TECHNICAL TRENDS
NOVEMBER 1, 1940 - JANUARY 15, 1941
INCLUSIVE

CONTENTS1. GREAT BRITAIN

- a. Wellington B 1/35 Bomber
- b. De-icing Installations
- c. Time Bombs
- d. Air Force Officer Personnel
- e. Attitude of Army and Navy Towards the R.A.F.
- f. Dive Bombing
- g. Situation of Bombardment Fields
- h. Bomber Tactics
- i. Fighter Tactics

2. GERMANY

- a. Bomb Carrier for the Me-109
- b. Bomb Fuzing and Release Gear on Ju-88A-1
- c. Anti-Personnel Bomb
- d. Landing Characteristics of the Ju-88
- e. Antiaircraft Materiel
- f. Artificial Smoke Banks
- g. Rumanian Gasoline

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CONFIDENTIALCONTENTS
(concluded)2. GERMANY (continued)

- h. Mica Used in Spark Plugs and Condensers
- i. Armament on the He-115, Me-110, He-111, Do-17, and Ju-88
- j. Bomber and Fighter Escort Tactics
- k. Low-Flying Attacks on Airdromes
- l. German View of Phases of Attacks on Great Britain
- m. Dive Bombing Tactics
- n. Daylight Bombing Effort
- o. German Bombing Equipment

3. ITALY

- a. Types of Bombs
- b. Training of Pilots
- c. Pilot Strength

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TACTICAL AND TECHNICAL TRENDS
NOVEMBER 1, 1940 - JANUARY 15, 1941
INCLUSIVE

1. GREAT BRITAINa. Wellington B 1/35 Bomber

This is a redesign of the Wellington IV, with increased range. Its characteristics are as follows:

(1) General

Gross weight: 45,000 pounds.
Crew: 6 men for day operations; 5 for night.
Design altitude: 15,000 feet.
High speed: 273 miles per hour at 15,000 feet.
Horsepower: 2 x 1300 for the take-off.
Take-off distance: 1370 yards over 50-foot obstacle.
Propellers: Hamilton hydromatic full feathering.

(2) Armament

Twin .303 guns in the nose turret in front of the bombardier;
Four .303 guns in the tail turret aft of the stern post of the vertical fin;
Twin .303 guns in the turret in the upper center fuselage;
Twin .303 guns in the "gymbol" mount in the bottom of the center fuselage.

(3) Ammunition

Front turret: 1,000 rounds per gun.
Upper turret: 600 rounds per gun.
Lower turret: 500 rounds per gun.
Rear turret: 2,000 rounds per gun.

(4) Bombs

Designed for a weight of 7,500 pounds.

b. De-icing Installations

The Air Ministry has decided to utilize full de-icing installations for aircraft, leaving off all cable-cutting devices.

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CONFIDENTIALc. Time Bombs

The British did not hold secret the technique used by disposal squads in taking the sting out of time bombs, with the result that the Germans are changing mechanisms and code colors. Today's method of disposing of a bomb may tomorrow detonate a bomb that appears to be similar.

d. Air Force Officer Personnel

The Royal Air Force is self-contained insofar as personnel is concerned. Even medical officers wear R.A.F. uniforms, with special insignia.

The Air Force has two fundamental policies in choosing commanders of combat units. It places in command men young enough to lead their units in action and stand the physical strain of continuous air operations, and it gives commanders ranks commensurate with their duties and responsibilities.

The R.A.F. takes into its regular establishment only enough officers to cover the attrition rate and to provide hope to the many temporary officers who want permanent commissions.

Before the war, policy dictated that all officers be pilots except officers assigned to the equipment branch, medical officers, and chaplains. Since the war began, an administrative and special duty service has been created. The officers in this service are temporary, and they are not pilots.

Combat units have first choice of officers. The regular officer corps is about 1,500 strong, as it was before the war.

e. Attitude of Army and Navy Towards the R.A.F.

The British do not believe in strict unity of command except in unusual circumstances. High officials of the Army and Navy realize that aircraft must be under one command for the purpose of assuring maximum effect upon those objectives whose destruction will have the greatest effect on the outcome of the war. Air Force officials realize that there is a definite requirement by the Army and Navy for a force of suitable aircraft to be assigned to each of them, both during peace and during war. The Chiefs of Staff of the Army, Navy, and Air Force agree that the creation of a separate Air Force in Great Britain allowed proper organization of the country's air effort to suit conditions.

f. Dive Bombing

While dive bombing has not revolutionized tactics, it

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has had the following effects, according to the British:

(1) It has enabled mechanized formations which have broken through to progress in spite of improvised opposition, thus providing a speedier substitute for artillery.

(2) It has demonstrated its ability to destroy pin-point targets such as bridges, railway embankments, and the like. Disregarding accuracy, however, its destructive power is the same, weight for weight, as that of other bombers.

(3) It has not demonstrated ability to clear the way effectively for rapid advance of ground units unless combined with artillery, except in cases of exploiting a break-through or acting against troops of low morale.

(4) It is not overwhelmingly successful against good troops well entrenched, but it can decrease materially the mobility of good troops in the open.

(5) The effect of dive bombing on morale wears off after a time - that is, when troops become accustomed to it.

(6) Success for the attacker is in inverse proportion to the training and morale of the enemy against which dive bombing is employed.

(7) Dive bombers are vulnerable to attack by fighters and to light antiaircraft fire from the ground when such fire is well directed and sufficiently great in volume.

(8) Dive bombing cannot be employed in first-class warfare without attainment of at least local air superiority.

g. Situation of Bombardment Fields

Bombardment fields must be situated in areas protected by fighters, regardless of airdrome defense.

h. Bomber Tactics

In attacks on two airfields in Occupied France, the following tactics were employed:

About 50 planes made the attacks. In each case the first wave of about 25 planes flew over the first field at an altitude of about 13,000 feet, attracting searchlights and antiaircraft fire. About five minutes later the actual attack took place, and the other 25 planes

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dropped bombs from an altitude of about 1,200 feet. On the second field the same tactics were used with the waves reversed - that is, those which originally dropped bombs took the high altitude approach and the other wave dropped bombs at the lower altitude.

i. Fighter Tactics

The British fighters fly at a height of about 20,000 feet. The leading section of each squadron uses the Vic formation in echelon and stepped up; the sections which follow are also stepped up. The last section, considered the rear guard, flies an S-shaped course at right angles to the general fighter course.

This upper rear guard, whose purpose is to protect the other fighters while they attack German bombers, informs the fighters if the German escort fighters are attacking them; it also attacks German escort. If British fighters are weak in numbers, the rear guard can only try to intercept and divert the German fighters. Generally when the rear guard attacks the German fighters, the latter break up their formations.

The other British fighters, which have German bombers as their objectives, must not become diverted or mixed up in dog fights with the German fighter escort.

If there are sufficient British fighters, they attack the German bombers one for one, observing the following rules:

- (1) Fly on the same level.
- (2) Avoid getting inside the Vic formation to prevent cross fire.
- (3) Head directly for the bomber from the rear or on one quarter.
- (4) Fire in short bursts of about two seconds to conserve ammunition.
- (5) When the attack is completed, avoid turning up and away, as the bearing changes little and the German bomber is given an easier firing problem; turn down and gradually away.
- (6) If attacked by German fighters, turn away sharply and let the fighters go by, since the German fighter is not able to turn as sharply to the right or left as the British Spitfire; after turning away, turn again and attack the bomber.

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(7) In the early stages of attack, never steer a steady course or keep at same level; if antiaircraft bursts come near, turn sharply at once, but do not dive.

(8) If British fighters are inferior, nibble from the flanks.

2. GERMANY

a. Bomb Carrier for the Me-109

Four 50-kilogram horizontal bomb carriers are mounted on a cantilever tubular strut which can be quickly attached to two pairs of lugs under the center of the Me-109. The four carriers are covered by a fairing which is attached to the main strut and not to the airplane.

The forward bombs must be released first when dive bombing begins. No provision is made to keep the bombs clear of the airplane after release. The releasing and fuzing are effected electrically, but the contents of all the carriers may be jettisoned mechanically.

b. Bomb Fuzing and Release Gear on Ju-88A-1

The bomb release works by means of a 24-way automatic distributor. The machine can be used for level or dive bombing, and for the latter it is equipped with automatic pull-out gear.

Two bomb compartments are provided in the body of the machine - the after compartment fitted with bomb racks and the forward compartment with a petrol tank. Bomb racks are fitted on the wings and release circuits for these are energized from the distributor alternatively to a number of release circuits in the after compartment. A remotely controlled selector switch for effecting this change-over is provided.

Fuzing is of the Rheinmetall-Borsing type, and either "with delay" or "without delay" fuzing can be used. A higher voltage is used for dive bombing than for level bombing.

c. Anti-Personnel Bomb

The anti-personnel bomb is housed in an outer cylindrical case $3\frac{1}{2}$ inches long and $3\frac{1}{2}$ inches in diameter. This outer casing is ribbed and is colored a dark gray-green, the usual German field service color. The bomb itself is of a blackish gray lead color.

When dropped, the case opens into halves under the action

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of powerful springs. The case remains attached to the bomb by a length of wire approximately five inches long. When falling in this position, the open case is presumably intended to retard the fall of the bomb.

Some of these bombs explode on striking the ground; others remain unexploded but are likely to explode when handled. The chief danger of these bombs arises from their possible explosion while being handled.

d. Landing Characteristics of the Ju-88

Considerable difficulty is being encountered with the Ju-88 in landing. It appears that the nose or the wing drops suddenly and has caused many accidents to comparatively inexperienced pilots. It is understood that the manufacture of the Ju-88 will be discontinued and only those already manufactured will be used.

e. Antiaircraft Materiel

The most complete and reliable information available on heavy caliber antiaircraft armament seems to give these indications:

(1) 75-mm. Gun

The smallest heavy caliber gun is a 75-mm. Skoda weapon which has been used to reinforce the fire of the other weapons. One battery of these, mounted on railway cars, was located until recently at the West-Kreutz railway station in Berlin.

(2) 88-mm. Multi-purpose Gun

The next size is the standard 88-mm. multi-purpose gun. Its basic mission is antiaircraft action, but it has been used against tanks, fortifications, and ships as well. The trend of the German Artillery is toward multi-purpose artillery.

(3) 102-mm. Gun

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

(4) 150-mm. Gun

The largest gun being used for antiaircraft defense is, according to frequent but unconfirmed reports, a 150-mm. piece. It is said to be an immobile naval gun modified for antiaircraft use but manned by naval personnel.

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In addition, some materiel taken from Holland, Belgium, France, and England is reported in use in the West.

f. Artificial Smoke Banks

When planes first appeared for an early morning attack on airplane factories at Oranienburg, north of Berlin, a light, thin cloud layer was seen at an altitude of about 500 feet. As time passed, the cloud layer grew denser, and after half an hour the cloud bank, quite thick, extended from the ground to an altitude of about 1,000 feet. Except over Oranienburg, the sky was quite clear.

Other information available on this subject is the assertion that the artificial smoke is quite expensive.

g. Rumanian Gasoline

According to a news report, the Germans have been taking very little gasoline out of Rumania in recent weeks, and refineries are having storage difficulties. The Germans are using most transportation facilities for oil for Diesel motors. It would seem that the reserve storage tanks in Germany are full, and that enough synthetic gasoline is being made for current consumption. The German Air Attache in Rumania has stated that German pilots prefer synthetic gasoline.

h. Mica Used in Spark Plugs and Condensers

Samples of mica from a spark plug and electrical condenser used in German aircraft were found to be of high grade and not inferior to the material normally employed for this purpose. A few small cracks were observed around the central hole in the condenser plates and in the bent sheets from the spark plug. Viewed under the microscope, the material was free from stains and air bubbles. It appeared to be white mica of a high grade.

i. Armament on the He-115, Me-110, He-111, Do-17, and Ju-88

The armament of bombers has been increased by the addition of guns mounted in lateral positions. Some aircraft carry supplementary machine guns loose in the plane. The He-115 seaplane has been equipped with cannon, and in some cases the 20-mm. cannon in the Me-110 has been replaced by 30-mm. cannon.

The He-111, Do-17 and Ju-88 - long-range bomber aircraft - have in general increased their armament from three to five or six machine guns. Increase consists of two guns in lateral positions.

Most German aircraft have been fitted with armor in the

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form of a bulkhead behind the pilot's seat. Because of the frequency of head wounds, radio men and gunners wear steel helmets.

j. Bomber and Fighter Escort Tactics

German bombers come over in staggered and stepped-up columns. The Vic formation is used, and the whole bomber formation is a compact unit.

The fighter escort is in rear of the bombers and from 2,000 to 4,000 feet higher. The fighters wait until British fighters attack, then single planes dive straight for them. German fighters often come in separately and ahead of the bombers in order to obtain air superiority over British fighters, to attack airdromes, and to act as a decoy for bombers in the rear. Thus British fighters use up their ammunition and fuel and become dispersed, and the German bombers can make an unmolested attack.

k. Low-flying Attacks on Airdromes

Low attacks made by the Germans have been only fairly successful. From the British point of view the Germans have made the following mistakes in such attacks:

- (1) They have returned to machine-gun fields after bombs have been released.
- (2) Formations have broken up when attacked by fighters.
- (3) Attacks have been made during the late hours of daylight. One raid was made at high noon.

1. German View of Phases of Attacks on Great Britain

(1) First Phase - August 8 to September 6

This phase, marked primarily by a fight for superiority in the air over England, comprised chiefly attacks against English pursuit bases around London. English pursuit planes were engaged and induced to fight in the air.

(2) Second Phase - September 7 to November 14

The tactics in this phase involved combined attacks of pursuit and bombardment concentrated on London. During daylight it was mainly a question of single plane attacks against air fields, munition industries, and shipping. Pilots were also given permission to attack at will whenever they desired.

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During the night, heavy attacks were delivered against the harbor and city of London. The successes attained during the great pursuit battles which occurred up to the beginning of November were sufficient to permit the Germans to continue the air war against England unhampered, and the Germans claim that their operations, both day and night, confirm this. The British pursuit is not able to accompany and protect its bombers even for a short flight across the Channel.

(3) Third Phase - Beginning November 15

The Germans expanded their concentrated attacks, especially on munitions industries in the South of England and in the Midlands, Coventry, Liverpool, and Birmingham. These concentrated surprise attacks have had great effect. At the same time, London has been kept under pressure with the object of paralyzing British industrial life. Since the beginning of this phase, the power of attack has been increased by the introduction of the so-called light bomber and by improvement in the means of navigation. German losses have been brought down to a level that even in peacetime would be considered low.

m. Dive Bomber Tactics

Three Ju-87 dive bombers, each with a 1,000-kilogram delayed action bomb, frequently dive together. They keep Vee formation throughout and release their bombs simultaneously. These tactics were very effective in the French campaign.

n. Daylight Bombing Effort

Daylight offensive activity has been continued on a moderate scale. Only two large formations made attacks in the month of November. Other raids were made by small formations or single aircraft.

Offensive fighter patrols have been increased in an endeavor to maintain tactical and numerical superiority by using increased heights and fairly large fighter formations frequently covered by other fighters at the same or in higher levels. To insure that the British attempt interception, some of the fighters - Me-110's and Me-109's - carry bombs. These are jettisoned at once when the fighters are attacked.

o. German Bombing Equipment

A captured booklet reveals certain tables and graphs used by the bombardiers. Tables are standard, showing time of fall, angle of release, trail data - degrees and percent of height - range distance, and ground speed tables. It is noteworthy that no German bomb sight thus far examined has a provision for setting trail angle in degrees.

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(1) Bombs for use against ships, concrete, or armor are all delayed action armor piercing bombs. The nose is pointed and hardened with a wall thickness of 5/8 inch, which is reduced to 1/2 inch for the bomb body. The 1/10-second delay was extremely effective against moored ships, where the explosion, without exception, took place underneath the ship and rented up through the parts weakened by the passage of the bomb.

(2) Bombs up to and including 50 kilograms - 110 pounds - have tail fuzes only. Larger sizes have both nose and tail fuzes of conventional type.

(3) Nose suspension is used for area bombing, but horizontal suspension is essential for accuracy against small or definite targets.

(4) The accuracy of the Italian bomb sight is adequate only for laying bomb barrages or for use against targets of the size of docks, warehouses, and the like. The bomb sight is fair in deflection, but so poor in range that bombs are dropped in series about 1/2 second apart for effect against ships or other small targets. Only dive bombers - really glide bombers with an angle of dive of about 50 degrees - use salvos. Great faith has been expressed in the torpedo effect of a bomb striking as far as five meters from the side of a ship.

b. Training of Pilots

The training program calls for releasing 100 trained pilots per month. In addition, refresher training is probably being given to 6,100 reservists whose initial training has been described as mediocre.

c. Pilot Strength

Italian strength is considered to be 7,800 fairly well trained first line pilots. There are 6,100 reserve pilots who have had mediocre training.

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G-2/2657-220
No. 356

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

SITUATION REPORT

I. Western Theater of War.

Air: No important activity.

II. Balkan Theater of War.

Bulgaria and Yugoslavia. No change.

Albania. Artillery and patrol activity.

III. Mediterranean and African Theaters of War.

Ground: Eritrea. Following the loss of Asmara, Italian forces are withdrawing in a south and southeasterly direction, which should render the capture of Massawa more easy.

Libya. German forces have captured Agedabia, about 40 miles northeast of Marsa El Brega, which was occupied March 31, and have pushed on to El Zuetina, some 20 miles to the north.

Abyssinia (Ethiopia). Soroppa, north of Iavello, in south central Ethiopia, has been captured by British forces. Operations in all areas of Ethiopia are reported developing successfully.

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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By authority A. C. of S., G-2

Date _____ (_____) Initials _____

**Paraphrase of Code Sublogram
Received at the War Department
at 6:10, April 3, 1941.**

London, Filed 11:40, April 3, 1941.

**British Military Intelligence learns on authority
thought to be reliable that on April 5 Yugoslavia and Greece
will be subjected to simultaneous attack.**

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Paraphrase of Code Cablegram
Received at the War Department
at 8:18, April 3, 1941.

London, filed April 3, 1941.

1. British Air Activity over Continent.

a. Daylight April 2. Airfields at Casound (Caen?), Hamsted (Hamsted, Denmark?) and Caupertus (?) were targets for the coastal and bombing commands, as well as German anti-aircraft gunboats in the Channel off the Netherlands. Two of the latter were observed to be in sinking condition.

b. Night April 1-2. No activity.

2. German Air Activity over Britain.

a. Night April 2-3. Minor air operations took place chiefly over Gurnard's Head, Teignmouth and South Cornwall. Information as to military damage is lacking.

b. Daylight April 2. Large scale scouting flights (66 planes) were operating over the English east coast spotting seaborne traffic in addition to 38 in the Dover-Calais area. Operations over Britain proper were limited to scattered raids (9 planes) on Bury St. Edmunds, Bridlington, Norwich, Sheffield and Southold.

3. Air Losses. No losses were reported on either side in the Continental theater.

4. British Air Activity in Middle Eastern Theater.

a. Daylight April 2 (Libya) Targets chosen for British attack were road traffic and a German airfield in the El Agheila area. Other activity in Africa was limited to infantry and artillery support.

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5. Axis Air Activity in Middle Eastern Theater.

a. Night April 2-3. (Libya) German assault aviation operated against British advance units in the vicinity of Mersa Brega. Malta was again the target of German and Italian fighter attack (strength 16 and 6 planes respectively) countered by British planes. No action took place.

6. Air Losses, Middle Eastern Theater.

a. British. No losses reported.

b. German. Five grounded planes were damaged in attack on Libyan airfield and one plane was shot down, one damaged by British planes supporting ground troops elsewhere in Africa. One German dive bomber was shot down while attacking British ground troops.

7. An eastbound 10,000-ton freighter travelling without convoy 250 miles SW of Iceland was sunk by torpedos. German planes bombed and seriously damaged three tank ships, and set fire to two others from a convoy in the Bristol Channel.

8. Daylight March 31 (Libya) British advanced units 20 miles NE of El Agheila were attacked and forced to yield ground by a strong German mechanized column with German and Italian foot troops and artillery in support. British troops without mechanized support were attacked later in the same evening on the main coastal road by two battalions of Axis foot troops accompanied by German mechanized units. A position was taken up 20 miles SW of Agadabia by the British where there is pronounced German aerial activity at the moment.

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Paraphrase of Code Radiogram
Received at the War Department
at 23:15, April 5, 1941.

Lima, filed 15:47, April 1, 1941.

Authorities of Peru seized one airplane and took over Luftansa at 7 P.M., March 31st. As yet no other action. German steamers at Callao were sabotaged or sailed from harbor. The Muenchen and Hermonthis left 7 P.M., March 31st, unknown course. Leipzig and Monserrate were taken and are now outside burning, having been blown up in harbor at midnight March 31st. Friesland is adrift in Paita Harbor after being fired 6:30 A.M., April 1st. Between 7 and 8 this morning Muenchen and Hermonthis were not in area west five miles from a line from Lima to 14 degrees 06 minutes south - 76 degrees 49 minutes west - coast line. Peruvian Air Force with nine Douglas Northrops and fully armed, report one vessel 110 miles off Callao at 7:45 A.M. They are searching to west and north of above area over entire sea area. Resentment is high against the Germans locally

END.

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385

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Paraphrase of Code Radiogram
Received at the War Department
at 20:09, April 3, 1941.

Rome, filed April 3, 1941.

Strength of Italian Army in Albania is now believed to be 27 complete divisions, and three divisions represented in part only. The total Italian strength in Albania is 450,000. At the moment there is no discussion of further efforts to take the offensive. The Italians display great anxiety as to the attitude the Yugoslavs are likely to take. Yugoslav subjects resident here in Rome feel that in case Germany should attack Greece, Yugoslavia will have to go to war. In consequence they are carrying out preparations to leave the country.

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Paraphrase of Code Radiogram
Received at the War Department
at 11:09, April 5, 1941.

Budapest, filed 03:30, April 1, 1941.

1. On the morning of April 1st many separate sources report that German motorized units moved through Budapest. I personally saw 4 air corps trucks and in the air about 25 German pursuit and transport planes flying south. Yesterday, the Hungarian motor brigade moved south. On March 30th, Field Marshal Ritter von Leeb with staff arrived in Budapest. The Hungarian General Staff, while denying Hungarian mobilization and the German motor movement, have refused me permission to make a trip through southwest Hungary. This trip having been authorized for March 31st was first postponed to April 5d and then cancelled. My request to go to Szeged was refused.

2. It is now apparent that German forces have occupied or will occupy west Hungary and will employ German troops in a southerly direction. The Hungarians will either remain demobilized or will concentrate east of the Danube.

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Paraphrase of Code Radiogram
Received at the War Department
at 12:50, April 2, 1941

Ankara, filed 20:50, April 2, 1941.

According to information available here, the Greek Army has withdrawn its forces from Thrace to the line of the Mesta (Marica) River. Between the Turkish frontier and this river there are no troops at all. The British Army has troops in position to meet an attack down the Vardar Valley to the west of Salonika.

The Germans, I am informed, have increased the ordinary fire power of the organizations which they propose using in the prospective operations. This is because the valleys that open into Greece are so narrow that the numbers the Germans can use in attack are limited.

It is expected that General Cornwall will arrive tomorrow with other British officers. They are to pay a visit to Thrace and then to go back to the Turkish capital. According to a trustworthy Turkish informant, there is expectation of fresh British pressure to get Turkey into the war in case of an attack on Yugoslavia. The same source adds that Turkey will not fight unless the Germans cross her frontiers.

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