

DIARY

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Williams, Aubrey

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April 4, 1941
9:11 a.m.

H.M.Jr: Hello.

Operator: Mr. Purvis.

Arthur Purvis: Good morning, Henry. How are you.

H.M.Jr: Hello, Arthur. How are you.

P: Very well, thank you.

H.M.Jr: I'm talking to you in my capacity as head of Procurement for the Treasury.

P: Yes. (Laughs).

H.M.Jr: And I thought you'd like to know that I exaggerated by four times what your people have asked us to do.

P: Yes.

H.M.Jr: As of this morning - have you got a pencil?

P: Yes.

H.M.Jr: We have cleared a request from a man by the name of Swiggert.

P: That's right.

H.M.Jr: for \$2, 289,000. Isn't that wonderful?

P: Good.

H.M.Jr: Of which \$80,000 the B.P.C. is not yet ready on.

P: No, I see.

H.M.Jr: But I mean actually we will start to buy today \$2,209,000 and that's all we have to work on.

P: Yes. Well, now, I'll put that up to Baillieu pretty strongly. He'd better proceed.

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H.M.Jr: Well, I didn't want to contact Baillieu but I thought you'd be interested. The \$8 million has shrunk to \$2, 209.

P: All right. Thank you very much, Henry. That's extraordinary but thank you very much.

H.M.Jr: And would you care to have all this?

P: I'd love it.

H.M.Jr: I'll have a copy made - just the list that I have before me. I'll have it photostated and I'll have it over to you within a half an hour.

P: Thank you ever so much.

H.M.Jr: Right.

April 4, 1941
9:30 a.m.

GROUP MEETING

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

H.M.Jr: Foley, in this talk that I had this morning on Procurement and English buying, I have run into something which I think we ought to be able to do which would help the President terrifically.

Take it, for instance, in Procurement. I find that with the exception of the Walsh-Healy, we never checked as to whether a manufacturer does or does not comply with the other Federal labor laws, or whether he has any case pending before the NLRB.

Now, I want you and Cox to come back at a quarter of eleven and give me a list on this whole picture of what they should or shouldn't do, you see, and then I am having Lubin come in at eleven thirty for an off the record talk.

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Foley:

Well, the National Labor Relations Board tried a couple of times to get the Procurement Division not to enter into contracts where there were complaints filed with them of violations of their laws, and we took the position that we were not a policing agency for them and that we couldn't encumber our own operations with that sort of thing, and there was violent criticism of the RFC because the RFC had acquiesced in a communication from the Labor Relations Board not to make loans to agencies that were not complying with the acts and there was quite a controversy on the Hill about it about two years ago. I don't know whether you remember it.

H.M.Jr:

No, but I mean here are all of these labor things. Why should we continue to place billions of dollars of orders with manufacturers who don't live up to the Federal labor laws? I mean, here the President is up against it. He is out on the end of a limb, and he has got the bargaining power which he isn't using because his own people aren't backing him up.

The thing that brought it to my attention, the English want to buy thirty-seven thousand dollars worth of Allis Chalmers. I don't know, let's say that Allis Chalmers - just for argument's sake - won't come in on this Mediation Board, they are holding out. Let's say this was thirty-seven million dollars instead of thirty-seven thousand. This happens to be under the Lend-Lease. Why should we give them that order?

Foley:

Well, if you have got to advertise for bids, Mr. Secretary, and they are the lowest bidder and you have got to award to the lowest bidder, and the statute doesn't give you any exception or any discretion, I don't

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see how you can withhold the award simply because he is not complying or somebody says he is not complying with the National Labor Relations Act. I have a statute here that I want to bring up this morning, a proposed amendment to the Public Bidding Statute, which would permit us to negotiate contracts wherever we have appropriations for defense, and that would take in the Lease-Lend Bill, and if we can negotiate the contracts rather than advertise for the contracts, as the Army and the Navy have power to do at the present time, and also have priorities in so far as those contracts are concerned, then we could accomplish what you have in mind.

(Mr. Graves entered the conference.)

H.M.Jr: Let me just say this. The Army and Navy could do it, leaving us out of it.

Foley: Yes.

H.M.Jr: And they have that authority?

Foley: I believe so, yes.

H.M.Jr: Well, what is the sense - I mean, to me, which is more important, to have a company live up to the labor laws of this land or to advertise for bids?

I just don't think there is any comparison between the two.

Foley: Well, I think where you want to reach all the capacity that you have in the country, advertising for bids isn't the way to do it.

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I think you ought to have the discretion to give the contract to the manufacturer that has - that isn't working full capacity and that can turn out the order.

H.M.Jr: What you are saying would supplement what I want.

Foley: Yes.

H.M.Jr: For the President.

Foley: I think it not only would supplement it, but it also would be a means of accomplishing it.

H.M.Jr: Well, just as far as Procurement goes, but the Army and Navy have got that today.

Foley: I believe they have, and it is a question of policy there, as to whether or not they would cooperate with the President in carrying it out.

H.M.Jr: Well, there is no question of cooperating. They either cooperate or they get fired.

White: Ed, have you answered the Secretary's question? It seems to me you didn't.

H.M.Jr: No, he hasn't. Go ahead. No, he hasn't.

Foley: Well, I thought I had.

White: As I understood it, his question was whether you regard a violation of a certain labor legislation as more or less important than a violation of the requirement that the lowest bid be accepted.

I am not sure you directed your answer to that specific question.

H.M.Jr: No, he didn't.

Foley: Well, my answer to that, Harry, was that we didn't have any discretion.

H.M.Jr: But you are talking as a lawyer now. I am talking now from the standpoint of what is the greatest number.

Foley: Well, I mean what is the greatest good for the greatest number is, I believe with you there that these fellows should comply with the labor laws and the --

H.M.Jr: Ed, now listen --

Foley: Fair labor standards of practice.

H.M.Jr: Now, they give Ford a contract - go back to NRA. Henry Ford thumbed his nose at General Hugh Johnson. They never complied.

They have orders of well over a million dollars now. This whole thing there with Ford, if they had never given them any orders, Ford would have come in and complied a long time ago.

But no one has ever had the guts around here to ever simply say, "Well then -" they finally did hold up ten million dollars or whatever it was worth of truck contracts with Ford after they had given him this tremendous order for these airplane engines, and they gave a higher price to Chrysler for these ten million dollars worth of trucks. They must have the authority.

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Foley: They have got the authority.

H.M.Jr: But the point that I raised, I get so sick and tired of hearing all these things. You have got to go through the clearance before this big business man on this thing and that thing and everything else, and you spend weeks and weeks to get just a small order through OPM; but I can't find out that you ever get a clearance as to the labor standards of any particular company where you are going to place the order.

Foley: Well, I don't think the Army and Navy pay much attention to that. They are just interested in getting the order filled and getting deliveries, and I don't think you get a very sympathetic consideration from the Army and the Navy.

H.M.Jr: I am sure you wouldn't.

Foley: You wouldn't to this proposal of yours.

H.M.Jr: But after all, that wasn't the platform Mr. Roosevelt ran on.

Foley: That is right.

H.M.Jr: And I don't believe that - I believe that over the life of the contract that you would get quicker delivery if they lived up to the labor laws, than if you gave the fellow a contract just because he happened to have the brick and mortar and the capital to build it.

And the answer is, look at the restrictions we have now. And it is going to get worse.

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Foley: With this amendment that I have here --

H.M.Jr: That is only a detail, Ed.

Foley: I think it is more than a detail, Mr. Secretary.

H.M.Jr: But it only applies in so far as the Procurement Division is concerned.

Foley: That is what you have in mind.

H.M.Jr: The English, in the room here, we get an allotment of around three hundred and seventy-five million dollars to buy for the English. The English were ready on eight million dollars, and I spent 45 minutes on it today; and as of this morning, out of 375, the English are ready on two million two hundred thousand dollars. That is all that they are ready on. Two million two hundred thousand dollars; and it is exactly the kind of stuff that they need for the middle East, and they are ready on two million two hundred thousand dollars of the three hundred seventy-five million.

So what we are doing in Procurement is peanuts. We are talking about a billion dollars for the Army. So I am looking at the over-all thing for the President, who sits back there. He has got a Mediation Board. What authority has Dykstra to crack down if he wants to?

Foley: Well --

H.M.Jr: The only thing they talk about is, "Well, we will take over the plant."

When they take over the plant, what the hell are they going to do with it?

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- Foley: Well, that is all they can do on contracts that have already been let, but if they can say that they are not going to award any further contracts to anybody who is violating the National Labor Relations Act or the Wages and Hours or any of the other fair labor standards of the United States.
- H.M.Jr: What I want is, when you fellows come in, you may not be able - I want something for that. I won't shoot it to you today if you are not ready. I would rather let it go over until lunch Monday. But I would like to see what I can get into the President's hands that from now on if he wants it, every piece of machinery that he has, to use it, in order to make these manufacturers live up to the existing labor laws. Now, if the labor laws aren't fair, let's change the labor laws, but at least give the President the full authority. I mean, if the labor laws aren't workable, let's change them.
- White: Some such support of that character can be given to the President, and it would do more toward production not only because it would solve some of the present difficulties, but it would make him much stronger in his position of demanding for labor certain concessions. As it is now, he has that very weakness.
- H.M.Jr: He has the weakness because these people have sold him down the river and let contracts to people that never intended to live up to the Federal labor laws.
- Foley: I grant that. That is where the difficulty comes from.
- White: Are you sure, Ed, that there is no flexibility with respect to the lowest bid, thinking of the

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Procurement Division merely as an illustration, not as the whole picture.

Foley: Well, that is the position we have taken here, Harry.

Gaston: There are two exceptions. One is where you get inclusive bidding, and you can go out and negotiate, and the other is when it is such an emergency that you haven't time to advertise.

Foley: When the public exigency is such that you haven't time to advertise.

White: Sounds like a pretty broad.....

Foley: Well, that is why I want to get the statute amended so that we have the same power the Army and the Navy have.

H.M.Jr: O.K., go ahead with your statute, but I want to see you and Cox back here anyway, because I want to see what has been withheld from the President, because he is right up against it and I want to give him everything I can; but that is the thing that Frances Perkins should be doing. I shouldn't be doing it. Or Sidney Hillman. But I have asked Lubin to come over here at 11:30 to give me the inside story, which he will.

Foley: And you want us to come in at a quarter of eleven?

H.M.Jr: Yes. Do what you can between now and a quarter of eleven.

Bell: Ed, are you familiar with a letter we got from Patterson designating Procurement as an agent for the War Department and their authority so that we wouldn't have to advertise?

Foley: That is right, and that is where we are buying

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for their account, but I want broader power insofar as the Lease-Lend is concerned where we are buying for the British.

H.M.Jr: Are you going to have it apply to Lease-Lend?

Foley: No, I am going to have it apply to the whole Government, Mr. Secretary.

Bell: I thought Cox was of the opinion that the President had such broad powers under the Lease-Lend Bill that when he made an allocation to the Procurement Division that that carried with it the broad powers to do anything in purchasing without advertising on competitive bidding.

Foley: Well, we don't think so.

H.M.Jr: I know what they are going to say when I raise this, and that is - "Oh, you want to do what they did in France," but we are just about seven years further along on this thing, and I believe, I repeat, if the President would insist that these people live up to the Federal laws and not have his people that he has appointed close their eyes to it, that is the trouble today, and that is why he can't crack down on them, and then you would have Labor satisfied, they would have places to go for mediation, they would have places for cooling off and so on, and you wouldn't have this terrible bloodshed which is going on. Ford never should have gotten the contract.

White: I think you are the first high official that has taken that position, and I earnestly hope you stick and fight through with that, and I think it is tremendously important.

Foley: Well, I do too. He isn't going to get any help from Knox and Stimson.

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H.M.Jr: What do you mean? I am going to stick.

White: I hope you fight it through.

H.M.Jr: Did you ever see me quit?

White: No, but there is a lot of opposition.

H.M.Jr: There is always, whatever we do.

Foley: There is going to be plenty of opposition against this. Knox and Stimson are wholly out of sympathy with this.

H.M.Jr: Don't I know it?

Sullivan: I think it is well to keep in mind, Mr. Secretary, that all last summer that the other side of the fence were on a strike and wouldn't sign any contracts despite the statements that were made from the White House and made by Knudsen. That was a strike that lasted for four months.

H.M.Jr: I know. I don't forget anything. Well, anyway, what I want to do is to get this in such shape and lay it before the President and then show him what he has got, and I would like to do it at Cabinet, because I imagine they will be discussing it most of the time at Cabinet, because he is right up against it. I don't think he has got anything to crack down on these fellows with. I think it is just a moral persuasion, and I don't think it is enough. You saw what the Ford Company did. They went in and got an injunction.

Schwarz: He is going to be pressed this morning at Press Conference because of McCormack's statement.

H.M.Jr: Well, I can't go off that fast.

Schwarz: But he may say something.

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H.M.Jr: Well, he might say something. Well anyway, as Harry says, if I only stick on it, it will be worthwhile.

(Laughter.)

Klotz; You know what he means.

H.M.Jr: Sure. He was trying to be complimentary.

Foley: He was.

White: No.

H.M.Jr: No?

White: Well, that wasn't my objective. It may have been complimentary.

H.M.Jr: All right. I am kidding. Go ahead, Herbert.

Gaston: The British want to have the cutters delivered in New York, and the first of them will be ready for delivery sometime next week with the war paint on. The British would like to have a public announcement from the White House of the transfer. In other words, they are willing that the whole thing should be public in order to avoid any suspicions that the United States is getting ready for war. That is one of the circumstances. I suggested to them this idea of having the cutters go out with their own crews and go to a British port and then have them painted in war-time gray, but they are going to have crews come next week, and they want the whole thing publicly done; and we will have five cutters ready for delivery the middle or latter part of next week, and then we will have a couple more a few days later and then a couple more on the first of May, and the last one, the Itasca, which is on the West Coast, will

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be fixed up there at the Navy Yard, and she will be ready about June 1. They are satisfied with that schedule.

H.M.Jr: With the right kind of guns on?

Gaston: We can't get all the right kind of guns. About three or four of the cutters we won't be able to get the long three-inch anti-aircraft guns. We will have to use the six-foot gun, the short gun. It is the three-inch 24-caliber gun.

H.M.Jr: But what kind of anti-aircraft will be on the first five?

Gaston: The first five will have both the 50-caliber and - machine guns, and they will have also the three-inch 50-caliber anti-aircraft guns.

H.M.Jr: Does that shoot on the level too?

Gaston: That is a combination broadside gun. They will also have the regular five-inch 50-caliber broadside gun. They will be well equipped, equipped right up to Navy standards.

H.M.Jr: Get it from Phil Young to Hopkins and so forth.

Gaston: Yes. I think it ought to go out right away. You spoke about speaking to the Maritime Commission about repairs on certain ships. The record indicates Danish ships, but I suppose you were talking about Italian ships.

H.M.Jr: Yes.

Gaston: I already did that. I talked to Land on Tuesday, and he has already made his surveys on the ships in Baltimore, and he is doing those in New York now. We will follow that through with Land.

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Dan talked to Harold Smith on this executive order. Harold Smith promises to talk to the President within the next day or two and see what his wishes are about renewal of that authority. He thinks it would be a mistake to send up separate legislation, that it would arouse much more opposition than the extension of the President's authority, and both Dan and Waesche agreed with that, but at any rate, we are having a bill drawn.

H.M.Jr:

O.K. All right?

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Gaston: All right.

H.M.Jr: Ed? I am going to have to hurry a little bit.

Foley: Right.

H.M.Jr: I did most of the talking this morning. Have you anything?

Foley: I can let this go if you are in a hurry.

H.M.Jr: Yes.

Sullivan: Senator George is going away the 10th and returning the 24th. He is going to be in Atlanta, and Viscount Halifax is going to be down there, and he said if it is absolutely necessary to have him here, he will come back, but it would be very inconvenient.

H.M.Jr: Forget it.

Sullivan: Then what will we do?

H.M.Jr: Go ahead with the Ways and Means. I don't care about the Senate. If Harrison and the rest of them - we will go ahead on the morning of the 15th, and if the Senate Finance Committee isn't here, I can't help it.

Sullivan: Then I will ask Senators Connally--

H.M.Jr: No, you don't ask them. What you do is to tell Senator Harrison's office of this meeting and who we - we would like to have two or three people come down and who would Senator Harrison like.

Sullivan: He already said, George, Connally and Prentiss Brown.

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H.M.Jr: Let his office do it.

Sullivan: All right. I think if we are going to have a meeting, George will want to be down.

H.M.Jr: Well, anyway, Senator Harrison's secretary, him or her, let them do it, will you?

Sullivan: Yes.

Foley: Miss Blanton.

H.M.Jr: Will you?

Sullivan: Yes.

H.M.Jr: Do it that way.

Sullivan: All right.

H.M.Jr: All right.

Sullivan: There is a dinner for Leon Henderson in New Jersey Monday night to which I have been invited. I doubt if, with these things coming up, I could get away.

H.M.Jr: Leon Henderson said I would get a request to send a congratulatory letter to his home town.

Klotz: We haven't yet.

H.M.Jr: Who else has been invited?

Foley: Joe and I.

White: I have. I didn't say whether I could or couldn't.

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Foley: I told Joe I thought he ought to go.

H.M.Jr: Who is Joe?

Foley: Joe O'Connell.

H.M.Jr: I would like one person from the Treasury to go.

Foley: I think Joe is the one.

H.M.Jr: Unless somebody would like to go.

White: No. I don't mean to say I wouldn't like to go, but if it is all right with you, I will stay here. (Laughter)

Sullivan: I would like to go, but I don't think I should because I would have to leave here at noon.

H.M.Jr: Then let Joe go.

Sullivan: The National Real Estate Tax Payers' Association wants a statement from you as to your position on this National Tax Commission. I think any statement you make should be general and not made to any particular conference.

H.M.Jr: I won't.

Sullivan: I will prepare a letter.

H.M.Jr: All right?

Sullivan: That is all, sir.

Cochran: Are you ready for me to make a definite arrangement for Sir Edward Peacock to come

- 18 -

down on Tuesday?

H.M.Jr: You tell Sir Edward Peacock that I would like him for lunch Wednesday, and then you talk to me sometime.

Should we have Gifford at the same time?
Do they work closely together?

Cochran: Yes they do. I think it would be a good idea.

H.M.Jr: Invite Gifford also and do I have to have anybody from the Embassy, if I have those two people?

Cochran: I would have one person, either Phillips or Pinsent.

H.M.Jr: Let's have Phillips.

Cochran: Fine. So I will get both Gifford and Peacock.

H.M.Jr: All right?

Cochran: Shall I go ahead and speak to the three then?

H.M.Jr: Yes.

Cochran: This figure might interest you.

H.M.Jr: And then I wish that Bell and Cochran and White would get together.

I don't understand why J. P. Morgan doesn't report their sales of securities the way every other institution in the United States does.

Cochran: It is a pretty long story. We can get it to

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you.

White: We are taking care of it.

H.M.Jr: I certainly want J. P. Morgan to do as well as anybody else, but I would like a report Monday, Dan, on that, please.

(Telephone conversation with Mr. Doughton follows:)

April 4, 1941
9:47 a.m.

Cong. Bob
Doughton:

Henry, this is Bob Doughton.

H.M.Jr:

How are you? I thought you were down there in North Carolina.

D:

I'm going to leave here now in about ten minutes. Going to drive down today and be down there tonight to hear Scott Lucas praise the Administration and lead the committee on applause.

H.M.Jr:

Well, that ought to be a pleasure.

D:

Yes. I forgot one thing yesterday in our conference. Frank Hancock said he had written you a letter about Leroy Martin of Raleigh in connection with the financing of your national defense program. I guess you got the letter up there.

H.M.Jr:

Well, I may have.

D:

It's there I'm sure. He sent me a copy of it.

H.M.Jr:

Who was the letter from?

D:

From ex-Congressman Hancock - Frank Hancock who is connected now with the - not the Housing Administration but the Home Credit Administration or something.

H.M.Jr:

Yeah. What would you like me to do?

D:

He is recommending him for some position in connection with floating your new bond or in other words financing your program, you know.

H.M.Jr:

I'll look it up.

D:

I want to say this about it. I know Martin; he's a brother to Leroy Martin - to Sanford Martin who is editor of the Winston-Salem Journal. He's an awful good Democrat and

- 2 -

he's a fine business man. He's connected with that bank down there and if you need anybody along his line - he's a man of outstanding ability, he's a good diplomat, he's a good business politician. Now, if you need anybody of that kind, I couldn't recommend him too highly. I don't know whether you need him or not.

H.M.Jr: What's a business politician?

D: How's that?

H.M.Jr: What is a business politician?

D: He's a man that can run business well and please everybody.

H.M.Jr: (Laughs). I'd like to meet him.

D: Well, he's as good a one now as you ever saw.

H.M.Jr: All right. We need a couple like that.

D: He's tip-top every way. He's a fine mixer, he's a good judge of people and he's a good business man. He's connected with the bank down there and those main stockholders and officers wasn't much strong for this Administration, you know, but he was outstanding and outspoken, and he's just tip-top. He can carry responsibility and everything else.

H.M.Jr: Wonderful. I'll look it up right away.

D: If you're interested then I'll talk to you when I come back. In other words I just wanted to say that much for him; I'm not hunting a job but I'm just telling you that if you need a man of that kind that you wouldn't be disappointed in him.

H.M.Jr: Well, thank you so much.

D: There's no change in our plan for meeting?

- 3 -

H.M.Jr: No, we're going to meet on the 15th.
D: I'll be right here if I'm living.
H.M.Jr: Well, you'll be living.
D: Thank you. I hope so. I hope you'll be
feeling good. Good-bye.
H.M.Jr: Good-bye.

- 20 -

H.M.Jr: Unless he is a crook, take him on. Look him up, will you, Harold?

Graves: Yes, sir.

H.M.Jr: He sounds as though he ought to be--

Graves: His name was Martin?

Schwarz: Leroy Martin.

Gaston: He is a banker in Raleigh.

H.M.Jr: Leroy Martin. There is a letter from Hancock on him.

Klotz: I made a note.

H.M.Jr: You get that. All right.

Cochran: I need this letter back for Dan to sign a telegram for the Federal.

H.M.Jr: I am fighting time. I have got Jones at 10:15.

Can you use a business man politician? Because if you can't, I can.

Graves: We can too.

H.M.Jr: All right.

Ferdie?

You will be interested under the financial comments in the New York Tribune, they said that everybody took it perfectly for granted that I was going to withhold from the banks the privilege of buying this F and G bonds.

- 21 -

Schwarz: There was much less complaint than I feared.

H.M.Jr: There was none.

Bell: You ought to announce that, I think.

H.M.Jr: Well, I did yesterday in my press conference.

Bell: You did? I didn't see it in this morning's paper.

Gaston: They say you said it was almost certain.

Schwarz: Not likely.

H.M.Jr: I didn't announce it as definite.

Bell: Well, I had to answer that telegram to the Iowa Bankers' Association, and I said they definitely were out, and I thought Chick might tell the boys.

H.M.Jr: Well, I would tell them I didn't know - I said the mutual savings banks were under study.

Schwarz: When will we have the regulations? That is the simple way.

Bell: The regulations won't be ready until some time around the 20th.

Schwarz: Then I will tell them definitely.

H.M.Jr: O.K., Ferdie.

Kuhn: Yes.

H.M.Jr: Harold? George?

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Haas: I have nothing.

Schwarz: You saw the comment on our tax stuff in the Tribune, that little rib that in 24 hours we had assured them that we wouldn't change corporation surtaxes in order to get more income on our tax exempts, but just the same they said on our 24 hour basis we might change?

H.M.Jr: They are always suspicious.

Harry?

White: Nothing.

H.M.Jr: You liked what I said about the labor?

White: Oh, I think that is terribly important. I think the President is going to be licked in coal, he is going to be licked in steel, and that he either - he has nothing, as you say, to fight them back with. If he were to come forward with some such statement, dressed up, as you have just made with respect to requiring on the National Labor Relations Board, he turns a defeat into a victory, and he can at that point get a great deal more of the public, and what is more important - it isn't the public that is important in this fight. It is labor unions. He can get the labor unions behind him, and they are not behind him. The A. F. of L. leadership doesn't represent labor at all. And if they could get something of that character, it would change the situation from day to night.

H.M.Jr: Supposing you come in at a quarter of 11 with the rest of these fellows?

- 23 -

White: I should like to be in on it.

Bell: Here is that agriculture thing.

H.M.Jr: Oh! Would you stay behind when Jesse leaves and explain this to me? I am going to stick my neck out on that at Cabinet, too.

Bell: They passed it.

H.M.Jr: It goes back to the House, and the House said they wouldn't do anything about it for 10 days.

Bell: They have recessed for 10 days.

H.M.Jr: It is this extra payment of agriculture. I haven't got enough fights on, so I am going to get in on this one. (Laughter) I told Leon Henderson yesterday, "Leon, I will back you up to here on this question of domestic allotments and priorities," and I said, "who else is backing you." He said, "That is what I am trying to find out." So I told Leon I would go along with him.

Bell: We are having a meeting at 2:30 on this capital committee.

H.M.Jr: Good.

Bell: And I think we will be ready this afternoon, if you could give us 10 minutes when you come back from Cabinet, and we could talk with Jerry Frank tomorrow morning, because he is going to have a conference with the President, and he might mention it, so we ought to have a conference before he sees the President.

H.M.Jr: Yes.

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Norman?

Thompson: I have nothing.

H.M.Jr: Has McReynolds signed that - gotten my release yet?

Thompson: Not as yet. We have turned it over to Harry Hopkins, and he promised he would get it signed.

H.M.Jr: Well, if you could find out where the letter is, get one of the two bedroom boys, either Cox or Young, to see whether they couldn't put - push it, you see.

All right.

April 4, 1941

I want to find out in all of this clearance business before placing orders does anybody clear with anybody for United States orders, Lend-Lease orders or any Government orders with a representative of labor to find out if this particular company is complying with the United States Government laws as they affect labor. If they do not clear with labor, then the President has not been given the greatest leverage for bargaining to bring the companies into line.

(The Secretary told this today to Cliff Mack, Mr. Young, Mr. Graves and Mr. Cox.)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 4, 1941

TO Secretary Morgenthau
FROM Mr. Foley and Mr. Cox

Pursuant to your request of this morning, a quick check indicates that the Procurement Division, in order to implement the laws of the United States, should clear with the following departments and agencies:

(1)

National Labor Relations Board

It probably should be determined from the Labor Board whether or not a complaint has been filed against the potential contractor, what disposition, if any, has been made of it, whether it has been passed upon by the courts, etc.

In the case of negotiated contracts, as contrasted with contracts awarded after advertising, the Treasury can formulate, as a matter of policy, what weight should be given to the filing of a complaint, an adverse decision against the contractor either by the Labor Board or the courts, etc.

In the case of competitive contracts awarded after advertising, a mixed question of law and policy is involved.

- 2 -

The Treasury would have the discretion to award a contract to the lowest responsible bidder. The question of who is the lowest responsible bidder is one of law and fact. If the Supreme Court, for example, has decided against a potential contractor on a labor case, and he has been recalcitrant in complying with the court's decision, conceivably, as a matter of law, he would not be a responsible bidder. This type of legal question could be worked out in detail with the Comptroller General.

(2)

Department of Labor

A check should probably be made with the Department of Labor to ascertain whether or not there have been violations of --

- a) The Walsh-Healey Act.
- b) The Eight-Hour Law.
- c) The Kick-Back Law.
- d) Cooperation with the Conciliation Service of the Department of Labor.
- e) The other relevant facts on the labor history and situation of the potential contractor.

- 3 -

(3)

Office of Production Management

Investigation should probably be made through Mr. Hillman's Section of the Office of Production Management to ascertain whether the potential contractor has complied with the rules, regulations and procedures of O.P.M. on labor.

(4)

National Mediation Board

A check should probably be made with the National Mediation Board to see whether or not the potential contractor has complied with the mediation procedures of the Board.

(5)

State Labor Officials

In the case where a potential contractor does business in one state ^{or} ~~and~~ has its principal place of business in ^a ~~another~~ state, a check should probably be made with the labor officials to see whether or not State Labor Laws analogous to the Federal Labor Laws have been violated.

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(5)

Department of Justice

Investigation should probably be made through the Department of Justice to ascertain whether or not a potential contractor is violating other Federal, criminal and civil statutes, such as those against bribing public officials, defrauding the revenue, anti-trust, etc.

April 4, 1941

Mr. Edward H. Foley, Jr.,
General Counsel,
U.S. Treasury Department,
Washington, D.C.

Dear Ed:

I am enclosing herewith the document which we discussed at the Secretary's office this morning.

You will note that it consists of two parts: (1) Instructions to the purchasing officers of the Army and Navy, and (2) Proposed clause to be inserted in all contracts.

Sincerely yours,

Isador Lubin

IL:EDG

This was left with Mr. Foley by Dr. Lubin on Sunday, April 6, 1941, at 11:30 a.m.

Proposed instruction to all purchasing officers

In letting defense contracts, whether upon invitation for bids or by negotiation, contracting officers will be guided by the general principles governing defense contracts and the statement of labor policy adopted by the Advisory Commission to the Council of National Defense, and transmitted by the President to Congress (House Doc. No. 950, 76th Cong., 3d Sess., September 13, 1940).

Only those contractors who comply substantially with all Federal statutes affecting labor will receive awards of contract, unless the need for National defense of a particular prospective contractor's facilities or services may be such that such preference would substantially injure the National defense program.

Proposed clause for insertion in all contracts

In all National defense contracts, whether let upon invitation for bids or entered into by negotiation, there shall be inserted a clause as follows:

"In order to avoid labor disputes which might delay performance of this contract, the contractor and his subcontractor, will execute the work in compliance with all federal statutory provisions affecting labor wherever such provisions are applicable, as well as with all state and local statutes or ordinances affecting labor relations, hours of work, wages, workmen's compensation, safety and sanitation, in force in the state and locality in which the work is performed."

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

For Miss Chubbuck

DATE April 4, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At the 9:30 meeting this morning I inquired of the Secretary as to whether he would set a definite date for receiving Sir Edward Peacock, who had written a note last week volunteering to come down from New York at the Secretary's convenience to discuss his problems and policies in the liquidation of British direct investments in this country.

In accordance with the Secretary's instruction, I telephoned Sir Edward Peacock, Sir Frederick Phillips and Mr. T. J. Carlyle Gifford at 10:15 this morning, and extended the Secretary's invitation to them to lunch with him at the Treasury Wednesday, April 9, at 1 p.m. They all accepted with pleasure. Sir Edward Peacock hoped that he could have a few minutes with the Secretary, aside from the luncheon hour, to present some of his questions.

[Handwritten signature]



THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

April 4, 1941

Conference in the Secretary's Office with
Mr. Jesse Jones and Mr. Bell, regarding
the proposed Financing of the Reconstruction
Finance Corporation for next week

Mr. Jones said that the actual cash requirements estimated by the Reconstruction Finance Corporation for the three months ending June 30 would amount to \$276,000,000, to which I added his obligations held by the Treasury amounting to \$280,000,000; the capital to be returned as contemplated by the Budget Bureau amounting to \$175,000,000; the return of the proceeds of P.W.A. securities amounting to \$50,000,000; or a total of about \$750,000,000.

I told the Secretary that I had talked to the Federal Reserve Bank of New York and was told that while this was the first corporate taxable security, the market was in fairly good shape to do this job and also that there was some suggestion that we include in this financing the refunding of the July maturity amounting to \$211,000,000. I was also told that as of December 31, 1940, two banks in New York held 40% of the outstanding indebtedness of the Reconstruction Finance Corporation and that New York bankers held about 50%. The total indebtedness amounts to \$1,100,000,000. Mr. Rouse and I had discussed the possibilities of issuing a two-year 7/8% note in the amount of three or four hundred million, in which we had included the refunding, and a four-year 1-1/2% note in about the same amount. We thought the first note would appeal entirely to the bank market and that the latter note, in view of its coupon, might appeal to a much wider market which would be desirable in this short-term market.

Mr. Jones said that he preferred to have something shorter and at a little lower coupon than 1-1/2%.

The Secretary then suggested that we might take a look to see what coupon we would have to put on a January 1943 and a July 1943 maturity of about \$300,000,000 each, and that in July we could raise some more cash and at the same time refund the \$211,000,000.

Mr. Jones said that this fitted into his schedule very nicely as he thought that the spreading of his maturities six months apart was a very good arrangement and that January and July of each year would also suit his convenience.

- 2 -

We decided that we would confer with the Federal Reserve Bank, the Federal Reserve Board and the market generally on Monday; determine the rate and term on Tuesday afternoon; wire the Federal Reserve Banks that evening; and release it for the press Wednesday morning. Wednesday would be a better day because Friday is a holiday and the market ought to have one day after the close of the books to appraise the issue.

Mr. Jones then said that he would like to discuss another problem, which was the question of getting legislation through Congress to authorize the Reconstruction Finance Corporation to make loans to the British Government, taking as collateral the direct investments of British citizens in the United States. He said it was his opinion that we were forcing the British to divest their holdings of companies in the United States and that after the war they would be sore at us and we probably would get no cooperation in trade and financial matters. Furthermore, he thought that at the present time they were being put on the block in order to raise funds quickly, whereas if he loaned them the money it would have the advantage of permitting them to take their time in disposing of these assets, thereby getting the best prices, and it would also eliminate the charge that the New York bankers are getting large commissions in carrying out these transactions.

The Secretary said that he did not want to say to Mr. Jones that he should not get the legislation, but he would prefer to let the present procedure ride for a while to see what the British can do. He said there was quite a bit of background history to it, that he would be going up on the Hill within the course of the next two weeks to ask for new taxes to help pay for the \$7,000,000,000 program that this Government is undertaking largely on behalf of the British, and that he did not think it was too much to ask the British to dispose of assets which represent in value only one-seventh of what we were doing in asking the American people to provide \$7,000,000,000 for aid to Great Britain. Mr. Jones said he thought that was a good point and that he would do nothing without talking to the Secretary further about it.

The Secretary then said that if it suited Mr. Jones, he would like to see it go along on its present basis for the next two or three weeks and then if he would like to, he would be glad to sit down and talk to him again about the matter.

Mr. Jones then mentioned a specific case which had come to his attention within the past week. He said that representatives

- 3 -

of the British-American Tobacco interests (Brown and Williamson Louisville, Kentucky?) had come to see him to see whether he could loan some of the American stockholders funds with which to buy out the British interests. He gave them no encouragement and said that he merely said that he would be glad to look into the matter and furthermore he was not certain that his present authority would permit him to make such loans, but that he would be glad to have his lawyers look into that phase of the suggestion.

The Secretary said that he had no objection to Mr. Jones continuing to discuss the matter with these representatives to find out just what the problem is and see whether or not he has the authority to make such loans and then we could talk about it again within the next few weeks. Mr. Jones said that he would do this and promised the Secretary very definitely that he would not do anything without first consulting the Treasury on the matter.

sub

TREASURY DEPARTMENT

42

INTER-OFFICE COMMUNICATION

DATE April 4, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 11:15 this morning the Secretary called me to his office. He had just received Mr. Jesse Jones, who had again brought up the subject of his desire to seek legislation which would permit his organization to lend money against British direct investments as security. The Secretary has not been willing and is still not disposed to give his approval to this idea.

Mr. Jones had looked into the Viscose transaction and remarked about the considerable profit which the New York bankers had made out of it. He said the Brown and Williamson people had now been in to see him. They stated that their head was the next one to be put on the block by Sir Edward Peacock acting for the British Government. The American management of Brown and Williamson sought the assistance of the R. F. C. in buying out the British interests. Secretary Morgenthau told Mr. Jones that he raised no objection to the R. F. C. making a loan to the American citizens representing the management to facilitate their acquiring the British interests in the above-mentioned concern. It was the Secretary's impression that these people have been in touch with Mr. Jones' organization for some time. The Secretary instructed me to have Sir Frederick Phillips come to the Treasury in order that we could inform him as to the Treasury's attitude, as indicated to Mr. Jones, on the Brown and Williamson proposal. I telephoned Sir Frederick at 11:20 and he agreed to come over at 12:20 this noon.

When Sir Frederick Phillips called on me at 12:25 I reported to him Secretary Morgenthau's conversation with Mr. Jones on the subject of assistance by the R.F.C. to the American management of Brown and Williamson with the view to the latter purchasing British interests in that concern. Phillips was aware that the Brown and Williamson people had been in Washington. He further knew that they had taken up the question of British official liquidation of this concern with Sir Edward Peacock but that the latter had insisted upon his decision to go ahead with a sale, perhaps along the lines of the Viscose transaction. Phillips said he would let Peacock know of the message which I had given him from the Secretary. I told Phillips to let us know if Peacock had any observations upon our position, which amounted, in fact, to the R.F.C., rather than private banks, lending money to prospective purchasers of British holdings. When Phillips asked me if Mr. Jones had gotten anywhere with the idea which he had some time ago of the R.F.C. possibly lending against British investments, I told him that I was not aware that any progress had been made.

J.M.P.

W
Stabilization Fund

April 4, 1941

Federal Reserve Bank of New York,
New York, New York.
Attention: Mr. L. W. Kneke

Under arrangements made with the British Government the Treasury has purchased approximately 3,777,263.20 fine ounces of gold. Under these arrangements 95 percent of the value of this gold is to be paid as an advance today to His Britannic Majesty's Government. You are therefore authorized and directed to charge today the account on your books designated "Secretary of the Treasury, Special Account" with \$125,594,001.40 and credit this amount to "His Britannic Majesty's Government Current Account G" on your books. SIFTU.

(Signed) D. W. BELL

Acting Secretary of the Treasury.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 4, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 6:55 last night Mr. Pinsent, Financial Counselor of the British Embassy, telephoned me at my home. He said that a cablegram from London was just being deciphered which gave the details of the South African gold shipment. He said he would prepare a letter setting forth such data and would have this delivered to me first thing this morning.

At 9:10 this morning I received from Mr. Pinsent a letter addressed to the Secretary under date of April 3, a copy of which is attached. At the 9:30 meeting I showed this letter to the Secretary. I told him that I was preparing the necessary telegraphic instruction to the Federal Reserve Bank of New York and would ask Mr. Bell to sign it. As we came out from the meeting, I gave a further report to Mr. Bell.

At 9:15 this morning I had told Mr. Knoks to expect a telegram around noon on a British gold transaction. After the 9:30 meeting my office calculated the 95 percent advance payment due the British and prepared the necessary telegram, which was then signed by Mr. Bell.

By telephone I confirmed with Mr. Pinsent at 10:45 that this payment should be made to His Britannic Majesty's Government Current Account C. It was also agreed that I would telephone Pinsent back to let him know when the Federal actually had made the credit entry of \$125,594,001.40 representing the 95 percent advance payment on the gold. As in the last instance, the British Embassy here would attend to cabling a report of this advance payment to the British Government in London, leaving to the Federal the task of making the final report on this shipment directly to the Bank of England.

At 11:05 Mr. Bell signed the telegraphic instruction to New York. At 11:10 I telephoned Mr. Knoks that the message was being despatched to him. I told him to telephone me back later in the day confirming that the entry had been made in favor of the British Government. I gave him the details of the above-mentioned arrangement, that is, that the Federal itself should not cable London today. The British Treasury officials here will send the necessary cablegram as soon as I am able to tell them that the Federal Reserve Bank has made the credit entry. The Federal will later cable the Bank of England directly reporting final settlement.

At 12:20 this noon Sir Frederick Phillips came to see me on another matter. I let him know that the Federal Reserve Bank at New York had telephoned me at 12:00 noon that the credit entry in favor of the British Government in the sum above mentioned had been made. I asked him to tell this to Pinsent. As an extra precaution, I telephoned Mr. Pinsent this afternoon and gave him the same message. He said that he was cabling this to London this evening.



COPY

British Embassy,
Washington, D. C.

3rd April 1941.

My dear Mr. Secretary,

I have now received information from London that the total amount of gold to be dealt with in accordance with the communications made by the United States Naval Attache in London to the Chancellor of the Exchequer is 3,777,263.20 fine ounces, equivalent, at the price of \$35 an ounce, to \$132,204,212. Particulars of the consignment are given in the annexed statement.

His Majesty's Government are advised that the South African Reserve Bank hold the receipt of the Commander of the U.S.S. "Vancennes" for the 4,696 boxes loaded, which contain the gold above referred to. His Majesty's Government will be grateful if the advance provided for in the United States Naval Attache's communications could now be made at the rate of 95% of the value of the consignment as reported above.

Believe me, my dear Mr. Secretary,

Sincerely yours,

(Signed) G. H. S. Pincent

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

COPY

British Embassy,
Washington, D. C.
3rd April 1941.

PARTICULARS OF SHIPMENT

- a) 4,690 boxes containing 3,774,564.70 fine ounces of gold bullion.
- b) 6 boxes containing £10,553 in sovereigns and £909.10.0 in half sovereigns.

On the basis of 35 dollars per fine ounce, the total value is \$132,204,212 allowing 2,698.50 fine ounces as the weight of the sovereigns and half sovereigns. The Bank of England will despatch the relative weight lists by mail direct to the Federal Reserve Bank, New York.

For Miss Chauncey

April 4, 1941

CONFIDENTIAL

Dear Mr. Knocks:

Permit me to acknowledge, on behalf of the Secretary, the receipt of your letter of April 3, with which you enclosed your compilation for the week ended March 26, 1941, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

Faithfully yours,

(Signed) H. Merle Cochran

H. Merle Cochran
Technical Assistant to the Secretary

L. W. Knocks, Require,
Vice President,
Federal Reserve Bank of
New York,
New York, New York.

HMC:lap-4/4/41

FEDERAL RESERVE BANK
OF NEW YORK

April 3, 1941.

CONFIDENTIAL

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

I am enclosing herewith our compilation for the week ended March 26, 1941, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,



L. W. Knoke,
Vice President.

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

Enclosure

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Week Ended **March 26, 1941.**

Strictly
Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE						
	DEBITS				CREDITS				DEBITS			CREDITS			
	Total Debits	Gov't Expendi- tures (a)	Other Debits	Total Credits	Proceeds of Sales of			Net Incr. (+) or Decr. (-) in Balance	Total Debits	Gov't Expendi- tures (a)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance
					Cold	Securities (Official) (b)	Other Credits (c)								
1939															
Aug. 31 - Sept. 27	94.5	3.6	90.7	207.8	185.4	-	22.4	+113.5	19.4	6.0	13.4	11.3	-	11.3	- 8.1
Sept. 28 - Nov. 1	106.7	5.8	100.9	142.0	3.2	-	138.8	+ 35.3	88.5	61.8	105.4	76.2	35.0	41.2	- 12.4
Nov. 2 - 29	191.7	8.9	182.8	105.8	57.8	-	48.0	- 85.9	78.5	-	-	82.9	55.1	27.8	+ 4.3
Nov. 30 - Jan. 3	97.7	8.7	89.0	75.2	50.5	-	24.5	- 22.5	86.3	28.1	58.7	109.2	93.9	15.3	+ 22.4
1940															
Jan. 4 - 31	54.8	15.8	38.0	43.4	20.6	-	22.8	- 11.4	51.5	31.5	30.0	55.9	50.1	5.8	- 5.6
Feb. 1 - 28	124.2	15.4	108.8	108.3	56.7	-	51.6	- 15.9	72.7	32.8	38.9	71.5	54.8	16.7	- 1.2
Feb. 29 - Apr. 3	115.5	14.5	101.0	94.0	60.9	14.0	19.1	- 21.5	99.6	35.9	63.7	105.0	75.4	29.6	+ 5.4
Apr. 4 - May 1	113.4	26.1	87.3	86.4	45.8	20.0	19.6	- 27.0	84.8	29.4	55.4	78.7	60.7	18.0	- 5.1
May 2 - 29	100.9	23.6	77.3	126.2	93.2	12.0	21.0	+ 25.3	101.4	57.0	44.4	145.4	126.2	19.2	+ 44.0
May 30 - July 3	283.2	145.3	137.9	319.3	301.3	3.0	15.0	+ 36.1	56.7(e)	127.3(e)	29.4	345.1(e)	335.6	9.5(e)	+188.4
July 5 - 31	249.7	156.7	93.0	225.0	212.2	2.0	10.8	- 24.7	7.3	6.3	1.0	3.2	-	0.2	- 4.1
Aug. 1 - 28	261.1	180.2	80.9	294.8	267.4	1.0	26.4	+ 33.7	8.9	0.5	8.4	10.9	10.4	0.5	+ 2.0
First year of war	1,798.2	805.6	1,187.6	1,828.2	1,386.1	58.0	420.1	+ 35.0	866.3	416.6	449.7	1,095.3	900.2	195.1	+229.0
Aug. 29 - Oct. 2	316.8	244.3	72.5	308.9	271.5	6.0	31.4	- 7.9	8.6	4.4	4.2	1.3	-	1.3	- 7.3
Oct. 3 - 30	196.7	167.8	28.9	198.5	160.5	6.0	32.0	+ 1.8	0.5	0.3	0.2	0.5	-	0.5	-
Oct. 31 - Nov. 27	241.0	201.1	39.9	259.5	210.0	18.0	31.5	+ 18.5	0.8	0.1	0.7	0.7	-	0.7	- 0.1
Nov. 28 - Dec. 31	234.6	205.6	27.8	196.0	111.4	26.0	60.6	- 39.6	2.1	-	2.1	0.6	-	0.6	- 1.5
War period through Dec. 31	8,782.3	4,425.6	4,356.7	8,793.1	7,209.5	108.0	575.5	+ 10.8	872.3	421.4	455.9	1,038.4	900.2	198.2	+220.1
Jan. 1 - 28	197.4	162.7	34.7	259.9	175.2	52.0	31.7	+ 52.5	1.7	-	1.7	0.5	-	0.5	- 1.2
Jan. 29 - Feb. 25	164.6	137.8	26.8	101.4	26.6	26.0	48.8	- 53.2	0.2	-	0.2	0.2	-	0.2	-
Feb. 26 - Apr. 3															
WEEK ENDING:															
March 5	56.7	49.0	7.7	50.1	24.8	19.0	6.3	- 6.6	-	-	-	-	-	-	-
12	44.6	41.6	3.0	95.4	76.8	12.0	6.6	+50.8	0.1	-	0.1	0.3	-	0.3	+0.2
19	45.5	37.1	8.4	32.3	-	14.0	18.3	-12.2	-	-	-	-	-	-	-
26	35.3	28.4	6.9	29.2	2.1	13.0	14.1(f)	- 6.1	0.6	-	0.6	0.6	-	0.6	-

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

England through June 19 27.6 million
England (since June 19) 54.2 million

Transfers from British Purchasing Commission to
Bank of Canada for French Account

Week ended Mar. 26 \$ 0.6 million
Cumulation from July 6 \$ 151.6 million

(See footnotes on reverse side)

Regraded Unclassified

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply, Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts during more recent months apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Adjusted to eliminate the effect of \$20 million paid out on June 16 and returned the following day.
- (f) Includes \$5.0 million transferred from accounts of British authorized banks with N. Y. banks and \$3.5 million from account of Commonwealth Bank of Australia.

RECEIVED
TREASURY DEPARTMENT
B41 APR 4 AM 10 48
OFFICE OF THE
TECHNICAL ASSISTANT
TO THE SECRETARY

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

Week Ended **Mar. 26, 1941.**

Strictly
Confidential

PERIOD	BANK OF CANADA									COMMONWEALTH BANK OF AUSTRALIA								
	DEBITS				CREDITS					DEBITS				CREDITS				
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C	Other Credits	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance			
1939																		
Aug. 31 - Sept. 27	17.5	0.6	16.9	21.8	15.1	0.8	-	5.9	+ 4.3	-	-	-	-	-	-			
Sept. 28 - Nov. 1	9.6	0.3	9.3	16.7	7.3	2.1	-	7.3	+ 7.1	-	-	-	1.9	1.9	+ 1.9			
Nov. 2 - 29	9.9	0.7	9.2	14.4	13.3	-	-	1.1	+ 4.5	-	-	-	-	-	-			
Nov. 30 - Jan. 3	30.0	-	30.0	22.8	13.3	3.0	-	6.5	- 7.2	2.5	-	2.5	5.8	5.8	+ 3.3			
1940																		
Jan. 4 - 31	23.5	-	23.5	25.7	21.1	-	-	4.6	+ 2.2	5.2	0.3	4.9	3.3	3.0	- 1.9			
Feb. 1 - 28	23.1	-	23.1	17.0	16.1	-	-	0.9	- 5.1	3.3	0.1	3.2	2.4	2.2	- 0.9			
Feb. 29 - Apr. 3	42.3	-	42.3	29.5	29.3	-	-	0.2	- 12.8	3.0	0.3	2.7	2.2	1.6	- 0.8			
Apr. 4 - May 1	38.2	-	38.2	42.9	24.8	15.0	-	3.1	+ 4.7	2.3	-	2.3	2.0	0.8	- 0.3			
May 2 - 29	37.9	15.0	37.9	50.8	50.0	-	-	0.2	+ 12.3	1.2	0.2	1.0	2.6	1.7	+ 1.4			
May 30 - July 3	44.1	-	44.1	72.5	72.2	-	-	0.3	+ 28.4	2.3	-	2.3	5.9	4.4	+ 3.6			
July 4 - 31	28.2	-	28.2	117.6	96.3	-	19.2	2.1	+ 89.4	4.6	-	4.6	5.0	4.2	+ 0.4			
Aug. 1 - 28	18.7	-	18.7	73.6	53.9	-	19.5	0.3	+ 54.9	6.8	3.0	3.8	5.0	3.4	- 1.8			
First year of war	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+181.7	31.2	3.9	27.3	36.1	30.0	+ 4.9			
Aug. 29 - Oct. 2	44.3	-	44.3	43.9	16.4	-	27.3	0.2	- 0.4	8.7	2.5	6.2	6.0	6.7	- 0.7			
Oct. 3 - 30	26.7	-	26.7	28.8	14.0	-	14.5	0.3	+ 1.9	10.1	7.5	2.6	7.9	6.5	- 2.2			
Oct. 31 - Nov. 27	35.2	-	35.2	69.6	49.2	-	16.7	3.7	+ 34.4	3.1	0.6	2.5	3.6	2.1	+ 0.5			
Nov. 28 - Dec. 31	48.0	-	48.0	60.6	43.5	-	13.7	4.4	+ 12.6	4.8	-	4.8	6.8	4.8	+ 2.0			
War period through Dec.	477.2	16.6	460.6	707.4	554.8	20.9	110.7	41.0	+230.2	57.9	14.5	43.4	62.4	50.1	+ 4.5			
Jan. 2 - 29	33.7	-	33.7	33.9	16.9	-	15.0	2.0	+ 0.2	4.8	-	4.8	6.8	5.1	+ 2.0			
Jan. 30 - Feb. 26	31.1	-	31.1	24.3	14.3	-	6.8	3.2	- 6.8	5.0	1.7	3.3	3.2	0.6	- 1.8			
Feb. 27 - Apr. 2																		
WEEK ENDING:																		
March 5	13.6	-	13.6	7.7	4.3	-	2.3	1.1	- 5.9	1.8	0.8	1.0	6.6	6.4	+ 4.8			
12	8.5	-	8.5	14.4	2.6	-	10.1	1.7	+ 5.9	2.0	-	2.0	0.6	0.4	- 1.4			
19	8.2	-	8.2	15.7	9.2	-	6.0	0.5	+ 7.5	0.6	-	0.6	0.1	-	- 0.5			
26	12.5	-	12.5	4.4	3.6	-	0.6	0.2	- 6.9	1.1	-	1.1	0.1	0.1	- 1.0			

Weekly Average of Total Debits Since Outbreak of War
Through **March 26** \$ **7.1** million

Regraded Unclassified

April 4, 1941.

Memorandum for the Secretary's Files
From: Mr. Gaston

At 11:40 A.M. today I phoned Senator Austin's office and the Senator being absent at Committee meeting, I gave this message to his secretary:

We have no authority to sell the fiber cargo aboard the ARAUCA and have no intention of doing so. It is possible, however, that the owner of the cargo, who may be the German government or a German national, might through an agent undertake to import the cargo and sell it. I doubted that we have any authority to prevent such an importation if ownership were properly established and Customs requirements complied with. However, we might be able to interpose some difficulties.

I told the Senator's secretary that if there was anything further Senator Austin wished to know, I should be glad to have him call me.



Copy to:
Customs
Mr. Cairns

April 4, 1941
1:45 p.m.

H.M.Jr: Hello.

Operator: Mr. Bob Allen.

Robert
Allen: Hello, Mr. Secretary.

H.M.Jr: How are you?

A: I'm very well. Say, Mr. Secretary, this may be a little presumptive on my part but I think that this is such a terribly urgent thing. It's about this labor thing. I don't know who to turn to. There was a time I used to be able to get to somebody in the White House but something has simply got to be done about this Labor Department situation.

H.M.Jr: Yes.

A: Now, Miss Perkins is sincere, she is a fine person but she is just absolutely bungling this whole thing and creating a situation where the President is getting the rap for a condition that should not exist. There is absolutely no reason for it existing and it all gets down to one man and that's this fellow Steelman. He has been giving Miss Perkins a lot of damn, bum advice because of jealousy of this new Mediation Board. Here's an agency that was made to handle hot potatoes. Why don't they throw it into the lap of this outfit? The failure to do so last Sunday or Monday morning gave Lewis complete control of this situation. This Allis-Chalmers thing has gotten down to rioting; this Ford thing has gotten down to rioting. Why they don't turn these things over I don't know. Now these fellows up on the Hill are raging and ranting. This guy Cox let loose a terrific barrage at Roosevelt; liberals up there are going around biting their nails saying, well, for God's sake why in the hell don't they use this outfit which was created not only to settle strikes but to avert strikes! Here they've got

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something but why in the hell don't they use it, and it all gets down to just one thing - the Labor Department. Miss Perkins' failure, or refusal or whatever the hell it is to certify these cases. Now something ought to be done to set up a criterion. When a thing gets out, bang! Turn it over to that outfit and then call on the Conciliation Service. There is no reason why the Conciliation Service can't be used after a case has been certified that they haven't been able to do it. Now, I can tell you that the reason why Steelman would not certify this Allis-Chalmers case last Saturday when the union refused to bow to this Knudsen-Knox telegram and when the thing to have done was bang! Right then at noon, and that's what they wanted to do but they couldn't get him to move and Miss Perkins wasn't around and the result was that you had rioting and disturbance and news headlines and a House investigation. Now, two weeks ago the House killed a resolution by Cox for an investigation of Labor but the day that this all broke, bang! The House voted it, and now he's got two committees, Military and Naval Affairs committees saddled with authority for the duration of this Congress to just - a running fire of investigation of Labor. Every time some bastard on that committee decides he wants to raise hell, why he's got \$100,000 to do it with, and it's just fantastic. I just can't understand why - first you say, well, they never had anything to do it with but now they've got it. Why in the hell not turn it over to that outfit. There's Mr. Murray, Tom Kennedy and the A.F. of L. crowd. They're sitting there. Well, turn these hot potatoes over to those guys.

H.M.Jr:

Well, of course you're right

A:

And put them on the spot. What are they? They're either patriots or they're not patriots and let the public put them right on the spot and make them settle this stuff.

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Why in the hell let this guy, Steelman, for personal pride or whatever the hell it is go around and hold this thing out. He's been playing into Lewis' hands. Lewis has been boasting up there to the newspapermen in New York that he was going to force Roosevelt to summon him to the White House to settle this coal thing, and the failure to certify that thing last Sunday night, when it became evident they weren't getting together, played directly into his hands because he was able to shut down the mines.

H.M.Jr: Well, Bob, I'm terribly glad you called me and I'm in complete sympathy with what you think.

A: Well, I didn't know who else to turn to and I just was getting frantic. I'm going over to O.P.M. this morning - going around there pulling my hair. Sidney isn't there and Brandwen isn't there and nobody is around that you can talk to and I didn't know who to turn to and I thought well God I'll just get hold of Mr. Morgenthau and cry on his shoulder because it isn't a situation where you didn't have anything that you could do with. You've got it and have not been doing it! Now, I know Miss Perkins thinks that I've been very, very violent at her but I have been because I think she's a swell gal but she's totally unfit for that job right now.

H.M.Jr: I see.

A: What they ought to do is have some top-class man, somebody like LaGuardia, or they've got a man right in the Government today who is a perfect natural for that job, and that's Francis Biddle, who was Chairman of the old Labor Board, a corporation lawyer, firm, vigorous, a swell administrator. He wouldn't let this guy Steelman push him around.

H.M.Jr: No.

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A:

And this man Steelman has got the God-damndest political machine. He's got A.F. of L. - he's very craftily and shrewdly appointed A.F. of L. and C.I.O. guys all through his staff, you see, and he's got one of the most effective political organizations in the Government, and he just leads her around by the nose. That's all there is to it. On Monday night when she came in and we were just - everybody was just crying for God's sake to take this Allis-Chalmers thing out of their hands and get that into that committee - let them settle it. Why they were rioting and shooting! She would not do it and it wasn't until we were able to get hold of Sidney along about 10:00 o'clock at night and he just pre-emptorily demanded it that she finally moved and issued the order at 15 minutes after 12:00 when if she had issued it at 6:00, it would have taken the headlines for that morning.

H.M.Jr:

Well, thanks for the compliment and I'm well primed now.

A:

Well, I hope so, sir, and I hope you go to bat because it is such a totally unnecessary situation.

H.M.Jr:

O.K. Hope to see you soon.

A:

Thank you, sir, and God bless you.

H.M.Jr:

Good-bye.

April 4, 1941
5:35 p.m.

H.M.Jr: At Cabinet the President - Stimson brought up the question of this memorandum of ours about

Ed
Foley: Taxes?

H.M.Jr: Yeah and you know - rates on that cost-plus defense contract.

F: Yeah.

H.M.Jr: And the President said you should get in touch with Robert Patterson. He asked me who I wanted to handle it and I said you - and Patterson and Bob Jackson.

F: All right. Is Bob going to call the meeting? Or should I call

H.M.Jr: First get in touch with Patterson and then the two of you should ask to see Jackson.

F: Right.

H.M.Jr: O.K.?

F: Thank you.

C
O
P
Y

April 4, 1941.

TO Mr. Cochran
FROM L. W. Knoke

Following our telephone conversation this morning, Mr. Lang gave to Mr. Dietrich over the telephone today the refining charges which had been agreed upon with the American Smelting & Refining Company, the American Metal Company and the Irvington Smelting & Refining Works in connection with the refining of Chinese silver in recent years.

At Mr. Dietrich's request, and with your approval, Mr. Lang telephoned one of the abovementioned refining companies in order to determine in an informal manner whether the refining charges previously quoted to us were unchanged. Mr. Lang selected Mr. Brockington of the American Smelting & Refining Company for this purpose. Brockington, without any hesitation, said that despite increased cost of labor and fuel his plant would be glad to handle any substantial amount of silver at the same rates as had been charged for refining the Chinese silver. He added that if we gave him 10,000,000 ounces of silver tomorrow it would make him very happy. We feel quite safe in saying that the attitude of the American Metal Company and the Irvington Smelting & Refining Works would be just as receptive.

lap

TREASURY DEPARTMENT
Washington

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FOR RELEASE, MORNING NEWSPAPERS,
Friday, April 4, 1941.

The Secretary of the Treasury, by this public notice, invites tenders for \$100,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated April 9, 1941, and will mature July 9, 1941, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$500,000, and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern Standard time, Monday, April 7, 1941. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 10 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement

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will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on April 9, 1941.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, shall not have any exemption, as such, and loss from the sale or other disposition of Treasury bills shall not have any special treatment, as such, under Federal tax Acts now or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest.

Treasury Department Circular No. 418, as amended, and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 4, 1941.

TO Secretary Morgenthau
FROM Mr. Haas *CH*

I thought you would be interested in the attached comments which appeared in the New York Herald Tribune and the New York Times if they have not already come to your attention.

New York Herald Tribune

April 1, 1941

Wall Street Comment

Treasury Inquiry

The announcement yesterday by the Treasury of its request to 6,500 banks and 1,000 insurance companies to file periodical reports on their holdings of government securities is of interest for a number of reasons. In the first place, the reports, which apparently will be required monthly, will give the Treasury detailed information on how its offerings are "taking" with the large holders. It will now be possible for the Treasury to learn whether the issues it offers, with the idea in mind of reaching a certain type of subscriber, actually achieve the desired result. The Treasury is faced with a tremendous responsibility in finance the defense effort, and it would be an act of carelessness not to have available the maximum amount of detailed information about the lodgment of its security offerings. The market sums up pretty well what is happening. But it does not show what is behind the fluctuations in price; it does not show where one particular issue is gaining popularity and another losing.

Buyers and Sellers

But there is more to the Treasury's new questionnaire sent to the large holders of its securities than the light it will throw on the success of new issues. Whether it is so intended or not, the inquiry will give the Treasury information as to which holders are getting weak kneed and are not merely shifting their holdings from one issue to another but are reducing their governments absolutely. In this sense, the questionnaire will be a revival of the idea adopted at the outbreak of the European war of requesting the names of sellers of governments through government security dealers. Whether the information so gathered will be used by the Treasury to bring persuasive powers to bear on the sellers is something for which only the future can give an answer. It does not seem now that the reporting system will make for any reduction in governments, but, if the emergency deepens, the holders can hardly be forgetful of the fact that the Treasury is in a position to know where the sellers of governments are.

New York Times

April 1, 1941

TOPICS IN WALL STREET

Stock Exchange Leaders

	Volume	Close	Net Chg.
South Am G&P	17,200	2 1/4	+ 1/4
Chi Gt West pf.	10,400	8 1/4	+ 1/4
Int Tel & Tel.	10,200	2 1/4	..
El Pow & L.	9,000	2 1/4	+ 1/4
Am Pow & L.	8,100	1 1/4	+ 1/4
South Pac	7,800	9 1/4	+ 1/4
Chi & East Ill A.	7,400	4	+ 1/4
Coml Solvents	7,000	10 1/4	+ 1/4
Comwith & Sou.	7,000	1/2	+1-16
Canad Pac	6,700	3 1/4	+ 1/4
Am Cable & Rad	6,200	1 1/4	+ 1/4
N Y Central	5,900	12 1/4	+ 1/4
Gen Electric	5,500	32 1/4	+ 1/4
Param Pict	5,500	12 1/4	- 1/4
Penn R R	3,100	24 1/4	- 1/4
Average price, \$3.47.			

	Index	Adv.	Dec.	New Highs	New Lows
Yesterday	658	294	179	21	24
March 29	478	176	164	18	14
March 28	692	175	309	19	32

part of institutional investors continue to delay offering to the public of the \$90,000,000 Republic Steel Corporation securities, but the \$25,000,000 Swift & Co. financing is expected to materialize on schedule.

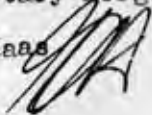
Banks' Security Holdings

The letter sent by Secretary of the Treasury Morgenthau to 6,500 banks and to 1,000 insurance executives asking for statements of issue-by-issue holdings of government securities of their respective institutions obviously is designed to discover precisely the type of security they prefer to hold. As these reports are to be made monthly, the first as of the close of business yesterday, the Treasury also will be able to learn whether savings banks and insurance companies, for example, are buying the type of security the Treasury has offered that is peculiar to their needs. Comprehensive as it is, the request for data leaves out such important holders of government securities as endowed institutions, trust accounts and commercial corporations.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 4, 1941.

TO Secretary Morgenthau
FROM Mr. Haas 

Mr. Henry W. Riley, Controller and Director of Personnel at the Federal Deposit Insurance Corporation, called my attention to the attached comment which appeared in the Wall Street Journal of April 1, 1941.

He said he mentioned the matter to the Chairman of the Federal Deposit Insurance Corporation, and Mr. Riley was calling to say that the F.D.I.C. wanted the Treasury to know they were not a party to any protest, formal or otherwise, against the Treasury asking the banks for reports on holdings of Government securities. Further, he said he had previously expressed to Mr. D. W. Bell the desire of the F.D.I.C. to assist the Treasury in any way they could with regard to the survey.

The response of the banks and insurance companies to your request has been extremely gratifying. More than 2,000 reports have already arrived and this is before the letters were actually received on the West Coast.

Wall Street Journal,
April 1, 1941

Reserve and FDIC Protest New Request for Bank Reports

From THE WALL STREET JOURNAL Washington Bureau

WASHINGTON—The Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corp. are understood to have submitted formal protests to the Treasury against infringing on their jurisdiction over banking reports.

The cause of the protest is a Treasury Department letter to 6,000 banks asking for detailed monthly information on holdings of securities issued or guaranteed by the Federal Government.

The information sought by the Treasury, according to the bank supervisory agencies, is already submitted to the proper Federal bank agencies. The request of the Treasury adds another report for banks to submit, at a time when efforts are being made to reduce the reporting requirements of the financial institutions, officials said.

65
1 - Henry
1 - Bob
4/7

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 4, 1941.

TO

Secretary Morgenthau

FROM

Mr. Kuhn

Here is the survey of left-wing opinion
which you asked for while you were in Arizona.
I include an extra copy in case you want to
send one to Bob.

F.K.

7-10-41

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 4, 1941.

TO Secretary Morgenthau
FROM Alan Barth

THUNDER FROM THE LEFT

Left-wing opinion respecting aid to Britain ranges all the way from anglophobia to admiration of the British and their cause. The term "left," as it is currently employed, embraces such diverse elements as orthodox Communists, anti-Stalin Marxists, Socialists, New Dealers, radicals and liberals of a variety of political persuasions. Perhaps the only common denominator that marks this assortment is a tendency to endorse or oppose aid to Britain in terms of the new pattern which British victory or defeat might give to the post-war world.

The Communists

To the Communists, a British victory holds no promise of any marked change in the economic organization of Europe. The war seems to them merely a conflict between rival imperialisms. They profess to find little to choose between the fascism of Britain's ruling class and the fascism of the Nazi elite, between British or German oppression in colonial rule. Churchill, Halifax and other British leaders are represented as capitalist ogres employing the proletariat as pawns in a greedy game of power politics.

The Communist position is succinctly stated in a Call which has been issued to the American People's Meeting to be held in New York City April 5-6:

"This is not a war to wipe out the evils of Hitlerism and tyranny. It is not a war to liberate the peoples of Germany or France, India or Ireland, Africa or Asia. It is not a war to defend democracy. It is a war to line the pockets of corporate interests at the expense of the peoples of the World."

In addition, the Communists bitterly resent the failure of the United States to applaud or appreciate the "peace policies" of the Soviet Union. And they fear that the capitalist nations may yet join in a crusade against Russia.

The Socialists

A serious split developed in the Socialist Party when its leader, Norman Thomas, opposed the Lend-Lease bill. A number of important party officials resigned in protest. Yet Thomas undoubtedly remains the spokesman for a large segment of the moderate left-wingers, both Socialist and non-Socialist.

In a Town Meeting of the Air program in New York City on January 16, Thomas stated: "Our first duty, for America, for the sake of Democracy, for our possible service for mankind, is to keep out of war."

This is the fulcrum of Thomas' position respecting American foreign policy. He is emphatic in preferring a British to a German victory, acknowledging that the position of the United States will be easier and more secure if Britain wins; indeed, he favors limited aid

to Britain. But he rejects the thesis that a British victory is essential to the interests of the United States. He does not believe that even a Hitler victorious over England could organize "a sullen, half-starved Europe, with a jealous Stalin at his rear, to conquer the Western Hemisphere." The economic consequences of a totalitarian triumph disturb but do not dismay him. "The one way of economic defeat," he insists, "is to go to war." He is unequivocal in the conviction that avoidance of war, rather than the defeat of the Axis, should be the dominant purpose of American foreign policy.

Thomas distinguishes between England and the British Empire. He hopes for the defeat of the Nazi invasion, but distrusts Churchill's ideas for recreating Europe, regarding Churchill as "an imperialist to the core."

In testimony before the House Foreign Affairs Committee, Thomas said: "I think it is amazing that we have not quietly asked for a statement of what is to be done. I also think that it is disastrous that the most powerful voices in America have not, at least, pointed out to the American people the difference between the defense of England and the reconquest of the world by the British Empire, or how vastly expensive that would be, or how little hope there is of any good in winning a war, a war scattered all over the world, such as would be the probable result of an attempt to use American troops to reconquer continental territory . . . The United States has not the power to undertake the role of God or policeman to the whole world."

The Disillusioned Liberals

Philip La Follette voices a point of view typical of a number of non-Marxist liberals. Like Thomas, he is for limited aid to Britain, arguing that full aid means war. He holds, too, that the United States cannot be invaded, that democracy here would be imperilled by engagement in the conflict, that America's function is to make democracy work at home.

He feels also that an outright declaration of war would be preferable to intervention leading gradually to participation. It seems to him highly immoral for Americans to speak of buying time with British lives and he argues that the policy can earn us only the contempt and hatred of the British. If it is really our war, he contends, we should be in the front lines ourselves.

La Follette's distrust of Winston Churchill differs from Thomas's in that he is less concerned with the British leader's social philosophy. His fear is that the British will employ aid given by America as bargaining power to negotiate peace terms satisfactory to themselves, without regard to American interests. He cites the Hoare-Laval pact and the Dusseldorf agreement as evidence.

Criticism

The point of view from which the extreme left-wingers approach the problem of the war is that of the Marxian interpretation of history. Moral factors are left entirely out of account. War is an inevitable

(utgrowth of the capitalist economy, a clash of rival predatory groups for new areas of exploitation.

The Communist Party line in the United States is cut to suit the pattern of Moscow foreign policy. It changed overnight with the signing of the Soviet-Reich non-aggression pact. It will change again quite as swiftly, should Hitler choose to go into the Ukraine. At the moment, the Soviet Union is not at all loath to see the capitalist countries of the continent throttle one another to exhaustion.

To those who feel that the Soviet Union is the hope of the world, this policy is justified by its expediency. The only argument which Americans can bring to bear against it, that it is indefensible from an American or from a democratic point of view, is immaterial. Communists are interested in promoting communism.

Much of the opposition to aid to Britain from the non-Marxist left-wing groups springs from a kind of neo-Marxist dialectical materialism. Senator Gerald Nye brought this point of view to full flowering through the oversimplification of history which his famous Senate investigation offered to the American people. He made it fashionable to believe that the United States entered the World War at the behest of munitions makers and international bankers. That the United States in 1917 was motivated, as at the present time, by a fear of German naval control of the Atlantic, or by moral and emotional considerations, was entirely left out of account.

Perhaps the ablest rebuttal of the Nye conclusions is to be found in Professor Charles Seymour's scholarly study of the causes of American participation in the World War. Contemporary realities are rapidly dissipating the vogue which Nye's devil theory enjoyed.

Currently, the disillusioned liberals are receiving their most effective answers from fellow-liberals of more robust disposition. The Nation and The New Republic speak the liberal language and forcefully support the cause of militant anti-fascism. Archibald MacLeish in his article, The Irresponsibles (Nation, May 18, 1940) gave perhaps the most eloquent answer yet written to the whole philosophy of defeatism and isolationist escape. Max Lerner, in an exchange of letters with Lawrence Dennis and Frederick L. Schuman (Nation, January 11, 1940) and in a thoughtful essay in the current issue of The Virginia Quarterly Review shows that democracy can be dynamic without becoming totalitarian.

The Norman Thomases and Phil La Follettes betray a certain distrust in the virility and vitality of democracy. They can best be answered by showing that only through united democratic action can the political and economic freedom which they seek be preserved and extended. Democracy will not so easily be overthrown, even by the exigencies of total war, as they seem to fear. It is no hothouse product to be shielded from the elements. And it is something to be used, as well as to be admired.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 4, 1941

TO Secretary Morgenthau
FROM Alan Barth

LEND-LEASE HOPES AND FEARSMotives

Behind the continuing popular support of aid to Britain there still lies a twofold motivation: The American people desire the defeat of the Axis. And they desire to stay out of war.

These motives are now so commingled that they cannot be separated and weighed with accuracy. Proponents of the Lend-Lease law presented it to the public as an instrument for the joint accomplishment of both objectives. But a study of the development of American opinion about the war suggests strongly that the desire to avoid involvement was certainly the dominant consideration in the early stages, and perhaps is so even at the present time.

Harper's Magazine for April presents a recapitulation of Gallup polls on opinion respecting the war since its inception. The sentiment for aid to Britain has grown steadily as indicated in the following table of responses to the query: "Which of these things do you think it is more important for the United States to do: to keep out of the war ourselves, or to help England, even at the risk of

Getting into the war?"

<u>1940</u>	<u>Stay Out</u>	<u>Help England</u>
May	64%	36%
June	64%	36%
July	61%	39%
August	53%	47%
September	48%	52%
November	50%	50%
December	40%	60%

It was not until January, 1941, that H. R. 1776 was introduced as a means of doing both -- staying out and helping England -- at the same time. Even then the percentage of those supporting the bill did not rise appreciably above the December, 1940, level of those supporting aid to England. The inference seems warranted that aid to England had already been accepted as a device for avoiding war.

Americans became willing to risk war, but they displayed no change in their desire to avoid it. Concurrently, the Gallup poll received the following responses when it posed the question: "If you were asked to vote today on the question of the United States entering the war against Germany and Italy, how would you vote?"

	<u>Stay Out</u>	<u>Go In</u>
July 15, 1940	85%	15%
October 13, 1940	83%	17%
December 29, 1940	88%	12%
February 1, 1941	85%	15%

Inhibitions

This dominant desire to avoid war involvement is reflected in current editorials on the implementation of aid to Britain. Most editorial writers regard convoys as the probable next step. But they hope that the step will not be necessary, for they are convinced that convoying will usher us directly into active belligerency.

It is doubtful that the public is psychologically prepared for a risk which seems to it so great. Were the risk to be taken and the fears justified, there might be a lively sense of betrayal on the part of those relying on the Lend-Lease law to keep us out of war. The isolationists, at any rate, are clearly endeavoring to make the public feel betrayed by predicting a causal sequence between aid to Britain and war. They are avidly preparing to shout, "We told you so."

Anti-axis measures which seem less dangerous have been greeted with approval by the press. The seizure of German and Italian ships in American ports and the State Department's request for the recall of Italy's Naval Attache have been generally applauded.

It seems safe to forecast that other steps, such as the freezing of Axis funds in the United States, release of additional ships to Britain, tightening of the embargo against Japan -- steps which aid Britain and injure the Axis without any probability of the loss of American lives -- will be accepted enthusiastically. The popular feeling appears to have shifted from the vague phrase, "short of war", as a limit upon our intervention, to the sharper boundary,

"short of shooting."

Shooting which resulted from the use of American naval vessels for convoying at this time would be blamed upon the Administration.

Purposes

A rather significant demand for some clarification of war aims has developed of late among liberal commentators. It is by no means confined to those who opposed aid to Britain; on the contrary, proponents of the Lend-Lease law, who refrained from raising embarrassing issues of this sort during the progress of the debate, now feel that it is time to give thought to the benefits which may be hoped from it.

Their desire for a British victory does not at all indicate a desire for a return to the status quo ante bellum. They see in British victory the possibility of fashioning economic and political reforms which will make the recurrence of war impossible. The achievement of these reforms, indeed, is all that seems to them to justify the costs and dangers of American intervention. A voice in the determination of the final settlement, they believe, is the best compensation which the United States can receive for the assistance it is contributing to the British cause.

It is generally acknowledged that the British cannot, in the midst of war, blueprint their terms of peace. The United States, however, is felt to be in a better position to formulate now certain broad

principles on which it wishes the settlement to be based. Liberal critics urge that this country secure, in return for its material aid, definite commitments from the British that they will respect and support such principles. Without commitments of this order, it is feared, bitterness will give birth to another peace of vengeance. American ideals are all too likely to be dismissed by the victors as the sentimentality of outsiders.

The argument is advanced also that American enthusiasm for aid to Britain can best be enlisted by giving it positive purposes. The defeat of Hitlerism is a negative aspiration. The fear of a Nazi victory is at best an ignoble motivating force. Hope and idealism are likely to make a far stronger appeal to the minds and hearts of Americans.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE April 4, 1941.

TO Secretary Morgenthau
FROM Herbert Merillat

TAXING THE WAGE EARNER

The movement to put the burden of defense costs on low income groups is being pushed by anti-Administration conservatives. A general sales tax and a flat rate gross income tax share favor as methods to accomplish that end. The Chamber of Commerce of the State of New York has made the following tax recommendations: (1) Lower personal exemptions and increase the normal individual income tax rate to 6 per cent; (2) Repeal the capital stock and the related declared value excess profits taxes and make up the lost revenue by increasing normal corporation income tax rate to 30 per cent; (3) Impose a new tax, either a federal sales tax or gross income tax withheld at source, to raise additional 3 billions in revenue. According to the Chamber, the argument that a sales tax is regressive is in its favor in these times, since mass consumption will be curtailed and production diverted to defense channels.

The New York Journal of Commerce acclaims this as "a courageous tax program" which "should receive serious study", but objects to any increase in the corporation tax rate. The Wall Street Journal also applauds the program, particularly the proposal of a retail sales

tax rather than manufacturers' excises which tend to increase costs to consumers by more than the amount of the tax. The Journal rejects the proposal of a gross income tax as unjust. Rather disingenuously the Journal says that the sales tax "like the income tax itself, * * would bear most heavily on those best able to spend" and that since the recommendations "include heavier assessments on personal incomes and a fairly heavy increase in the income tax of all corporations of any size", they are in the nature of admissions against interest by the men of substance making up the Chamber of Commerce. No mention is made of the conspicuous absence of any recommendation to tighten the excess profits tax, or to revise the existing tax structure to eliminate the many tax-avoidance devices now available, or to increase surtax rates. The Chamber's recommendations include no proposals for graduated tax rates based on ability to pay; all are flat rate taxes.

Former Under Secretary Hanes, speaking in New Orleans under National Association of Manufacturers auspices, takes up the Taft refrain that no more revenue may be looked for from the rich man. He reasons that since the individual income tax raises only one-fifth to one-fourth of federal revenues, its usefulness as a revenue producer has reached its limit; therefore a federal sales tax is in order, to reach low incomes.

The National City Bank proposes a tax on increases in the earnings, including overtime pay, of wage earners, as an appropriate complement of the corporation excess profits tax.

Comment on the 5 per cent wage tax proposal continues to some extent, it being generally agreed that the proposal should not be taken very seriously.

"Nondefense Spending"

The call for curtailment of "nondefense spending" swells in volume. Such comment is seldom explicit as to the expenditures to be cut, but the financial journals assail the proposed legislation to increase loans to farmers to 75 per cent of parity prices as a needless expense which should be eliminated.

Special Taxes For British Aid

Scattered comment on Senator Nye's proposal (that 7 billions be raised in the next two years) indicates that no one is deceived by it. It is pointed out that he has not in the past shown any concern for a balanced budget and is now advocating tremendous taxes to impede a foreign policy which he opposes.

Tax Forecasts

The Administration and Congressional leaders continue to be reported as favoring increases in present taxes rather than experimentation in new taxes. Selective or general sales taxes are reported to be under consideration. 1½ to 2 billions is said to be the revenue goal of new taxes. The Wall Street Journal reports a critical attitude on the part of the Administration toward increases in the

individual normal tax, and reports that surtaxes on both individuals and corporations are favored as methods of getting at the interest on federal obligations.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

PERSONAL AND STRICTLY CONFIDENTIAL

DATE April 4, 1941

TO Secretary Morgenthau
FROM John C. Wiley

Arrangements have been made to run off, at the Department of the Interior, the film "Victory in the West" -- an UFA film which is consigned to their company in the United States. It is in ten reels. The thought occurs to me that you might care to ask the President whether he would like to see some or all of these reels at the White House.



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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 4, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£52,000
Purchased from commercial concerns	£54,000

Open market sterling was quoted at $4.03\frac{1}{2}$. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£1,000
Purchased from commercial concerns	£7,000

The Cuban peso, which has had a weak tendency during the past week, improved today to $5\frac{3}{8}\%$ discount, as compared with last night's closing rate of $5\frac{7}{8}\%$.

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

Canadian dollar	13% discount
Swiss franc (commercial)	.2321
Swedish krona	.2384-1/2
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2320
Brasilian milreis (free)	.0505
Mexican peso	.2066

In Shanghai, the yuan in terms of our currency was quoted at $5\frac{5}{16}\%$, up $1\frac{1}{32}\%$. Sterling was 2% higher at $3.94\frac{1}{2}$.

We sold \$1,472,000 in gold to the Central Bank of the Uruguayan Republic, which was added to its earmarked account.

No new gold engagements were reported.

The price fixed in London for spot silver was $23\frac{1}{2d}$, unchanged. The forward quotation was also $23\frac{1}{2d}$, up $1\frac{1}{16d}$. The U. S. equivalent of this price is 42.67% .

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% . The Federal Reserve Bank of New York reported that Handy and Harman received an order for silver solder from the Navy Department, which necessitates Handy and Harman's purchasing approximately 375,000 ounces of silver in the open market.

We made no purchases of silver today.

JR

PLAIN

London

Dated April 4, 1941

Rec'd 12:46 p.m.

Secretary of State,
Washington.

1323, fourth.

FOR TREASURY.

(1) The replies to two questions asked in the House of Commons yesterday on the effect of the Lend and Lease Act are quoted below.

Asked whether he could make a statement on the effect on British export policy of the act the President of the Board of Trade said:

"This country needs more and more supplies of every kind from the United States. His Majesty's Government are grateful for the ungrudging aid which they have already received, and are fortified by the assurance which the Lend-Lease Act provides for continued supplies of essential goods. Our need for dollars however remains very great and anything which adds to our dollar earnings as a contribution of first-rate importance to our cause. That is one reason why His Majesty's Government still regard it as a necessity for this country to maintain
and

-2- #1323, April 4, from London.

and extend its exports to the United States, and continue to give every assistance to that trade. The extent to which this purpose can be achieved of course depends largely on the response of buyers in the United States and I trust that they will continue to ask for our products. Experience will I think have demonstrated to them our ability to produce and deliver the goods and to maintain their traditional high quality."

Asked whether following the passage of the act consultations with the American Government would be considered as to the desirability of modifying the law relating to the holding and use of dollar currency by British nationals in the United States and also as to the advisability of freer exchange of currency between the two countries, the Financial Secretary of the Treasury said:

"No, sir. I must emphasize the fact that, notwithstanding the passage of the Lend and Lease Act, our overseas commitments to be met in gold or dollars remain very large. It therefore remains essential to our war effort that our exchange resources should be conserved to the maximum degree and that the exchange control regulations should be strictly complied with by all concerned."

(2)

-3- #1323, April 4, from London.

(2) A new list of securities has been added to those mentioned in the Embassy's no. 4103 (forwarded with despatch no. 4637 of December 18), dealings in which will be allowed between United Kingdom residents subject to Treasury approval in each instance. The list which is being mailed contains 13 securities, including Chilean nitrate and Iodine Sales Corp., 5 per cent sinking fund income bonds 1963 dollar issue and International Nickel of Canada 7 per cent cumulative preferred.

(3) The following securities have been exempted by Treasury order from registration under regulation 1 of the defence (finance) regulations; Baku 5 per cent gold loan 1910; Brussels 2 per cent bonds 1905; Greece 2-1/2 per cent gold loan of 1898; Mexico deferred interest receipts class "A" (dollar issue), deferred interest receipts class 5B" (dollar issue) and scrip receipts and cash warrants (dollar issue); Moscow-Dniep-Rybinsk Railway Co. 4 per cent bonds 1899; and certain Turkish bonds. These are in addition to securities listed in enclosure with despatch no. 6140 of October 24.

WINANT

WSB

Copy of Letter from A. Mexico City, April 4, 1941.

About things in Mexico I must confess I am somewhat out of line to be able to do a bit of prophesying. No really clear cut policy is so far discernible. While things are no doubt headed in the right direction, on the other hand very little progress is being made. There are many hindrances existing for the President to move faster, among others his old connections with the former regime. Therefore a vicious circle exists as he does not dare to break with the old circle and at the same time, unless this is done, no man of high prestige will take on public office, and the terrible deficiency in administration, worse than at any other time in this century in Mexico, cannot be remedied.

Looking back to November, we were all of the opinion that the oil question would be settled in a short time, even recognizing the difficulties which exist in coming to an agreement. We were also sure that something would be done to put Mexico's credit on some footing again, like arrangement of the foreign debt, railways, expropriations, and so on and so forth. However, now after five months nothing has been done except constant promises in the papers that something will be done.^{soon} It may interest you to know that the President told a friend of mine a few weeks ago:- "I have not forgotten my promises and I will keep them, you wait another three months and you will see a complete change". Vamos a ver!! The good intentions are there, that is all we can say so far.

As far as the former President is concerned, I have been reliably informed that he is still agitating and he has told friends of mine that he will remain quiet as long as his gains for the proletariat are not seriously interfered with, but he will come out if such would be the case. Therefore open break between the Cardenas administration and his followers, who are still quite plentiful in high posts and in the Cabinet, must come sooner or later, or we will just turn back to some kind of another administration as we had for the past six years.

Economically things are fairly good here; however, the basis of the whole economic structure is weak. I do not only refer to silver and its doubtful future, but also to the fact that the great pivot of our economical structure, the Banco de Mexico, is anything but in good shape. It is full of Government paper and has a rather high circulation, which facts are of little importance as long as times are good. Actual amounts involved are relatively small if conditions should stay good, but are tremendously big the moment confidence is lost. The confidence, which was regained on the taking over of the new President, is still existing, expressed in the price of Mexican State bonds guaranteed or without guarantee from the Central Government. The price of these has risen within the last six months from 65 to nearly par. But should confidence ever wane, there would be nobody to take up any bonds which might be offered. The same of course is to be said about the share market, which is also still booming, and in fact it holds good for the whole economical situation including the exchange.

If confidence in the Government keeps on subsisting we will have good times ahead and all minor weaknesses like Banco de Mexico are of no importance, but should for some reason or other this confidence be shaken, I foresee a great crisis, always naturally taking in consideration that a crisis in Mexico never reaches out as far as in other countries which are of higher development.

Externally the close move towards following the policy of Washington is generally accepted as a sensible thing and it is remarkable how few dissenting opinions can be heard. Of course, there are always some die-hards and some politicians who think they can gain cheap laurels by speaking against the United States, but the number is small and they have very little following. On the other hand, there is no question but that Washington is making it easy for Mexico to follow its lead.

The Minister of Finance has just come back and has arranged absolutely nothing. I understand the oil question is just the same as before without having come a step closer; the debt question, they are bickering about 20% more or less to be paid; the railways are not being talked about. This means the continuation of the old policy and not arranging anything, but if same should continue I am certainly not optimistic. On the other hand, if any progress should be made, confidence will subsist and everything will be in fine shape.

In my opinion it is not understandable how Mexico is going to lose this opportunity to arrange all pending questions very favorably for them, an opportunity which will never present itself again.

But as it looks at this moment, such opportunity is going to be lost unless a much more complete change takes place.

Treasury Department
Division of Monetary Research 88

Date April 4, 19 41

To: Secretary Morgenthau

From: Mr. White

Navy Report on Japan's Oil Situation

1. The Navy confirms our opinion that Japan is receiving all the aviation gasoline she wants from the U.S. The Navy's report is quite critical of the State Department for freely licensing this material.
2. The Navy believes Japan has large stocks of tetraethyl lead and "boosters".
3. The Navy attaches great importance to oil in Japan's intentions toward a southward move. Since Japan is not sure that we will not embargo oil and since she fears that the Netherlands East Indies' wells might be destroyed, Japan's policy necessarily is to build up stocks.
4. The Navy estimates that Japan will need 41 million barrels per year in the major war.
5. The Navy estimates Japanese stocks, December 31, at 75 million barrels. This figure is subject to the same errors as was the August estimate of 74 million barrels. (We feel that the stocks are nearer to 35 million barrels).

MR. WHITE
Branch 2058 - Room 208

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 4, 1941

TO Mr. White

FROM Mr. Ullmann

Subject: Navy report on Japan's oil situation.

1. The Navy completely confirms our previously expressed opinion that our export control is ineffective in preventing Japan's receiving aviation gasoline from the United States.

The report states:

"The ironic fact is that Japanese purchases of United States aviation gasoline (that is, fuel admittedly for use in Japanese planes) increased 550 per cent in the five months after the 'embargo' took effect as compared with purchases in the five months preceding. - - -

"Insofar as the Controls Division of the United States Department of State has freely licensed for export to Japan, base stocks up to 78 octane count, it is not surprising to find that Japanese spokesmen have openly boasted that the Japanese supplies of United States aviation gasoline have not been decreased in the slightest degree by the so-called 'embargo'. - - -

"If the purpose of the licensing system is to limit the export to Japan of aviation gasoline, it has clearly failed in its purpose".

Comment: The Navy figure on shipments of aviation quality fuel is greatly underestimated. Its conclusion is based on shipments of 450,000 barrels in the five months following the initial export control - - probably using official statistics as a source. Actually, almost 3 million barrels of high octane gasoline were licensed and shipped in the six months following the President's proclamation.

2. Naval information indicates large Japanese stocks of "boosters" and tetraethyl lead with which Japan can raise the quality of inferior grades - - either by re-running or blending.

- 2 -

Division of Monetary
Research

3. The Navy attaches great importance to oil in Japan's intentions toward a southward move. It claims that Japan must feel confident of one of three possibilities before it moves South:
- (a) It must feel sure that the United States will not embargo oil, or
 - (b) It must be assured that it can immediately seize adequate supplies in captured territory, or
 - (c) It must have stocks adequate for an indefinite period.

Since Japan is not confident of assumption (a) or (b), fearing destruction of Dutch wells in case of attack, her whole policy is based on (c), building up stocks.

4. The Navy estimates that Japan will need 41 million barrels per year in a major war:

10 million barrels: civilian uses
31 million barrels: military uses.

5. The Navy estimates that Japanese stocks at the end of December amounted to 75.5 million barrels, an increase of 1.5 million since August. This new Navy estimate is subject to the same errors as the August report, commented on in our memorandum of September 19.

We estimate that Japanese stocks at the end of January amounted to between 33 and 35 million, which represented an increase of 2.8 million in the last six months. You will recall that in July, we estimated Japanese stocks to be between 30 and 32 million barrels with which figure Standard Oil Company and British oil experts were in substantial agreement.

6. The Navy estimates total amount carrying capacity of Japanese tankers (Japan - California) at 39.7 million barrels.

April 4, 1941

My dear Mr. President:

On returning to the office, I looked up Basra in the Encyclopedia Britannica. Inasmuch as the Encyclopedia contains practically none of the information which was in my memorandum, I am sending you herewith a copy of the same as it may prove to be of use to you.

Yours sincerely,

The President,

The White House.

April 4, 1941

My dear Mr. President:

On returning to the office, I looked up Basra in the Encyclopedia Britannica. Inasmuch as the Encyclopedia contains practically none of the information which was in my memorandum, I am sending you herewith a copy of the same as it may prove to be of use to you.

Yours sincerely,

The President,
The White House.

April 4, 1941

Mr. White

Mr. Kurnack

Subject: The Ports of Basra and Bandar Shahpur 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 26 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 sheerlegs 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 120,000 tons. There are railway sidings on the wharves which connect with the Iraq Railway system.

2. Bandar Shahpur

This recently developed port is 50 miles from the Persian Gulf. The channel will take ships drawing up to 20 feet at low water and up to 29-1/2 feet at high water. The pier at Bandar Shahpur, 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 6,500 ton floating dock.

Five 4,000 and 5,000 ton German ships have been at anchor in the port since the war began.

AMK/mm
4/4/41

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE April 4, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

When the Secretary asked me yesterday afternoon in his office as to whether the State Department maintained consulates at Basra and one other port on the Persian Gulf, I replied in the negative. I stated that we once maintained an office at Basra, but that now this and the other port are included in the Baghdad district. At the Secretary's request I spoke with Lieutenant Stevens and Mr. Kamarck in regard to the Secretary's interest in obtaining data with respect to the ports and facilities at the head of the Persian Gulf. Mr. Kamarck told me that he had already obtained from the Transportation Division of the Bureau of Foreign and Domestic Commerce all American Consular reports on the two ports in question, and thinks the data contained therein will be adequate. I told Mr. Kamarck that if anything further was required I would be glad to make a personal inquiry of some of my colleagues in the Department of State who have served in the Near East, and if necessary ask the Department of State to send a cabled instruction to Baghdad requesting the data.



	<u>Item</u>	<u>Contractors</u>		<u>Verbal Commitment by B.P.G.</u>	<u>Remarks</u>	
"A"	Spare Parts for 200 Huber Rollers	Huber Manufacturing Co.	\$ 61,013.20	Yes	Ready	
"B"	170 Bituminous Tar Kettles	Standard Steel Works	80,750.00	Yes	Ready	
"C"	80 Diesel Driven Bitumen Paddle Mixers and spare parts	Lancaster Iron Works	208,376.80	Yes	Ready	
"D"	20 Oil Fired Stone Heaters	White Manufacturing Co.	36,380.00	Yes	Ready	
"E"	120 Stone Crushers and spare parts	Diamond Iron Works and				
"G"	15 Chipping Granulators and spare parts	Mahr Manufacturing Co.	423,506.16	Yes	Ready	
"F"	6 Bituminous Distributors	E. D. Etnyre Co.	18,930.00 17,080.00	CORRECTED BY B.P.C. 7/2/41 -	Yes	Ready
"H"	50 Diesel Driven Portable Air Compressors	Worthington Pump and Machinery Corporation	108,250.00	\$935,356.16	Yes	Ready
	32 Tractors and 11 Graders	Caterpillar Tractor Co.	250,249.43	Yes	Not Ready	
	32 Trailbuilders	LaPlant-Choate Mfg. Co.	54,774.76	Yes	Not Ready	
	22 Scrapers and 8 Rooters	R. G. LeTourneau Inc.	129,808.37	Yes	Not Ready	
	32 Control Units					

Those marked "READY" are in order for execution of U.S. contracts

Road Building Equipment Contd.

<u>Item</u>	<u>Contractors</u>		<u>Verbal Commitment by B.P.C.</u>	<u>Remarks</u>
13 Tractors				
2 Elevating Graders				
2 Road Graders				
2 Motor Patrol Graders	Caterpillar Tractor Co.	\$113,987.99	Yes ±	Not Ready
18 Plowing Harrows	Rome Plow Co.	8,824.00	Yes ±	Not Ready
12 Water Tanks (1,000 gals.)	Gar Wood Industries Inc.	4,560.00	Yes ±	Not Ready
12 Four-Wheel Trailers	Rogers Bros. Corp.	11,582.04	Yes ±	Not Ready
18 Tractor Winches	Willimette Hyster Co.	29,520.00	Yes ±	Not Ready
18 Road Graders				
36 Tractors	Caterpillar Tractor Co.	128,124.50	Yes ±	Not Ready
18 Hydraulic Bulldozers	LaPlant-Choate Mfg. Co.	14,823.90	Yes ±	Not Ready
	Road Building Equipment Total	\$746,254.99		
		\$1,681,611.15		

Rubber Lined Fire Hose

600,000 Ft. 2½" Single Jacket Cotton	Hewitt Rubber Company	\$210,000.00	Yes	Ready
250,000 Ft. 2½" Single Jacket Cotton	Quaker Rubber Corp.	87,500.00	Yes	Ready
50,000 Ft. 2½" Single Jacket Cotton	Whitehead Bros. Rubber Co.	17,500.00	315,000.00 Yes	Ready

Spare Parts
(Agricultural Machines)

<u>Item</u>	<u>Contractors</u>		<u>Verbal Commitment by B.P.C.</u>	<u>Remarks</u>
Spare Parts	Oliver Farm Equipment Co.	\$ 10,703.72	No	Not Ready
Spare Parts	Caterpillar Tractor Co.	28,910.84	No	Not Ready
Spare Parts	Oliver Farm Equipment Co.	21,388.62	\$ 61,003.18 No	Not Ready

Agricultural Implements

70 Harvesters with various attachments	Allis Chalmers Mfg. Co.	32,123.27	No	Not Ready
Harvesters and attachments	Minneapolis Moline Power Equipment Co.	37,358.00	No	Not Ready
Various implements	Various Contractors	85,178.73	154,660.00 No	Not Ready

Bearings

69,871 Ball Bearings	General Motors Overseas	36,978.97	36,978.97 ?	Not Ready
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Aniline Oil

10,000 Pounds	U. S. Rubber Company	40,125.00	40,125.00 ?	Not Ready
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GRAND TOTAL

\$2,289,378.30

Those marked "Ready" are in order for execution of U. S. contracts

Those marked "Not Ready" require further information.

BRITISH EMBASSY,
WASHINGTON, D.C.
April 4th, 1941.

Personal and secret.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated April 2nd.

1. Naval. Red Sea. Air reconnaissance reports two Italian destroyers having left Massawa, one reported later as having been sunk 40 miles northeast of Massawa. Further details not available, destroyer sunk believed to be "Pantera".
2. Attacks on Shipping. April 1st. British ship (9,950 tons), independently inward bound, torpedoed 250 miles southwest of Iceland.
3. Homeward bound convoy attacked three times by aircraft in Bristol channel. Three British tankers (totalling 24,900 tons) and two Norwegian tankers (totalling 16,700 tons) damaged. Two British tankers reported burning fiercely. One Norwegian tanker towed into port.
4. Military. Eritrea. Mobile column ordered to advance on Massawa where resistance expected.
5. Ethiopia. Serious resistance not expected until Meesso some 90 miles west of Harar is reached.
6. Movement of German Troops towards Yugoslavian frontier reported to have begun.
7. Royal Air Force. April 1st. Seven E-boats machine-gunned and 4 enemy naval trawlers attacked off Dunkirk. Off the Danish coast merchant ship (2,000 tons) torpedoed by Beaufort; ship left completely enveloped in smoke. From these and other operations, one of our aircraft missing.
8. Night of March 30th-March 31st. Wellingtons bombed docks at Tripoli and a convoy 5 miles outside the harbour with good effect.
9. German Air Force. April 1st. During daylight enemy activity over South and southeast coasts. Mining operations/

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operations probably in the Thames and off East Anglian Coast under cover of low clouds. Two aerodromes in Yorkshire and two in Southwest attacked. In these operations 5 enemy aircraft destroyed, 2 damaged. One of our fighters missing.

10. Last night enemy activity negligible.

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MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, April 4, 1941

SPECIAL BULLETIN
No. 33
G-2/2657-231

NOTICE

The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed.

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BRITISH NOTES ON GERMAN POLICE, SEMI-MILITARY FORCES,
AND LABOR SERVICES

SOURCE

This bulletin is based upon information prepared by a high British official source in June, 1940.

CONTENTS

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2. SPECIAL BODYGUARD TROOPS
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8. NATIONAL LABOR SERVICE
9. RAILWAY, POST, AND FACTORY GUARDS
10. CZECH POLICE CORPS

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CONFIDENTIALBRITISH NOTES ON GERMAN POLICE, SEMI-MILITARY FORCES,
AND LABOR SERVICES1. THE POLICE PROPERa. General

All police now come under the control of Department III of the combined Reich and Prussian Home Office. The present head of the police is also head of the Schutz Staffel, described in Paragraph 3a, and has the title of Reichsführer S.S. und Chef der Deutschen Polizei.

The police proper are divided as follows:

- (1) Constabulary (Ordnungspolizei)
 - (a) Town Constabulary (Schutzpolizei)
 - (b) Rural Constabulary (Gendarmerie and Landjagerei)
- (2) Security Police (Sicherheitspolizei)
 - (a) Secret State Police (Geheime Staatspolizei)
 - (b) Criminal Police (Kriminal-polizei)
- (3) Technical Emergency Corps (Technische Nothilfe)

The command of all constabulary is vested in a general of police; the security police come under a senior office of the Schutz Staffel.

Police officers are first trained at one of the Junker schools of the Schutz Staffel, which are located at Brunswick and Bad Tolz, and then at one of the police officers' schools which are located at Kopenick, near Berlin, and at Furstenfeldbruck, near Munich.

b. Notes on Branches(1) Constabulary (Ordnungspolizei)

(a) Town Constabulary (Schutzpolizei) - The constabulary performs ordinary patrol and traffic control duties and is generally responsible for public order. The personnel, who receive a certain amount of military training, are armed with rifles, bayonets, pistols, and light machine guns. They are thus able to deal with civil disturbance without assistance from the Army.

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The organization of the constabulary is not at present definitely known, but it is probable that their Bereitschaften, which correspond to companies, are grouped into higher formations known as Kommandos and Inspektionen.

At present, candidates for entry into the constabulary must be between the ages of 20 and 25 and must have served at least two years in the Army or with the permanently embodied Schutz Staffel. In the future, it is hoped that conditions will permit recruiting only from the latter.

(b) Rural Constabulary (Gendarmerie and Landjagerei) - The duties of the rural constabulary correspond to those of the county police in Great Britain.

The motorized branch of this force is organized into 42 companies (Bereitschaften), which are widely distributed over the whole country and are responsible for the supervision of traffic on main roads.

It is probable that the non-motorized branch is organized in a similar way.

(2) Security Police (Sicherheitspolizei)

(a) Secret State Police (Geheime Staatspolizei) - The Secret State Police is the most retiring of all police organizations in Germany, but it is equally the most important and effective. It has many ramifications, and its activities, like those of the equivalent organization in the U.S.S.R., permeate the life of the whole nation. All its members also belong to the Schutz Staffel.

This organization is responsible for counter-acting any movement subversive to the present regime, and with this object in view, it keeps a constant watch on former members of the Socialist and Communist parties and other political suspects, as well as on the constabulary, the rank and file of the National Socialist Party, and indeed on the whole population. It also deals with all cases of high treason and espionage and ensures secrecy regarding military affairs. Members of this organization supervise all industrial enterprises and observe the progress realized or the resistance encountered in the adaptation of National Socialist ideas. Further, the Secret State Police watch all correspondence to and from foreign countries, confiscate literature hostile to the state or the party, and take action, where possible, against the persons concerned.

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(b) Criminal Police (Kriminal-polizei) - The criminal police are solely concerned with the prevention and detection of crime. They do not wear uniform.

(3) Technical Emergency Corps (Technische Nothilfe) - According to a law passed in March, 1939, the existing patriotic voluntary organization called the Technische Nothilfe was liquidated, but it is still referred to by its old name, frequently abbreviated to Tenq. The organization now becomes an auxiliary police force (Hilfspolizei), subordinated to the Ministry of the Interior. It continues to provide essential services during strikes and comprises at least 150,000 men qualified to deal with key services, such as power, light, and water. Many of its men have specialized training in fire fighting and gas decontamination. Its newer and more pronounced function is that of passive defense. Units are distributed throughout the cities, the most important industrial centers, and the principal traffic junctions. Apparently they are also being used in army rear areas where their services are required to rebuild damaged buildings, bridges, and other structures, thus freeing army engineers.

2. SPECIAL BODYGUARD TROOPS

a. Greater Germany Infantry Regiment (Infanterie Regiment Grossdeutschland)

This is a composite regiment consisting of carefully selected personnel from units all over Germany. Formed to provide guards for the Ministry of Defense and elsewhere in Berlin and Vienna, it consists of a headquarters company which includes a signal section and three battalions at Berlin, and one battalion - the Vienna Guard (Wach) battalion - at Vienna. The unit, fully motorized, is under command of the Garrison Commandant of Berlin. It participated in the operations in France in 1940.

b. Guard Battalion of the Air Force

This is the corresponding unit in the Air Force to the Greater Germany Infantry Regiment. It guards the Air Ministry.

c. Leibstandarte Adolf Hitler

This unit, the nearest equivalent of which is a regiment, belongs to the permanently embodied Schutz Staffel. It was originally formed in 1933 to act as the Führer's bodyguard; it finds guards for important government buildings and for Hitler's residences. Since the war it has also been engaged on purely military service in Poland and in the West.

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Its strength and organization is believed to be similar to that of an infantry regiment. In addition, it has its own artillery and armored car sections, as well as machine gun and motorcycle rifle companies. The regiment is wholly mechanized with its own service transport.

d. Regiment General Goering

This unit takes its name from the special militarized police regiment raised originally by Goering in the early years of the Nazi movement. It is now an antiaircraft regiment composed of three battalions, the third being a searchlight battalion.

e. Regiment Sturm Abteilungen Standarte Feldherrnhalle

This unit was a part of the storm detachments described in Paragraph 3b. It consisted of full-time armed S.A. men trained in special military courses. Young Germans from the S.A. or the Hitler Jugend, described in Paragraph 6, might perform their military service in this regiment. Candidates had to be between the ages of 18 and 25 and had to serve for a minimum period of three years, as opposed to the two years in the Army. Entrants had to prove that they had had already six months' training in the S.A. and at least one year in the Hitler Jugend.

It is believed that the regiment consisted of seven battalions (Sturmabteilungen), each composed of four to six companies (Sturme), but that most of its men have been drafted into the 93rd Division or the parachute rifle regiments.

3. SEMI-MILITARY AND POLITICAL ORGANIZATIONS

a. Schutz Staffel (S.S.)

The Schutz Staffel is composed of good National Socialists, picked for their mental and physical qualities.

The primary function of this organization is to ensure internal security. In war some permanent S.S. units may be retained in the home country in order to prevent strikes and suppress any movement directed against the regime.

The total strength of the S.S. is about 200,000. It is composed of the following:

(1) Ordinary S.S. Units

Ordinary S.S. units are organized in fourteen regional groups known as Oberabschnitte which correspond to the Wehrkreise. These groups are sub-divided, in turn, into

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Absehnitte and Reiterabsehnitte, both large formations; Standarten, regiments; Sturmabte, battalions; Hundertschaften, companies, etc. Such formations were not permanently embodied in peacetime, but they carried on training frequently on week ends and in the evening. The men were unarmed except for daggers and perhaps pistols. It is not known exactly to what extent the war has brought permanent embodiment and increased armament to ordinary S.S. units.

(2) Permanently Embodied and Militarized S.S. Units
(Waffen S.S.)

These units consist of the Verfügungstruppe, whose troops are part of neither the police nor the Army. As their name implies, they are entirely at the disposal of the Führer.

Apart from the Leibstandarte Adolf Hitler, these units are organized in three regiments as follows:

The S.S. Standarte No. 1 Deutschland;

The S.S. Standarte No. 2 Germania;

The S.S. Standarte No. 3 Der Führer.

Each regiment, consisting of three battalions, is organized, armed, and equipped in exactly the same way as a motorized infantry regiment of the normal type. The regiments form a separate motorized infantry division, known as the S.S. Verfügungsddivision, with its own reconnaissance antitank, pioneer, and other subordinate units. An S.S. artillery regiment has also been formed.

Service in the S.S. Verfügungstruppe is for a minimum period of four years, the first two of which are equivalent to the compulsory military service. Men who have already served in the fighting services are ineligible.

Recent experience shows that the S.S. Verfügungsddivision is to be considered in every way the equivalent of a regular motorized infantry division.

The S.S. Totenkopfverbände originated as concentration camp guards, and a proportion of them are still employed in this capacity, armed as infantry and living in barracks. Before the war there were four named Totenkopfstandarten - the Brandenburg, the Oberbayern, the Ostmark and the Thüringen: to these have been added two further Standarten in Moravia and Poland, respectively. Before the war, a Totenkopfstandarte numbered approximately 1,000 men.

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A Totenkopfddivision composed of three regiments has been created since the war. There is also a Totenkopf Artillery Regiment, and Totenkopfverbände non-divisional regiments have been noted.

In addition to these militarized S.S. forces, two new police formations, as follows, are being used for semi-military and military purposes:

The S.S. Polizei - Before the war there existed in the larger towns units of police quartered in barracks and organized on semi-military lines. Since the war a large number of new police units have been created, their function being to maintain law and order in occupied territory and thus release troops for service elsewhere.

Recently the existence of a non-motorized Poliseidivision has been established. Its personnel is drawn from the Schutzpolizei, Ordnungspolizei, etc.

The Hilfspolizei - This body of auxiliary police was employed for the first time in the Polish campaign and was given the task of cleaning up back areas in Poland. The uniform worn is that of the regular German police.

(3) S.S. Reserve (S.S. Stammbteilungen)

This unit consists of men who are unfit to continue carrying out the normal duties of the S.S.

(4) S.S. Air Pilots (Fliegertruppe)

S.S. air units have also been formed. These units are kept entirely separate from the Air Force, and are provided with special aerodromes. Personnel is recruited mainly from the Hitler Jugend and from groups of men who have completed their conscript service.

(5) S.S. Fifth Column

A section of the S.S. deals with Fifth Column activities. Its duties are to organize and carry out subversive activities in enemy or potential enemy countries by acts of terror and sabotage. It also conducts liaison between invading forces and German minorities or emigre elements in those countries.

b. Storm Detachments (Sturm Abteilungen)

Apart from the S.A. Standarte Feldernhalle described in Paragraph 2e, storm detachments consist of the following:

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Active S.A. - men from 18 to 35;

S.A. Reserve I - men from 35 to 45;

S.A. Reserve II - men over 45.

Storm detachments are divided into twenty-one groups, which, in turn, are subdivided into Brigaden, Standarten, etc. Members of these organizations train on two or three evenings each week and during many week ends. They are armed only with dirks, and, in certain special cases, pistols. Since the outbreak of war the majority of members have presumably been absorbed into the Army.

c. S.A. Organizations for Pre-Military Post-Military Training

In January, 1939, the responsibility for pre-military and post-military training was placed in the hands of the S.A. The Chief of Staff of the S.A. is to cooperate closely with heads of the fighting services as regards standards to be attained and similar details, but all executive arrangements are left entirely in the hands of the S.A. Separate defense detachments (Wehrmannschaften) have been created for the Army, Air Force, and Navy, but personnel belonging to the flying branch of the Air Force will receive post-military training under the Nationalsozialistisches Flieger Korps, or N.S.F.K., discussed in Paragraph 3f. It is believed that each S.A. company contains one or more defense detachments, and each detachment men of the same arm of the service. These Wehrmannschaften are now engaged entirely in preparing S.A. men to take their places at the front. Training which comprises shooting, scouting, map-making and reading, compass-reading, hand grenade throwing, bayonet practice, and ordinary drill is carried out for a period of three months and is calculated to take a great deal of work off the army instructors' hands.

To ensure the most intimate cooperation between the Army and defense detachments, a reorganization of the S.A. has been in progress. Areas of S.A. formations and units correspond to areas of military districts (Wehrbezirks Kommandos) and their subdistricts (Wehr meldeamter). S.A. formations carry on their shoulder straps the same color as Army units to denote arm of service.

As regards pre-military training, all members of the Hitler Jugend start training for the "Military Sports Badge" upon attaining their 17th birthday. This, the so-called voluntary part of their training, consists of military athletic exercises. All men of the classes of 1900-1913 who have served nine months or less must also qualify for this badge.

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As regards post-military training, all men leaving the colors and going to the reserve are obliged to take part. Training consists of a voluntary and an obligatory side. The former implies qualifying for the "Military Sports Badge," with conditions varied according to age, at stated intervals. The object of the obligatory part is to ensure that the reservist remains capable and willing to bear arms. The curriculum includes physical training, military training - including marksmanship - tactical exercises, and political instruction.

It should be noted that this training is additional to normal reserve training with the active forces.

Obvious advantages accrue both to the Army and to the party by these arrangements. The Army has its reservists kept physically fit and in touch with current military matters; the party is sure that every physically fit man in the country automatically joins it.

4. National Socialist Motor Corps (Nationalsozialistisches Kraftfahrer Korps or N.S.K.K.)

From the Army's point of view, a most important part of the National Socialist organization is the National Socialist Motor Corps. This is designed for the following purposes:

- To train as drivers and mechanics men who are destined to join mechanized units of the Army;
- To provide personnel required for the rearward services of the Army in war;
- To cooperate with military authorities in carrying out trials of mechanical transport so as to influence manufacturers in putting on the market standard types suited for Army use;
- To organize cross-country driving competition in which Army personnel, driving army vehicles, are among the competitors;
- To make the German nation mechanically minded.

Germany is divided into five Obergruppen - the North, the South, the East, the West, and the Middle. Each of these large units is subdivided into a varying number of motor Gruppen consisting of a number of regiments, battalions, and companies.

As one object of the N.S.K.K. is to produce large numbers of expert cross-country drivers and mechanics, the bulk of training in the organization is carried out with this end in view.

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The N.S.K.K. has, in addition to three main state schools, 24 Motorsportschule where courses are held varying in length from five weeks to three months. The average number of pupils at each course is 300. A large number of men have passed through these schools, and a recent estimate of the strength of the N.S.K.K. is half a million men.

In addition to those about to perform their military service - that is, men from 18 up - the N.S.K.K. accepts members of the motorized section of the Hitler Youth at the age of 16. As it is calculated that there are some 100,000 members of the motor section of the Hitler Youth, it is clear that the N.S.K.K. plays a very important part in the training of Germany's future soldiers. All those passing through the schools are in fact well fitted to enter the motorized units of the Army.

It is believed that each school is organized into a motorcycle section, a motor car section, and a lorry section, and that on conclusion of the course each student obtains a certificate of qualification for a driving license for the class of vehicle with which he has been working.

Some few of the vehicles of this organization actually belong to units, but the majority are either privately owned by members or are the property of motor firms and earmarked for use with the N.S.K.K.

In view of the diversity of sources from which vehicles are drawn, it is impossible to achieve uniformity; nevertheless, in order to provide as many columns as possible with the same type of vehicle to be transported, companies in certain parts of Germany are obliged to use standard types.

The purely military activities of the N.S.K.K. are undertaken by its defense units (Wohrstaffeln). Candidates have to undergo shooting and military exercises as laid down for the S.A. detachments, which include marches, musketry, hand grenade drill, small bore shooting, and the like. This pre-military training consists of courses lasting three months.

In addition, the N.S.K.K. has been made responsible for traffic arrangements in Germany, and a Traffic Training Service (Verkehrserziehungsdienst) has been created. As its name implies, it trains personnel specially to deal with traffic problems, and to encourage in a general way the development of road sense in the German citizen. Finally, the N.S.K.K. also includes in its organization pioneer companies, and motor boat formations (Motorboot Standarten).

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e. National Socialist Mounted Corps (National-sozialistisches Reiterkorps or N.S.R.K.)

The National Socialist Mounted Corps has two functions:

(1) To train young men to the standard of cavalry recruits of six months' service before they join the Army; a man who wishes to join a mounted arm of the service has now to be in possession of a certificate from this organization before he is accepted;

(2) To enable ex-soldiers of mounted units to practice their riding after leaving the colors.

f. National Socialist Flying Corps (National-sozialistisches Flieger Korps or N.S.F.K.)

Its functions are:

(1) By training large numbers of young men as pilots, observers, wireless operators, and mechanics, to simplify the Air Ministry's task in selecting the most suitable men for the Air Force;

(2) To promote air-mindedness among the civilian population;

(3) To continue the air training of men who have served in the Air Force or undergone instruction in the air section of the Hitler Youth or former air organizations.

4. RIFLE CLUBS

Before the National Socialist Party's accession to power, a large number of rifle clubs were in existence in all parts of the country. Most of these have now disappeared, but shooting with service rifles or small caliber weapons is practiced systematically in the ex-soldiers' association discussed in Paragraph 7; and to some extent in many of the semi-military organizations, and in the Nationalist Socialist youth organizations discussed in Paragraph 6a.

5. WOMEN'S ORGANIZATIONS

Apart from the Bund Deutscher Mädel, discussed in Paragraph 6b, the Women's Labor Service, and a nursing association, there are no women's organizations in Germany. The National Socialist doctrine is that the place of women is in the home and their participation in political affairs is not encouraged. Since the outbreak of war, however, women are replacing men in certain branches of industry, and in some cases wives are being trained to perform the peacetime work of their

husbands; for example, as postal employees or as agricultural workers. In addition, there are women members in the National Air Defense League.

6. JUVENILE ORGANIZATIONS

a. Boys

The National Socialist youth organizations - Jungvolk for young boys and Hitler Jugend for older boys - have now become official, and membership is compulsory for German boys who have no trace of Jewish blood. Consequently, from the age of ten until their military service is completed at about the age of 22, the male youth of Germany is almost continually under government influences, which prepare it both mentally and physically to be good servants of the state. The head of these organizations, who is directly responsible to Herr Hitler, is known as the State Youth Leader.

In August, 1939, a far reaching agreement was made to ensure close cooperation between the Hitler Jugend and the Army. Training is now carried out in the closest collaboration with the Army. Instruction in all subjects of a military nature is given to the various detachments in the barracks of the local military authorities. Courses have been arranged which bring the Hitler Jugend leaders together with regular units for training in the use of ground, reconnaissance, signaling, and the like, in order to ensure uniformity.

Training comprises shooting with small caliber weapons, dummy bomb and hand grenade throwing, marching, camouflage, map-reading, antiaircraft protection, making reports, scouting, and similar activities. Boys of 16 and upwards can specialize at one of the special Hitler Jugend schools, where they receive instruction in riding, engineering, signaling, cross-country driving, and flying. Proficiency tests are held from time to time, and the results are recorded in a book which the boy retains until he joins the Labor Service. A large majority of the boys attend camp for a fortnight or a month during the summer holidays. Here the discipline is on military lines.

Pre-military training has developed during the last three years. It was intended to train an entire annual class of 550,000 boys in small-caliber rifle shooting in the spring of 1940. In 1939, 560,000 boys attended camps for training in the use of ground. In March 1940, the Army took over the pre-military training of the Hitler Jugend, and all youths between the ages of 16 and 18 must undergo this training under Army direction.

Naval and air branches of the Hitler Jugend have also been formed.

b. Girls

The organization known as the Bund Deutscher Madel corresponds to the Hitler Jugend and includes girls between the ages of 10 and 21. It is also subordinate to the State Youth Leader. Besides the usual political training, the girls are given instruction in housework and agriculture.

7. EX-SOLDIERS' ORGANIZATION (DEUTSCHER REICHSKRIEGERBUND-KYFFHAUSER)

Until March 1938, there were two ex-soldiers' associations. The first of these, known as the Reichskriegerbund-Kyffhauser, was for men who left the colors prior to 1922, and the second, known as the Soldatenbund was for ex-soldiers of the post-war army. These two associations have now been amalgamated under the name of the Nationalsozialistischer Deutscher Reichskriegerbund-Kyffhauser.

One of the objects of this organization is to keep up the ex-soldier's military knowledge by means of compulsory weapon training, field training, demonstrations, lectures, and occasional parades. In addition, these men undergo training when, as reservists, they are recalled to the colors for refresher courses.

8. NATIONAL LABOR SERVICE (REICHSARBEITSDIENST)

Every young man is obliged to serve a period in the National Labor Service before joining the Army. The underlying idea is that, by working together under the same conditions, men drawn from all walks of life and all parts of Germany will come to know and respect each other. Training is also intended to harden the youth of the nation, to inculcate in them a healthy discipline, to make them realize their common duty to the state, and generally to mold them into satisfactory material for the Army, impregnating them at the same time with National Socialist doctrines.

Labor service is normally performed during the year prior to that in which a man is called up for his military service. Usually men from the country join the Labor Service in November and serve five months, while men from towns join in April and serve seven months. The advantage of this system is that men of the former category are free to return to their work at home in the summer, when they are required for work in the fields, while men of the latter category can, during the last months of their labor service, also be employed in helping with the harvest.

Members of the Labor Service live in camps, of which there are some 2,000 distributed all over the country, and are under military discipline. They are trained in drill, marching, and digging, but they are not armed. They are engaged chiefly on drainage and irrigation work in connection with land improvement schemes, land reclamation, and reforestation projects. In times of emergency they are employed in combating natural disasters, such as floods and forest fires. They are never employed in competition with industry. The principle is that the work of Labor Service personnel must have the effect of producing employment for others and never that of depriving working men of their means of livelihood.

All young women are equally obliged to perform one year's compulsory service either on the land or in a factory. Girls may also offer themselves for domestic service; six months in a household is counted as half of their year of compulsory duty.

9. RAILWAY, POST, AND FACTORY GUARDS

a. Railway Guards and Railway Police (Bahnschutz and Bahnschutzpolizei)

This organization, the personnel of which is drawn from railway employees, is responsible for the protection of the railways in time of war and civil disorder. There is a railway guard group in each of the areas into which the German railway system is divided. Units are armed with rifles and light and heavy machine guns.

b. Post Guards (Postschutz)

This organization, the personnel of which is found from post office employees, is responsible for the protection of postal communications.

c. Factory Guards (Werkschutz)

This organization, the personnel of which is drawn from factory workers, is responsible for the protection of industrial concerns in time of war and civil disorder.

10. CZECH POLICE CORPS (SCHUTZKORPS)

The formation of this corps was authorized in March 1939. Its function is to preserve law and order in the protectorate, and regulations regarding strength, organization and equipment remain in the hands of the Reich. Units are accommodated in various towns in Bohemia and Moravia. The personnel

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of this corps is thus far limited to senior N.C.O.'s of the former Czech Army. The strength has been fixed at 7,000. Equipment consists of pistols, carbines and sidearms, and it is thought that units are fully motorized.

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G-2/2657-220
No. 357

M.I.D., W.D.
April 4, 1941
12:00 H.

SITUATION REPORTI. Western Theater of War.

Air: German. Daylight attacks on shipping on the 3d. Last night heavy raids were made over a wide area of southwest England, Bristol, in particular, was attacked in strength.

British. No important operations.

II. Balkan Theater of War.

Albania. Artillery activity reported.

Bulgaria. No change.

Yugoslavia. Vladimir Matchek, Croat leader, has taken the oath of office as Vice Premier in the National Union Cabinet. A break with Germany appears increasingly certain.

III. Mediterranean and African Theaters of War.

Ground: Libya. Benghazi, the capital of Cirenaica which was captured by the British on February 6, has been evacuated.

Abyssinia (Ethiopia). Mieso, on the railroad about 180 miles from Addis Ababa, has been captured by the British.

Air: German. Considerable support was given the advance on Benghazi. Attacks were made on shipping off Crete.

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 6:50, April 4, 1941

London, filed April 4, 1941.

British Military Intelligence reports the presence in Tripoli of the advance troops, German 15th Mechanized Division. The rest of the Division is in Sicily awaiting transportation. The reconnaissance elements of the German 34 Mechanized Division have also been identified in Libya.

Other identifications, Tripoli-Bengasi area:

1. Italian

152nd Mechanized Division; 30 light (3½ ton) tanks, 60 medium (13 ton) tanks.

One motorized Division.

Four infantry Divisions.

2. German (Bengasi area)

5th Mechanized Division; 54 armored cars, 3 battalions motorized infantry (trucks and motorcycles), 1 antitank battalion (37-mm and 47-mm guns), 24 75 and 105-mm field pieces, 200 tanks.

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Paragraphs of Code Cablegrams
Received by the War Department
at 5:55, April 4, 1941.

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Athens, filed 17:45, April 2, 1941.

1. The facts given in my cable No. 19 have been verified during a recent trip to Salonika, when I was able to make firsthand observations on the spot. In addition it was observed that men are at work mending the roads and the bridges and setting up tank obstacles to the west of Edessa. Parts of three motorised divisions and parts of an armored brigade of the British Army have reached the line Elaterini-Edessa and the area just behind it. This is on information believed trustworthy from Greek staff officers at Kosani. British personnel and material are still being debarked and moved northward. It is apparent that the concentration in the north is not by any means complete as yet.

2. As regards my cable No. 16, I have as yet had no reply.

3. Following from Major Cress: "The informants for the British air forces have have lately arrived here and bring British air strength to:

- 5 Blenheim Bomber squadrons
- 1 Blenheim Fighter "
- 1 Gladiator Fighter "
- 2 Hurricane Fighter "

These are all at reduced strength, however, and contain less than a hundred planes in all. With the exception of one Gladiator and one Bomber squadron, this whole force had to be pulled off the Albanian front in the early part of March to protect the Greek capital and in general meet the German threat. The whole force, however, will be

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augmented by Wellington and Swordfish squadrons. If conditions justify their doing so, they will support the main efforts of the Greek Army in Albania during the favorable moonlight phase which commences around the tenth of April.

BAKER

G-2 Note. No. 19 dated March 29 stated that British troops and supplies continued to come into Greece, including elements of the British first armored division and Australian and New Zealand infantry battalions.

No. 16 dealt with administration details only.

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Paraphrase of Code Cablegram
Received at the War Department
at 24:53, April 4, 1941

Budapest, filed 14:10, April 4, 1941.

A 20 percent Hungarian mobilization has taken place with the bringing to war strength of the 4th and 5th Army Corps. (These corps face Yugoslavia.)

PARTRIDGE

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Paraphrase of Code Cablegram
Received at the War Department
at 8:53, April 4, 1941.

London, filed April 4, 1941.

1. British Air Activity over the Continent.

a. Daylight, April 3: The sister battleships, ONEISEMAU and SCHARNHORST (2600 tons), were attacked in Brest harbor by heavy bombers without reported result. The Coastal Command reported bombing and machine gunning four freighters off the island of Brahat (north Breton coast) with success.

b. Night, April 2-3: Adverse weather conditions grounded all planes.

2. German air activity over Britain.

a. Night, April 3-4: South Wales, the Avonmouth area and Bristol were subjected to heavier bombing than any in the past fortnight. Six bombers attacked targets in the estuary (?) and three were over Lincolnshire. The extent of the damage caused by these raids has not been reported.

b. Daylight, April 3: Scattered raids by single planes over Land End, Bournemouth, Coventry, Sherbornes, Yarmouth and the airfield at Northolt resulted in no damage or loss of life. Other activities were limited to shore patrols and bombing of sea-borne traffic in the Bristol estuary and off the coast of Cornwall. Three merchant ships were reported sunk. Results of raids on April 2 were announced as slight damage to the Bolton Paul plant at Norwich and serious damage to a tile factory at Aberdeen. There was slight damage at three airfields.

3. Air Losses.

a. British: No losses reported.

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D. German, night April 3-4: Night fighters in South Wales accounted for one plane destroyed and one damaged.

4. British Air Activity in Middle East Theatre.

a. Daylight, April 3: Bombing operations were effected against Tepelene (Albania), Butis (Butis in Albania?), Massawa (Eritrea) and Tripoli (Libya).

5. German Air Activity in Middle East Theatre.

a. Night, April 3-4: Sea-borne traffic in Malta harbor was the target for two bombing raids. No success was reported.

6. Air Losses, Middle East Theatre.

a. Italian, daylight, April 3: Four planes were reported destroyed by the R.A.F.

7. British Military Intelligence reported the following disposition of German Divisions in Bulgaria on April 3: Eight facing Turkey with six each in the center and southwest. Five divisions are reported as having arrived in Hungary. Other troop concentrations were reported on the Bulgarian borders facing Austria and Rumania.

8. April 2: An Italian freighter and a U-boat were sunk by a British submarine in the central Mediterranean. A British armed trawler was sunk off Stabbs Head.

April 3: Two Italian destroyers were bombed and sunk by British naval planes off Port Sudan.

A convoy guarded by HMS Worcestershire was attacked by Axis submarines 680 miles west of Bloody Foreland. Three freighters were sunk and the Worcestershire damaged but was able to proceed under her own power.

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Paraphrase of Code Radiogram
Received at the War Department
at 15:08, April 4, 1941.

Berlin, filed 15:10, April 3, 1941.

An attack on Yugoslavia and Greece from Hungary, Rumania and Bulgaria is expected in near future. Troop movements are in progress toward Balkans, Poland and East Prussia. To assist increased mobilization of man power, a drastic cut in non-military industries has taken place.

PHYTON

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General Miles
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Paraphrase of Code Radiogram
Received by the War Department
at 8:37, April 5, 1941

Belgrade, filed 18:30, April 4, 1941.

Estimates by Yugoslav Intelligence indicate Italy's troops dispositions in Albania - reading from the Northeast (left) to Southwest (right) in each instance - are the following:

11th Army

In line: 19th, 53rd, 2nd Mountain, 1st Alpine Divisions.

In reserves: 29th, 36th, 48th, 49th Divisions.

14th Army

In line: 47th, 51st, 59th, 5th Alpine, 3rd Alpine, 6th, 11th, 22nd, 24th, 33rd.

In reserves: 56th, 131st mechanized, 16th, 23rd, 4th Alpine, 7th, 57th.

2nd Reserve: 81st, 26th, 38th.

The total strength of the entire force is 28 complete, or nearly complete, divisions, due allowance being made for losses in combat. There are also on the ground certain elements of the 3rd, 10th, 17th, and 50th divisions.

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Paraphrase of Code Radiogram
Received at the War Department
at 8:51, April 5, 1941.

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London, filed 14:00, April 5, 1941.

1. British air activity over the Continent.

a. Daylight April 4. British pursuit squadrons made two low-flying attacks on German airfields in occupied France immediately opposite the Dover Straits.

b. Night April 3-4. Oil storage tanks at Rotterdam and the harbor facilities of Ostend were the target of 27 British bombers. A total of ninety heavy and medium bombers attacked two German ships still in Brest harbor (presumably the GNEISENAU and SCHARNHORST, 26,000 tons—Q-2). Near hits and fires were observed but definite damage was not reported.

2. German air activity over Britain.

a. Night of April 4-5. Scattered attacks were made in the London area, the vicinity of Birmingham, East Anglia and Lincolnshire, without any reports of damage. Heavier attacks were made on Portsmouth and Southampton, with still more serious raids on the vicinity of Bristol and Avonmouth.

b. Daylight April 4. German activity was limited to weather reconnaissance and raids on shipping off the English coast. However, four planes flew over Kent and attacks were made by single planes on the airfield at Northolt in the London area, and on Yorkshire, Thetford, St. David's head, Rosehearty, and Penzance.

c. Night of April 3-4. Fifty planes took part in raid on Bristol. Serious damage was limited to the National Salted Company plant which is knocked out.

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infinitely. Loss of life small.

3. Air losses, British theatre.

a. British. Night April 3-4. Five planes failed to return after attacks on French and Dutch ports.

b. German. Night April 4-5. Two planes were shot down by night pursuit balloons. Two others were probably shot down in the course of daylight raids on April 4.

4. British Air Activity, Middle East Theatre.

a. Daylight April 4 (Libya). British planes attacked by machine guns and bomb vehicles on convoy on the road between Nofilia and Maras Brega. The port of Tripoli was also attacked. (Albania) From fields in Greece a flight of six bombers scored hits on Italian army structures at Berat.

5. Air activity in Middle East Theatre. No activity reported.

6. Air losses, Middle East Theatre. None reported.

7. British Military Intelligence reports that the Italians are taking up positions at the northern end of Lake Ochrida. The troops on the Albanian-Yugoslav frontier have been strengthened by three regiments of infantry and one of medium artillery. The estimate of German air strength in the Balkans for use against Greece or Yugoslavia or both is as follows:

Reconnaissance bombers	60
Single engine pursuit	350
Two engine pursuit	78
Five bombers	205
Distance bombers	88
Total	780

including first combat reserves of planes.

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8. In the convoy (attacked April 2—G-2) while under escort of HMS Worcestershire nine freighters were sunk by submarines.

9. Daylight April 3. Two Italian destroyers were sunk and two others abandoned by their crews in the Red Sea after attack by naval planes. This leaves only three small destroyers to be accounted for in this area.

10. British authorities claim that the evacuation of Bengasi was to positions prepared in advance and was in accordance to plan. Severe losses in German mechanized vehicles were claimed.

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Paraphrase of Code Radiogram
Received at the War Department
8:37 A.M., April 5, 1941.

Belgrade, filed 23:00, April 4, 1941.

Following is most recent data available on German movements at 10 P.M. today. In Rumania there are three to four divisions in the vicinity of Temesvar. In Hungary, there is a brigade at Szegedin and a division at Kaposvar. There has not been any alteration of the forces in Bulgaria. Four German mountain divisions have crossed the boundary into Italy. The General Staff of the Yugoslav Army has asked the British to break up any German effort to land troops on the Albanian coast.

FORTIER

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General Miles
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Paraphrase of Code Radiogram
Received at the War Department
at 11:40, April 3, 1941

London, filed April 4, 1941.

In reference to your cable of March 18 requesting any observed deterioration in German aircraft and accessories resulting from lowered standards of material, workmanship or other causes, or any reduction in octane rating of aviation gasoline or standards of engine lubrication, you are advised that the following is British observation:

1. Lubricating oil is continued in use longer than in the case with the British but the difference is not as obvious as it was six to eight months ago.

2. No cases of general or specific reduction in standards of German manufacture have been reported by the British. Wood has replaced light metals in making collapsible paddles and oars, part of the equipment of rubber boats; however it is believed that the plants which formerly made them of wood are now busy turning out planes and accessories and that the change is due to this, not to any lack of materials. In aircraft accessories standardization has gone a long way. Low grade steel has replaced aluminum in containers for incendiary bombs, but the additional three pounds weight (to sixteen pounds) is the only material difference and there is a gain in simplicity of manufacture of the new type.

3. Instead of lowered octane standards for German aviation gas, there has been on the other hand a continual betterment. During October 1940, 90 and 91 octane gasoline was being used against 87 and 88

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octane at the end of 1939. British and German standards for petroleum products are almost identical and no evidence is available which points to a reduction of standards of the latter, either from point of view of failure of supplies or workmanship.

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Paraphrase of Coda Radiogram
Received at the War Department
at 10:44, April 8, 1941

Rome, filed April 8, 1941.

It has been reported although not confirmed that German troops are departing for Albania from Italian Adriatic ports.

FISKE

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Secretary of War
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G-2/2657-220
No. 358

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

SITUATION REPORTI. Western Theater of War.

Air: German. A fairly strong attack was made last night on southwest England, with Bristol the principal objective.

British. Normal offensive activity on the night of the 4th-5th. The "Schornhorst" and "Neisenu" were again attacked at Brest. Raids were made on Rotterdam and on the Ruhr.

II. Balkan Theater of War.

Albania. Artillery Activity.

Bulgaria. No change.

Yugoslavia. Revealed that complete mobilization was ordered April 1.

III. Mediterranean and African Theaters of War.

Ground: Libya. German and Italian troops have occupied Bengazi and advanced beyond the city.

Abyssinia (Ethiopia). British troops are approaching the river Awash, about 100 miles east of Addis Ababa, where it is probable the final Italian stand will be made.

Eritrea. The British advance to Massawa is temporarily delayed due to demolitions.

Naval: The Italians have lost five destroyers in the Red Sea the past few days.

Air: Axis. Harassing attacks on troops in Libya and on an airfield in Crete.

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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April 5, 1941
10:05 a.m.

H.M.Jr: Hello.

George
Haas: Good morning, Mr. Secretary.

H.M.Jr: George.

H: Yes, sir.

H.M.Jr: If you get any call from Harry Hopkins to get into this defense thing any more than what you are, I don't want you to accept it without first talking to me.

H: Fine.

H.M.Jr: Because I think it's a mistake. At least, before you do anything I want to talk to you about it.

H: Fine. I won't do a thing.

H.M.Jr: I understand he wants us to do it and I just don't think that you can carry it and carry the rest of the Treasury load.

H: Fine.

H.M.Jr: But at least we'll find out what he wants - but don't accept anything, please, without talking to me.

H: Fine. I won't make a move without talking to you. All right. Thank you.

April 5, 1941
10:20 a.m.

H.M.Jr: Hello.

Aubrey
Williams: Good morning. This is Aubrey Williams.

H.M.Jr: Hello, Aubrey. You're quite a stranger.

W: Yeah, I haven't bothered you for a long time.

H.M.Jr: Yeah. What's the trouble? Run out of money?

W: No. (Laughs). That was kind of a hard one. Say, there is a situation that is developing here with regards to this whole matter of training and labor supply that I think has gotten into such a serious state of affairs that I would like awfully much if you would give me a little bit of time to lay it out before you and then you can make up your mind whether you think it is serious or whether you want to get into it or whether you want to show me the door.

H.M.Jr: Well, I'll be glad to do that next week.

W: Well, I think that it is of such moment and I've been unable to get to the President about it and what I'm doing now - I'd have to ask you for the time being just to between you and me.

H.M.Jr: O.K.

W: But it is a major situation and I think so serious that something of real character has got to be done or this thing is just going to be nothing.

H.M.Jr: Well, I'll give you a ring the first thing next week, Aubrey.

W: You won't forget me.

H.M.Jr: I positively won't.

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W: All right.
H.M.Jr: Be glad to see you.
W: Fine.
H.M.Jr: Good-bye.
W: Good-bye.



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

April 7, 1941

MEMORANDUM FOR THE FILES:

Conference at the White House, Saturday afternoon, April 5

Those present besides the President were: Vice President Wallace, Secretaries Morgenthau and Wickard, Mr. Smith, Director of the Budget, and Mr. Ball.

The subject of this conference was in the main the increase by the Senate of a net amount of \$368,000,000 in the Agricultural Appropriation Bill over the Budget.

The President started out by discussing the ever normal granary, prices, and parity. He said that he wanted to make certain that we did not allow agricultural prices to go above parity and that we should very definitely establish either parity or some price just below parity as the ceiling. He asked Secretary Wickard if he had not told him recently that the farmer is now getting less than 10¢ for his cotton. He said he could not quite understand this as cotton was quoted in the morning paper at 11.11¢ per pound and he was quite certain that the farmer on this basis would receive more than 10¢. After a great deal of discussion, it developed that cotton had gone up in the last three weeks more than three-fourths of a cent per pound, and that Secretary Wickard's statement was based on the old price level.

Secretary Wickard said that he was worried about the price of wheat. He is in a position where he can hold corn, but if word gets out that the Administration is in favor of 100% parity loans, as contemplated by the Bankhead Bill, it would be impossible for him to hold corn prices. He thought that to allow the price of corn to advance so as to go to parity might be quite disastrous at this time, and that something should be done to even hold the price of wheat in line. The President said the Secretary of Agriculture should prepare for him a table showing what wage increases had been made during the past year and how they compare with increases in agricultural commodities.

Secretary Morgenthau then called attention to the fact that while we had been buying a substantial amount of agricultural commodities for relief purposes during the past eighteen months, he was wondering if the agricultural commodities to be purchased under the Lend-Lease Act could

not to some extent take the place of these relief commodities. The President said that they could in part, but not for all of the purchases, as the British had been purchasing some agricultural commodities in this country during the war.

The President then raised the question as to why do loans at parity cost the Government anything. He said that we now make loans at 75% of parity and then we give the farmer the parity payments, which in effect is the difference. It was thought that the cost over and above these payments would represent interest on borrowed money, storage charges on the commodities, and the transportation from storage to market, all of which would constitute a substantial sum.

The Secretary then asked if it were contemplated that the loans at parity would include the benefit payments. The President said that if we made loans at parity, we should eliminate so far as the basic commodities are concerned the parity payments and also the benefit payments.

Mr. Smith raised the following question: if you adopted this program as a policy, would it not interfere with the program of restricting production for the purpose of maintaining some price control. The President said, yes, it would, and that this would have to be taken into consideration and he did not want to break down the soil conservation program.

Secretary Wickard said that he would like to see a bill put through Congress which would definitely provide that the Government make parity loans on a basis of 75% of parity. The Vice President asked Secretary Wickard if he wanted this mandatory or discretionary. Wickard said that he wanted it mandatory. It would relieve the Agriculture Department of a lot of responsibility and a great deal of pressure if it were made mandatory.

The President asked what is the parity of cotton. Secretary Wickard said that parity is 15.8¢ per pound and 75% of this would be 11.9¢. The present parity payments are approximately 2.75¢, which brings the total payment and loan on the cotton up to about 14.65¢ per pound.

Secretary Morgenthau, in order to get the specific question before the conference, asked the President if all he wanted to decide was the question of whether or not Congress in passing the Agricultural Appropriation Bill should not keep within his budget. The President said that he thought we should do that and a little more. Secretary Wickard said that we should get a bill through authorizing loans on 75% of parity on all crops but it was important that we get some action on the Appropriation Bill now in Congress. The President suggested that some of those present get in touch with McCormack and Rayburn of the House and see what the sentiment is and try to work out a program for the House conferees. He thought it might be possible then to talk with the Senate leaders to see where this program might get in the conference on the Appropriation Bill.

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The Vice President said that he assumed the President wanted us to work out a program on the whole agricultural matter and present it to him for consideration. The President said that he thought that might be the best plan and he would talk to the leaders, but he thought we should talk with McCormack and Rayburn about the bill as passed by the Senate. There were no directions as to which persons should see the leaders, but I believe it was assumed that Secretary Wickard and Director Smith would do this.

sub

April 5, 1941
5:12 p.m.

H.M.Jr: I spoke to the President and suggested this thing (1) that he should not put in an Army fellow, see, and he said absolutely that I was right.

Ed
Foley: Yeah.

H.M.Jr: He talked about Dick Fuller. You don't know him but I know him; he'd be all right. Then I said, now, what about writing in this regulation that they have to look up to all Federal laws. He said, why sure he'd be glad to do that. Now, I'm to get him that in the morning.

F: Yeah.

H.M.Jr: How can I do that?

F: Well, Lube hasn't sent over that clause of his yet.

H.M.Jr: Well, now would you carry the message to Garcia to get the thing from Lube and see then that I can get it somehow in the morning with a little note to the President, something like this: "My dear Mr. President: This is the suggestion I talked to you about and I got it from Lubin." I told him that Lubin had it.

F: Yeah.

H.M.Jr: And the thought we had in mind is that from now on all Federal contracts include the following statement and then say that we can't do it in Procurement until we get legislation and we're going to ask for the necessary legislation.

F: All right.

H.M.Jr: I told him that and he said that was all right.

F: Good.

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H.M.Jr: I tell you: I think if you could get it to me, oh, if I could have it by noon - that won't make you get up too early and go to church.

F: Oh, I can do that.

H.M.Jr: I think if you could get it to me by noon at the house, I could sign it and I'll send it down to him.

F: All right.

H.M.Jr: But he said he'd like to have it the first thing tomorrow. Now I wonder why in the hell Lube hasn't come through.

F: Well, I don't know. I'll see if I can't get hold of him right away.

H.M.Jr: Well, tell him gosh ding it he's just got to, that's all. Do you suppose he got cold feet for some reason?

F: Well, I don't know. I haven't any idea.

H.M.Jr: Well, anyway, I want it at the house tomorrow - if I can have it there by noon tomorrow.

F: All right.

H.M.Jr: And with an accompanying letter and so forth for the President.

F: All right.

H.M.Jr: Then I'll shoot it down. I'll leave it to you what to say.

F: All right. I'll get it.

H.M.Jr: But his attitude was - he didn't say it in so many words but his attitude was, well, what the hell, isn't that in the contracts?

F: Well, I guess it has never come to his attention.

- 3 -

H.M.Jr: Well, that's just the point. But I got over no general, no admiral will be used.

F: Well, I think that's fine. I think the least disturbance there from ordinary operation

H.M.Jr: He's in complete sympathy with that.

F: the better.

H.M.Jr: Right.

F: O.K. I'm going to go to that dinner tonight.

H.M.Jr: Oh, are you. Wonderful.

F: Yeah. Lowell Mellett asked me to go.

H.M.Jr: Oh, that's nice.

F: So I may see you there.

H.M.Jr: Yeah. Well, that's nice.

F: And I'll put in a call for Lubin right away.

H.M.Jr: Right-o.

F: O.K., Mr. Secretary.

H.M.Jr: Good-bye.

April 5, 1941
5:20 p.m.

H.M.Jr: Hello.

Operator: Mr. Purvis.

Arthur Purvis: Henry, sorry to trouble you, but I thought you might be interested in seeing a man who is here from India, who knows the part that India is playing in the picture. He happens to be coming to my place at 6:00 o'clock and I wondered whether by any chance you might be free to run across.

H.M.Jr: Well, I'm sorry. My father got in at 1:00 and I haven't seen him yet.

P: No. I was rather hoping he might come too as a matter of fact.

H.M.Jr: Well, I tell you, I've been at the White House all afternoon and I'm always frank - I'm a complete wreck.

P: Yes. I just thought I'd ring on the chance.

H.M.Jr: Well, this is this man that you spoke - this Indian isn't it?

P: That's it.

H.M.Jr: Well, I'd love to meet him but just now - I'm at the Treasury, I've been at the White House all afternoon and I'm

P: Well, it's not as important as that. You see, I just rang on the chance.

H.M.Jr: Well, it's terribly nice of you and if you don't mind my being that frank

P: Not a bit. That's exactly what I wanted.

H.M.Jr: And we are looking forward to tomorrow night.

P: Yes, fine. Good.

H.M.Jr: Thank you, Arthur. Try me again please.

P: Thank you.

THE WHITE HOUSE
WASHINGTON

April 5, 1941

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.

- DESCRIPTION OF 250-FOOT CUTTERS -

VESSEL NAME	YEAR BUILT	BEAM MOLDED	DRAFT MAX.	DIS-PLACE-MENT	GROSS TONS	HULL MATER-IAL	SPEED KNOTS	H. P.	POWER	FUEL	FUEL OIL CAP.	CRUISING ECON. 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
SEKAGO	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
CHELAN	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 5, 1941

Regraded Unclassified

Sample List of Defense Articles
Which Are Not Arms, Munitions
And Implements of War

- - - -

The following is a list of items which are representative of those which American merchant vessels may carry to 1(a) proclamation areas (but not through combat areas) under the Neutrality Act:

NEAR EAST-BRITISH LIST

<u>Telephones and Wireless</u>	-	Field telephone sets as used by U.S. Army. Telephone exchanges. Heavy field cable. Wireless stations.
<u>Leather Goods</u>	-	Army shoes. Sole leather.
<u>Tents</u>	-	Army Pup Tents.
<u>Horses and Mules</u>	-	
<u>Steel</u>	-	All (excluding armor ship plate).

- 2 -

<u>Trucks, Tractors and Accessories</u>	-	1-1/2 ton trucks. Tires. Tubes. Scout cars (must not be armored). Medium tractors.
<u>Petroleum</u>	-	Lubricating oil.
<u>Tools and Dies</u>	-	Saw blade segments. Spare sets of chasers. Landis bolt chasers. (State Department regulation says forgings, castings, and machined bodies for any arms, ammunition and implements of war which have reached production stage when they are identifiable as such may not be sent.)
<u>Instruments</u>	-	Carbon dioxide testers.
<u>Chemicals</u>	-	Magnesium powder. Magnesium metallic (Electron). Tungsten powder. Camphor. Antimony.
<u>Other</u>	-	Mercury. Pentrit. Graphite. Paraffine wax. Oleum. Aluminum. Zinc.

- 3 -

OTHER LISTS

Miscellaneous (Red
Cross or Greek War
Relief have shipped
such in past).

- Dietary foods.
Canned foods.
Medical supplies.
Foodstuffs.
Clothing.
Quinine.
Surgical dressings.
Doses of anti-tetanus.

Other Items

- Diesel engines.
Pipe line.
Mack trucks.
Truck spares.
Scrapers and rooters.
Trail builders and spares.
Tire chains.
Harrows and parts.
Tractors.
Road building equipment.
Water tanks.
Telephone wire.
Bearings.
Aniline oil.
Generating sets.
Carbon steel.
Alloy steel.

SSM:aja
4/5/81

APR 5 1941

MEMORANDUM

To: Mr. Harry Hopkins
From: O. S. Cox
Subject: Shipments Under the Neutrality Act.

In reexamining the Neutrality Act in the light of present circumstances, consideration might be given to the following possibilities:

(1)

Undocumented Vessels

Undocumented United States Army, Navy and Coast Guard vessels can probably carry arms, munitions, implements of war, and any other goods disposed of under the Lend-Lease Act, to any port in the world.

It is my understanding that most, if not all, of the vessels owned by the United States Army, Navy, and Coast Guard are undocumented.

A thorough legal memorandum is being prepared on this subject.

- 2 -

(2)

Other Public Vessels

In all probability, documented public vessels can be used to carry any defense articles to any port in the world.

(3)

Shipment of Things Other Than Arms, Munitions
And Implements of War in Private American Vessels

There is a possibility that a material load can be taken off British shipping by a fuller utilization of private, documented American flagships for the shipment of certain defense articles under the Lend-Lease Act to the East and other ports in the world.

The definition in the Neutrality Act of arms, munitions and implements of war is very technical and limited. It does not include many things which are vitally necessary in the prosecution, for example, of the war effort in the Middle East. Such things as tractors, trucks, scout cars, clothing, machine tools, road machinery, etc, are not classified as arms, munitions and implements of war under the Neutrality Act.

- 3 -

This means that, as a practical matter, defense articles such as these can be shipped in private American flagships --

1) To any port on the Pacific or Indian Oceans, including the China Sea, the Tasman Sea, the Bay of Bengal, the Arabian Sea, and any other dependent waters of either of such oceans, seas or bays; and

2) To any port on the Atlantic Ocean, or its dependent waters, south of 30° north latitude.

The only exception is that such ships can not land at a port which is included in a combat area, or travel through such an area.

To illustrate the effect of this general language, a private American vessel can carry oil, trucks, tractors, etc. to British ports in French West Africa, such as Bathurst and Takoradi.

Annexed is a list of the items, based on the list of the British requirements in the Near East, which can be shipped in American vessels to the ports set out above.

- 4 -

(4)

Ports to Which Arms, Munitions and Implements of
War Can Be Carried by Private American Vessels
If Non-Legislative Changes Are Made in the
State Department's Regulations or in the
President's Proclamation

There are two major possibilities in the effective shipment of defense articles under the Lend-Lease Act:

1) A revision of the State Department's regulations to make them accord more accurately with the President's Proclamation on prescribed areas; and

2) Changes in the President's Proclamation on both prescribed areas and combat areas.

The State Department's rules, for example, define the United Kingdom much more broadly than was probably warranted by the orthodox definition of what is included in the United Kingdom. Thus, for example, places like the Anglo-Egyptian Sudan, and other parts of the British Empire, were stated by the State Department, in accordance with an oral request of the Commerce Clearing House, to be included within the term

- 5 -

"United Kingdom". A change in this finding could probably be effected by the State Department itself.

It is possible that changes could also, as a practical matter, be effected in the combat area by Presidential proclamation. Thus, for example, it could well be that the President, by proclamation, would want to change the combat area at the point where the Arabian and Red Seas meet, so that to get to Aden it would not be necessary to pass through a combat area.

Cox

OSC:djb
4-5-41

TO:

Secretary Morgenthau 153

① Launchlin Currie asked
for this memorandum this
morning.

5 April 1941

OC

MR. COX

APR 5 1941

MEMORANDUM

- - -

Shipments to Rangoon Under the Neutrality Act

(1)

Undocumented Vessels

Under the Neutrality Act of 1939, undocumented Army, Navy, and Coast Guard vessels may carry any materials, including arms, ammunition, and implements of war, to Rangoon.

(2)

Other Public Vessels

In all probability documented public vessels can be used to carry any defense articles to any port in the world.

(3)

Documented Private Vessels, Now

American merchant vessels may carry materials which have not been proclaimed by the President under the Neutrality Act to be arms, ammunition, and implements of war. The President has proclaimed only a very

- 2 -

limited list of items to be such. Therefore, cargoes consisting, for example, of unarmored trucks, food, clothing, radio and telegraph equipment, steel, oil, machine tools, tractors, road-building equipment, and the like may be carried on American merchant ships to Rangoon.

(4)

Undocumented Vessels, Under Revised Regulations

Rangoon is listed as a prescribed port for the shipping of arms, ammunition, and implements of war in American merchant vessels only because of a State Department ruling that it is part of the "United Kingdom", as that term is used in a Proclamation in which the President listed those countries which were belligerents. It is possible that the State Department could amend that ruling, removing Rangoon from the prescribed classification. In that case, American merchant vessels might carry cargoes of all sorts, including arms, ammunition, and implements of war, to Rangoon.

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE April 5, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£13,000
Purchased from commercial concerns	£ 6,000

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	£1,000

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

Canadian dollar	13% discount
Swiss franc (commercial)	.2321
Swedish krona	.2384
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2320
Brazilian milreis (free)	.0505
Mexican peso	.2066

In Shanghai, the yuan was unchanged at 5-5/16¢, and sterling was again quoted at 3.94-1/2.

We sold \$523,000 in gold to the Central Bank of the Uruguayan Republic, which was added to its earmarked account.

The Federal Reserve Bank of New York reported that the Bank of Canada, Ottawa, shipped \$3,027,000 in gold from Canada to the Irving Trust Company for account of the Banque Mellie Iran, Teheran, for sale to the New York Assay Office.

The Bureau of Foreign and Domestic Commerce reported on April 4 a shipment of \$396,000 worth of foreign silver coin, sent by the Guaranty Trust Company, New York, to the Netherlands Indies Government, Batavia, Java. Including this shipment, a total of \$1,091,000 worth of silver coin has been shipped to the Javanese Government under its order to purchase \$2,100,000 in silver for conversion into coin.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 5, 1941

TO Secretary Morgenthau
FROM Alan Barth

DEFENSE SAVINGS BONDS AND BANKERS

Here is an excerpt from a report submitted to Under Secretary Bell on the Regional Conference of the American Bankers Association at Louisville on March 21, which I attended in accordance with your instructions:

"While not particularly impressive in his formal speech, Mr. Edwards was extremely effective in talking with the bankers informally. He talked with them as a banker, in their own language and from their own point of view, plainly commanding their confidence and their cordial good will. He seemed ideally suited for a liaison role between the Treasury Department and the banking community. From the outset there appeared to be a complete readiness to cooperate with him."

The Conference adopted without a dissenting voice a resolution to support the Treasury program. There was uniform approval of the sale of bonds to the public as a useful means of checking inflationary tendencies and of enlisting popular participation in the defense program.

Two criticisms of the Treasury program were expressed: (1) Some, but by no means all, of the bankers argued that a higher interest rate would be necessary to attract widespread public purchasing; (2) All of the bankers urged that banks be allowed to issue savings bonds directly to purchasers in order to compete with Post Offices on an equal footing.

AB

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

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

NO.: 1273.

FOR TREASURY FROM HEATH.

According to its statement for the end of the first quarter of 1941 the investment holdings of the Reichsbank showed a large increase during the last week of March which was however about the same as in February when an unusually large expansion also occurred. Total investments stood at 15,775 million marks (commercial and treasury bills 15,367; eligible securities 32; collateral loans 23; miscellaneous securities 353) compared with 14,374 million marks on March 22 and 15,693 million marks on February 28. Holdings of miscellaneous assets (including the Reich's operating credit) stood at 1246 million marks compared with 1464 million marks on March 22 and 1059 million marks on February 28.

The amount of Reichsbank notes in circulation reached a new record of 14,188 million marks on March 31 as compared with 13,976 million marks on February 28. Sight deposits at 2127 million marks were also larger than at any time since the end of December when they stood at 2561 million marks. The fact that during the past few months the expansion of note circulation has been relatively moderate is not wholly

- 2 -

wholly due to the efficiency and severity of the controls on prices and private expenditure. It is also attributable to the fact that the countries under military occupation by Germany are satisfying the currency requirements of an increasing number of Germans in uniform.

MORRIS.

EA:LWW

MMM

GRAY

Berlin

Dated April 5, 1941

Rec'd 9:13 a.m.

Secretary of State,
Washington.

1274, April 5, 10 a.m.

My telegram No. 1225, April 2, 1 p.m.

Following the cancellation of the foreign exchange restrictions between the Reich and the Netherlands the Reich Minister of Economics has issued an order effective immediately prohibiting the importation of Dutch currency into the Reich from foreign countries, exception will be made from the Netherlands.

German customs officers are allowed however to permit the importation of 7.50 guilders per person which corresponds to the free limit of 10 reichsmarks for German currency. The official reason given for this order is to strengthen existing regulations prohibiting the importation of guilders into the Netherlands from countries other than Germany.

INFORM COMMERCE AND TREASURY.

MORRIS

HPD

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA 865.516/211

April 5, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses two copies of telegram no. 443 dated April 2, 1941 from the American Embassy at Rome, regarding the annual report of the Governor of the Bank of Italy.

Enclosures:

No. 443, April 2,
from Rome. (2)

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BES

PLAIN

ROME

Dated April 2, 1941

Rec'd 5:35 p.m.

Secretary of State,
Washington.

443, Second.

In the advance summary for newspaper use of the annual report submitted by the Governor of the Bank of Italy at the annual meeting held March 29 the most conspicuous feature is the absence of figures showing the bank's gold reserve and its note circulation such as have always appeared prominently in similar advance summaries given out in previous years.

In his general discussion the Governor expresses the following views.

Accompanied by a perfectioning of the clearing system the tendency toward the regrouping of national economies along continental lines will continue especially in Europe. under the influence of the Axis and in Asia under that of Japan. Although in Europe's overseas trade postwar requirements for economic reconstruction may result in balances which must be settled by payments in gold only the clearing centers would in such case have to maintain gold reserves. With perfectioning of the system the gold

RESERVES

-2- 443, April 2, 1941, from Rome

reserves of the banks of issue of the other countries would lose all reason for existence.

He declares that the establishment of a reserve in foreign exchange implies faith in the country whose exchange is accumulated and with obvious reference to the United States he observes that the impression will not soon be erased which was caused by the freezing of holdings of countries which were neutral and were not involved in the European conflict.

The unit best qualified for a world currency was the dollar but the possibilities of the latter have been notably limited through isolation from the European market and through the attitude assumed by the United States.

With regard to the bank's operations few facts are revealed. The Embassy has requested copies of the full report but is informed that this will not be available for two or three weeks. When received a more complete analysis will be submitted.

PHILLIPS

NPL

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

Strictly Confidential

DATE April 5, 1941

TO Secretary Morgenthau
FROM Mr. Wiley

FBI reports:

April 2. The Soviet bank accounts at the Chase at the close of business March 14, 1941, totalled \$36,358,088.99 (these are the accounts of the State Bank of the U.S.S.R., Amtorg, Bank for Foreign Trade, Moscow Narodny of London, and the Banque Commerce pour l'Europe du Nord, Paris).

April 3. The major food package companies and travel agencies (12 in number) in New York City doing business with Germany showed deposits for the period July 1, 1939, to February 28, 1941, inclusive, of \$10,862,135.74.

FW
me

COPY
British Embassy,

Washington, D. C.

April 5, 1941.

Dear Merle:

I have now got clearer details of our proposed arrangement regarding the Central American countries which I mentioned to you and which was referred to at our last meeting on China.

1. The arrangement will apply to the ten countries - Costa Rica, Domingo, Haiti, Ecuador, Guatemala, Honduras, Salvador, Nicaragua, Panama and Mexico. It will consist in the opening of Central American sterling accounts for banks in these countries.

2. Sterling will be freely transferable between various Central American accounts, and the balances in existing sterling accounts (which are very small) of residents in the ten countries may be freely transferred to Central American sterling accounts.

3. Sterling will not be transferable between Central American accounts and U.S. registered accounts.

4. U.S. dollars will not be given in exchange for Central American sterling. It is anticipated that the local sterling dollar cross rate will not diverge materially from 4.02 as the supply of sterling in these ten countries is likely to be short.

5. Exports from the United Kingdom to the ten countries must be paid for either in U.S. dollars, or in sterling purchased against U.S. dollars or in Central American sterling. As regards imports into the United Kingdom from the ten countries, we should prefer to pay in sterling credited to Central American accounts; but we expect in actual fact that most of the business would be paid for in U.S. dollars.

Yours sincerely,

(Signed) Jerry Pinsent

Mr. H. Merle Cochran,
U.S. Treasury,
Washington, D. C.

lap

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

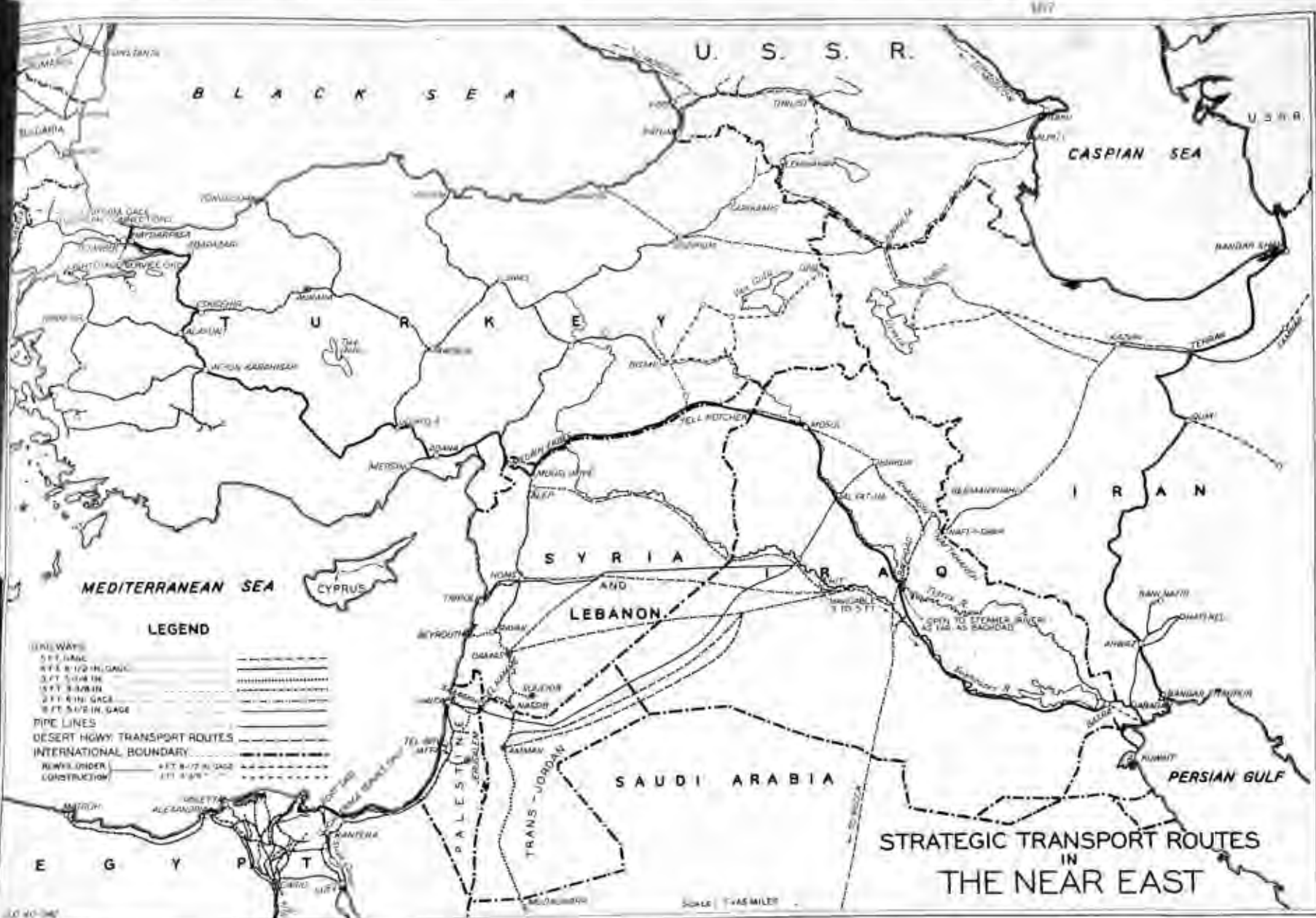
DATE April 5, 1941

TO Mr. White

FROM Mr. Kamarch

Subject: The Port of Aden

1. There is an outer harbor and an inner harbor in the port of Aden, both offering good anchorage to a large number of vessels. The inner harbor and mooring basin are entered by a channel 9,000 feet long and 600 feet wide. The depth in the channel is 32 feet 6 inches at low water at Indian spring tide and 38 feet 6 inches at high water at Indian spring tide. The mooring basin is 6,200 feet long with a depth of 33 feet at low water at Indian spring tide with four berths at 35 feet.
2. There are no quays at Aden. Vessels discharge and load cargo using their own gear into and from the lighters placed alongside them. More than 100 lighters varying from 70 to 320 tons are available. The Port Trust owns several cranes which can lift 5 tons and one floating crane which can lift 20 tons.
3. Aden is a fueling port and both coal and oil are available. Coal is brought alongside ships in lighters and can be put on board at the rate of 100 tons an hour. There are five oil fuel berths where fuel is supplied by means of submerged pipe lines and floating terminals. The maximum rate of supply is 800 tons per hour.
4. The port has some facilities for repairing vessels and machinery. Propellers are refitted and stern tubes rebushed. There is a special warehouse and storage place for explosives and inflammables.
5. Vessels can enter the port normally at any time as day and night service is maintained.
6. The principal commercial function of the port has been to act as an entrepot for raw materials from all of the surrounding countries. In a normal year 1,500 vessels, with a total net tonnage of over 6 million tons, call at the port.



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This draft prepared by Mr. Foley, Mr.
John and Mr. Cox and is the first draft.

The well established policy of the Nation is to get as fast as possible all of the guns, tanks, ships, and airplanes which are vitally necessary for our defense and the defense of those nations who are resisting the forces of aggression. We are determined to attain this major objective consistent with our democratic way of life. To attain it, we must eliminate as quickly and as efficiently as possible all of the factors which hamper the production of military and naval equipment--and we should do this at the earliest possible stage.

For the Army and Navy to award contracts to any financially irresponsible manufacturer or to a person who would violate a Federal criminal statute by bribing an official to obtain such a contract would be unwise. As a practical matter, it would mean that such a manufacturer probably would not deliver the quality of military or naval equipment required--or deliver them in the fastest possible time. To award a contract to a manufacturer who has a long past history of violations of all of the Federal labor laws and a long past history of strikes in his plants would likewise be unwise: The chances are that the production of the

defense articles would be slowed up by labor troubles.

To meet the major objectives of getting the best planes, guns, ships, and tanks as fast as possible and, at the same time, being fair to the employees and the employers, the policy of the Government will be further carried out by a new provision in all defense contracts. By the terms of this provision, all employers receiving defense contracts agree that they will comply with all labor laws of the United States. These labor laws were intended to avoid strife between employers and employees and to afford a peaceable and reasonable means of resolving labor disputes.

Only those contractors who agree to comply with all Federal laws affecting labor will receive awards of contract, unless the need for National defense of a particular prospective contractor's facilities or services may be such that the failure to award the contract to him would substantially interfere with the accomplishment of the National defense program. Thus, where alternative sources of production are available, the Government can

- 3 -

determine, where it is reasonable to do so, that a contractor who violates the labor laws of the United States should not be given a defense contract. But, if the manufacturer's plant or services are necessary for defense purposes, the Government can award him the contract.

It has been the experience of the Government that only a very small percentage of the manufacturers of defense articles in this country are unwilling conscientiously to comply with the labor laws of the country. It has similarly been the experience of this Government that only a very small minority of the rank and file of labor are interested in subverting the labor laws of this country. Therefore, a contract provision of the kind that will be used not only meets with the experience of both employees and employers, but states in clear contractual form the policy of the Government to carry on the defense program without interruption and at top speed and to resolve labor disputes fairly and peacefully.

April 6, 1941.

Dear Mr. President:

In the light of our conversation of yesterday, about putting a provision into defense contracts to the effect that the contractor agrees to comply with all Federal labor laws, I suggest that language be employed in all negotiated defense contracts substantially as follows:

"To avoid delays and stoppages in the production and maintenance of essential defense supplies and services, the contractor agrees that it will comply with all Federal laws affecting labor, and the contractor shall cause an appropriate provision to be inserted in all subcontracts relating to this contract to insure compliance with this provision."

This is substantially the clause which Lubin, in the early stages of the defense program, endeavored unsuccessfully to have included in Army and Navy contracts. In my opinion, its presence in future contracts would have a wholesome effect upon labor, would serve to clarify issues in the public mind, and would state affirmatively what the manufacturer is

- 2 -

already under a duty to do.

In addition, this clause would give effect to the principles governing the awarding of defense contracts and to the labor policy adopted by the Advisory Commission and enunciated in your September 13, 1940 message to Congress. For your convenience, I am enclosing a copy of this message.

At the present time there is legal doubt whether such a provision can be included in many of the defense contracts of such agencies as the Maritime Commission, the Coast Guard and the Procurement Division of the Treasury which now have to be let by competitive bidding.

I have had prepared a draft of a bill which would enable all defense contracts to be placed with or without competitive bidding. A copy of this draft is submitted with this letter. When such a bill is enacted, any possible legal doubt as to the power to include the labor clause set forth above in all defense contracts would be removed.

To implement the foregoing policy, appropriate instructions to purchasing officers should be issued

- 3 -

by the head of the department concerned somewhat as follows:

"Only those contractors who agree to comply with all Federal laws affecting labor will receive awards of contract, unless the need for National defense of a particular prospective contractor's facilities or services may be such that the failure to award the contract to him would substantially interfere with the accomplishment of the National defense program."

I shall be available if you want to talk to me further.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President

The White House

Enclosures 1. 4/6'41 memo to the President explaining a draft bill to extend and make uniform to all Gov't agencies the authority to enter into defense contracts without advertising or competitive bidding and give statutory priority to such contracts.

Approved by:

ader Lubin 4/6'41

RHFJr/OAC/IL/GLK/fm

Typed 4/6'41 (5)

2. Draft of proposed statute.

3. House Document # 950 -President's message of 9/13'40.

APR 6 1941

MEMORANDUM FOR THE PRESIDENT

The enclosed draft bill would extend and make uniform to all Government agencies the authority to enter into defense contracts without advertising or competitive bidding and give statutory priority to such contracts.

To date the legislation on negotiated contracts and statutory priorities for defense purposes has been enacted piecemeal and differs in its application. While the War and Navy Departments have rather substantial, though different, powers in these respects, the other agencies of the Government participating in the defense program have little or no power to negotiate contracts or obtain priorities.

The power to give any or all defense contracts priority would be vested in you and could be exercised through such officers or agencies as you may designate.

- 2 -

The authority granted by this bill would terminate on June 30, 1943, and would be supplemental to that already in existence.

I believe legislation along these lines is necessary to the prompt and effective carrying out of the defense program.

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A BILL

Ye authorize the heads of the various departments and agencies of the United States to enter into contracts without advertising or competitive bidding when it is in the interest of the national defense, to authorize the President to give priority to deliveries under such contracts, and for other purposes.

Be it enacted by the Senate and House of Representa-

tives of the United States of America in Congress assembled,

That, whenever he deems it in the interest of the national defense, the head of any department or agency of the United States may enter into contracts (which he is otherwise authorized to enter into by or pursuant to law) without advertising or competitive bidding. No contract which would otherwise be subject to the provisions of the Act of June 30, 1936, 49 Stat. 2036 (U.S.C., Sup. V, title 41, secs. 35-45) shall be exempt from the provisions of such Act solely because of being entered into without advertising or competitive bidding pursuant to this section. The cost-plus-a-percentage-of-cost system of contracting shall not be used under this section, but this shall not be construed to prohibit the use of the cost-plus-a-fixed-fee form of contract when such use is deemed necessary by the head of the department or agency involved. The head of any department or agency involved is authorized to exercise the authority conferred on him by this section through

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any officer of his department or agency.

SEC. 2. Delivery under any contract entered into without advertising or competitive bidding pursuant to section 1 of this Act shall, in the discretion of the President, take priority over all deliveries for other public account, for private account, or for export. The President is authorized to exercise the authority conferred on him by this section through such officers or agencies of the Government as may be designated by him for that purpose.

SEC. 3. The head of each department or agency shall report every three months to the Congress the contracts entered into by his department or agency without advertising or competitive bidding pursuant to section 1 of this Act.

SEC. 4. This Act shall be supplementary to, and not in lieu of, all other provisions of law authorizing priorities or authorizing officers of the United States to enter into contracts without advertising or competitive bidding.

SEC. 5. The authority conferred by this Act shall terminate June 30, 1948.

NATIONAL DEFENSE CONTRACTS

COMMUNICATION

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

THE GENERAL PRINCIPLES GOVERNING THE LETTING OF
DEFENSE CONTRACTS AND THE LABOR POLICY ADOPTED BY
THE NATIONAL DEFENSE ADVISORY COMMISSION

SEPTEMBER 13, 1940.—Referred to the Committee of the Whole House on the
state of the Union and ordered to be printed

To the Congress of the United States:

The National Defense Advisory Commission on September 6, 1940, unanimously agreed to and adopted general principles governing the letting of national-defense contracts. On August 31, the Commission also unanimously adopted a statement of labor requirements as a guide for contractors who have received national-defense orders from the United States Government.

I consider these two documents to be of such importance as to justify my sending them to the members of the Senate and the House of Representatives as a matter of information. The values of these policies and principles to the Government, to industry, agriculture, labor, and to the country, sectionally and as a whole, will be seen at once.

The general principles governing the letting of defense contracts follow:

The essence of the preparedness program is the getting of an adequate supply of materials of the proper quality in the shortest space of time possible. Considerations of price alone are highly important, but in the emergency are not governing.

1. Speed of delivery of all items on the defense program is essential. This means:

(a) That orders should be placed in such a manner as to insure the most efficient use of each particular facility from the point of view of the program as a whole;

(b) That proper consideration should be given to contributory industries, such as the machine tool industry, to avoid creating underlying bottlenecks;

(c) That once delivery dates are fixed, assurance be given that they will be met by the supplier.

2. Proper quality is also of prime importance. It is therefore necessary to determine first of all whether or not the supplier can meet the quality requirements, as specified. There should be a willingness on the part of both the Army and Navy, on the one hand, and of the supplier on the other to adjust specifications on a cooperative basis in order that such specifications may come as near as possible to meeting commercial standards while at the same time fulfilling the military requirements.

3. Price, while not the sole consideration, is of outstanding significance, and every effort must be made to secure a fair price. This must take recognition among other things, of determination of proper cost factors.

4. The impact of the defense program upon the consumers must be recognized. This relates to such factors as:

(a) Due regard to the necessity of protecting civilian needs and morale;

(b) Proper health and housing conditions among employees;

(c) Consideration to possible off-season production in order to dovetail the military program into production for civilian requirements. Off-season production should also lead to lower overhead and consequently to lower prices for both the consumers and the Government.

5. Adequate consideration must be given to labor. This means compliance with the principles in this subject stated by the Commission in its release of August 31, copy of which is attached hereto.

6. Undue geographic concentration of orders should be avoided, both as to procurement districts and as to industrial sections within any such procurement district. Reasons for such decentralization relate to factors of military strategy, as well as avoiding congestion that will slow down production.

7. Financial responsibility of the supplier should be examined. Ability to post a bond does not necessarily dispose of this problem. The probability should exist that the supplier will be able to continue in business, at least long enough to complete his contract satisfactorily. Further, an ability to finance himself through private sources should take preference over necessity for securing Government aid.

8. The avoidance of congestion of transportation facilities should be sought. The same applies to warehousing facilities.

9. Due consideration should be given to the adequacy of power facilities, particularly where furnished by public utilities.

10. A general preference should be given to firms having experience with so-called educational orders.

11. The moral responsibility of the supplier is important, and in some respects, fundamental. There should be evidence of honest and sincere desire to cooperate with the Army and Navy in producing what is called for, and on time, without profiteering; to assume some risks himself rather than attempting to shift all such risks to the Government; and to furnish a correct statement as to his capacity and his experience. The supplier's general standing and reputation among reputable businessmen (as distinct from his financial rating) is one index of such qualifications.

12. The Commission recognizes that competitive bidding is the better procedure in certain types of industry and circumstances. However, it is often impossible to make sure that the principles outlined above are followed when contracts are placed on the basis of price alone and are let to the lowest bidder. Therefore, in cases where competitive bidding will not fulfill the above stated needs of national defense, the Commission recommends that the use of the negotiated contract be authorized where necessary in order that these objectives be obtained in making defense purchases.

Following is the statement of labor policy adopted by the National Defense Advisory Commission:

Primary among the objectives of the Advisory Commission to the Council of National Defense is the increase in production of materials required by our armed forces and the assurance of adequate future supply of such materials with the least possible disturbance to production of supplies for the civilian population. The scope of our present program entails bringing into production many of our unused resources of agriculture, manufacturing, and manpower.

This program can be used in the public interest as a vehicle to reduce unemployment and otherwise strengthen the human fiber of our Nation. In the selection of plant locations for new production, in the interest of national defense, great weight must be given to this factor.

In order that surplus and unemployed labor may be absorbed in the defense program, all reasonable efforts should be made to avoid hours in excess of 40 per week. However, in emergencies or where the needs of the national defense cannot otherwise be met, exceptions to this standard should be permitted. When the requirements of the defense program make it necessary to work in excess of these hours, or where work is required on Saturdays, Sundays, or holidays, overtime hours should be paid in accordance with the local recognized practices.

All work carried on as part of the defense program should comply with Federal statutory provisions affecting labor wherever such provisions are applicable. This applies to the Walsh-Healey Act, Fair Labor Standards Act, the National Labor Relations Act, etc. There should also be compliance with State and local statutes affecting labor relations, hours of work, wages, workmen's compensation, safety, sanitation, etc.

Adequate provision should be made for the health and safety of employees; As far as possible, the local employment or other agencies designated by the United States Employment Service should be utilized;

Workers should not be discriminated against because of age, sex, race or color; Adequate housing facilities should be made available for employees.

The Commission reaffirms the principles enunciated by the Chief of Ordnance of the United States Army, during the World War, in his order of November 15, 1917, relative to the relation of labor standards to efficient production:

"In view of the urgent necessity for a prompt increase in the volume of production . . . vigilance is demanded of all those in any way associated with industry lest the safeguards with which the people of this country have sought to protect labor should be unwisely and unnecessarily broken down. It is a fair assumption that for the most part these safeguards are the mechanisms of efficiency. Industrial history proves that reasonable hours, fair working conditions, and a proper wage scale are essential to high production. . . every attempt should be made to conserve in every way possible all of our achievements in the way of social betterment. But the pressing argument for maintaining industrial safeguards in the present emergency is that they actually contribute to efficiency."

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,
September 13, 1940.

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Paraphrase of Code Radiogram
Received at the War Department
at 11:09, April 6, 1941

London, Filed 16:00, April 6, 1941.

1. British Air Activity Over Continent.

Daylight April 5.

Unfavorable weather conditions prevented attempts of a small flight of heavy bombers to attack German battleships in Brest harbor. On the night of April 4-5, however, large bombs were dropped by low flying planes on the ships and one direct hit was reported as well as a number of large fires. Mining operations were conducted from the air off the French Atlantic coast and airfields in the Netherlands were the target of small scale attacks, as was also Rotterdam. Medium bombers raided industrial areas at Cologne.

2. German Air Activity over Britain.

a. Night of April 5-6. Unfavorable weather conditions over France and the Netherlands reduced air activities to minor proportions. Attacks by single planes took place over Exeter, Lincolnshire and Norfolk. The Bristol Estuary was the scene of three attacks and five took place between Peterhead and Aberdeen.

b. Daylight April 5. German operations were limited to nine flights over England in which British pursuit ships took to the air but failed to make contact. Scattered raids of single planes took place at Leicester, Fraserburgh, Cardiff, Lincolnshire, Higgleswood, and Wick.

c. Night of April 4-5. Minelaying operations of major importance took place in the Humber and Thames estuaries and to a lesser extent off

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Plymouth, Milford Haven, and Falmouth. It is estimated that the following planes took part in activities of the night of April 4-5. Distance bombers 150, fighters 10, minelayers 80.

4. Daylight of April 4. In the attacks on Bristol and shipping west of the coasts of England and Scotland 50 distance bombers, 50 scouting and 10 pursuit planes are estimated to have been used.

5. Air Losses. None reported.

6. British Air Activity in Middle East Theater (Libya). No additional information is available.

7. Axis Air Activity in Middle East Theater.

a. Identifications. The bomber reconnaissance group at Cagliari, Sardinia, has been located operating between Majorca and French Africa.

8. Two German columns are attacking Greece. (1) Through defiles of the Struma River, at Belashitan and Dupel and (2) north of Xanthi. British Military Intelligence is of the opinion that the former is designed as an attack toward Salonika and the latter to cut off any operations by Turkey.

SCANLON

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

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April 7, 1941
9:45 a.m.

GROUP MEETING

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

H.M.Jr: Everybody had better keep about ten feet away from me. I caught cold going out with Ed Foley Saturday night.

Foley: And five hundred others.

H.M.Jr: Herbert, I see you escorted the Malaya in.

Gaston: They tell me that was done, yes. The problem is to keep private planes from taking pictures. I don't know that it can be done very successfully. We will have to go outside the law to do it.

H.M.Jr: Would you like to have the Marine Corps? Don't you know what Treasury does? /

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Gaston: Yes, I have learned sooner or later.

H.M.Jr: They didn't want the pictures taken, but I see that they took them anyway. How are our Coast Guard cutters coming along, the ones that are to be turned over?

Gaston: They are coming along all right. They will be ready probably the middle of this week to turn them over, and the idea is simply to have the senior captain act and turn them over to the British.

H.M.Jr: Where will the crews be, off the Malaya?

Gaston: No, they are not in yet. They are coming in the middle of this week by ship.

H.M.Jr: I understood they were coming off these cruisers.

Gaston: I don't know just where they are coming from, but I don't think it is off the Malaya. They said they didn't expect them in before the latter part of this week.

H.M.Jr: Anything else?

Gaston: We still have that German film here that came here consigned to - it is called "Seig Im Westen," "The Victory of the West." It hasn't been shown in this country yet. It is about a two hour film.

H.M.Jr: That isn't the one they showed --

Gaston: It has parts of that film in it. That dealt with the Polish war. There were just a few shots of the Polish war, but most of it is Belgium and France and the Maginot Line, and the advance through northern France.

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H.M.Jr: Is it interesting?

Gaston: It is very interesting. Of course, they pick out the parts they want to show the efficiency of movement of the men and the machines and so on, and they play down the bloodshed end of it; but there is something to be learned from it. It gives you a tremendous impression of the efficiency of their organization.

The artillerymen who looked at it said that it was the first good information they had had. Well, in fact, the Colonel there said that it is the first he had known about this big mobile gun they have. They show a gun that must be at least a six inch gun, probably an eight inch gun, on a truck, moving and firing and - firing in motion, and he said he hadn't known they had such a gun.

H.M.Jr: Well, what happens to the film?

Gaston: Well, we presumably give it back eventually to the people who imported it.

H.M.Jr: How long can you hold it?

Gaston: Of course, they want it in a great hurry, but that doesn't mean anything. We can hold it a day or two more.

H.M.Jr: Is it interesting enough to show the President?

Gaston: I do think it is interesting enough to show the President, yes.

H.M.Jr: That is U.F. --

Gaston: U.F.A. That is the initials of the German Film Trust.

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H.M.Jr: It takes two hours?

Gaston: Yes. It is twelve reels.

H.M.Jr: Is it all in German?

Gaston: No captions. It is scored for sound. The sound is in German. It has music and talk scored on the film. There is some actual - on the spot conversation of the soldiers and so on at times.

H.M.Jr: Does it show actual battle action?

Gaston: Oh yes, they do. I think it is the most extraordinary war action picture.

H.M.Jr: You know they lost, they say, about 20 photographers who were killed.

Gaston: Yes. They explain that some of it was taken by special photographic details and some of it was taken just by ordinary soldiers who had motion picture cameras.

H.M.Jr: I doubt that.

Gaston: Well, you take these portable cameras. They did have them distributed among different units.

H.M.Jr: But they said they had about 20 photographers killed in action.

Gaston: I don't doubt it. A great lot of this is taken during actual action.

H.M.Jr: Well, I will ask the President about it. You hold onto it.

Gaston: Yes, we will hold onto it.

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H.M.Jr: Who else saw it from the Treasury?

Gaston: Sam was the only one down with me.

Schwarz: I saw most of that when it was shown up on the Hill to members of Congress.

H.M.Jr: No you didn't.

Gaston: No, this is another one. It is France and Dunkirk.

Schwarz: It was cut a little differently, but it is in there.

Gaston: There is a whole lot of advertising literature along with it, big posters and so on. I am inclined to think the net effect of letting them show it may be good.

H.M.Jr: You do?

Gaston: I am inclined to think so. It is intended to be very favorable to Germany. Waesche has had some talks with Vickery of the Maritime Commission about getting ships for the Weather Patrol. The most promising thing seems to be some ships that are tied up on the Great Lakes, but it will take two or three months to get those ready. I suggested that he talk to him again about some temporary ships.

H.M.Jr: Well, what about repairs to these Italian ships? Have you got the money? Who is going to - who has got charge of it?

Gaston: We can't do anything on them until they are in some different status than now. All that I did was early last week. I suggested to Land last Tuesday that he put some men on to make surveys and they have done that in places; and they are going ahead with that, making detailed surveys of the cost.

H.M.Jr: This is since Wednesday night, and I want a progress report for the President. I am supposed to see him at noon.

Gaston: All right, I will give you a progress report.

H.M.Jr: Will you put it in Mrs. Klotz' hand to give to me for lunch?

Gaston: Yes.

H.M.Jr: He gave us that assignment Wednesday night, and I want to know where we are at.

Gaston: Well, I went to work on it Tuesday, the day before he gave it.

H.M.Jr: But nothing has happened?

Gaston: Everything that could happen, as far as I know.

H.M.Jr: But no repairs are being made?

Gaston: We can't make repairs on it. We have no authority.

Foley: We haven't got title to it.

H.M.Jr: Let's say that, then.

Foley: If you want legislation for us to take them over, we can draft it.

H.M.Jr: Well, let's say that the - I mean we are not --

Gaston: Of course, we could ignore the law and go ahead and start having castings made if that is his wish, having castings and parts made.

H.M.Jr: Where are you going to get the money from?

Gaston: Let the Maritime Commission take it out of their

funds.

H.M.Jr: Why should we do it at all, Herbert?

Gaston: If we contemplate taking the ships, acquiring them, just to expedite the work of getting them ready for service.

H.M.Jr: That is the job of the Maritime Commission.

Gaston: It is.

H.M.Jr: Well, let's get out from under them, because I don't want to be carrying it and have the President look to me and have nothing happen.

Gaston: At the very first opportunity, I sent word to Admiral Land that they could come aboard and do anything they wanted to do.

H.M.Jr: Will you and Foley give me a memorandum to go on one page to the President?

Gaston: Yes.

Foley: Before noon?

H.M.Jr: Yes. Give it to Mrs. Klotz.

Foley: Right.

H.M.Jr: Anything else, Herbert? While we are on ships, does anybody know whether any legislation has been introduced to take over these Danish ships?

Foley: No. I have got it drawn if you want to take it over.

Gaston: The same legislation could cover all of them.

Foley: Yes, it covers them all, requisitions them. Here

is a copy of the letter you signed yesterday.

H.M.Jr:

This went to the President yesterday at 2:30.

Foley:

Here is a memorandum of Bernie's talk with Stark. Stark wants to talk about the letter to Montague Norman. Here is a copy of a conversation Bernie had with Justice Brandeis about the thing. You may want to read that. Colonel Donovan told me Saturday night that Giannini had talked to him about taking a retainer in connection with the request for additional branches. He said he wanted to come in and talk about it. He said he didn't want to take a retainer if it was just a political matter, but if it was a legal matter and there was something he could do, he would take the retainer, but he wanted to come in and talk.

H.M.Jr:

How about my statement to Senator Glass? Is it ready?

Foley:

It isn't finally ready.

H.M.Jr:

When will it be ready? You have had a lot of time.

Foley:

We have been working on it.

H.M.Jr:

When will it be ready?

Foley:

We will have it ready Wednesday.

H.M.Jr:

Oh.

Foley:

When do you want it?

H.M.Jr:

Now. Why does it take so long?

Foley:

Well, we have been working on other things. I haven't gone over it with Gene Duffield. Gene

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has got some ideas, and I haven't talked to Gene about it.

H.M.Jr: Well, step on it, will you? Wednesday morning?

Foley: Yes, we can have it ready Wednesday morning.

H.M.Jr: Put him down for 10:15, Mrs. Klotz, bank holding.

Bell: Is that a general conference on the whole subject? Delano has a lot of material, too.

H.M.Jr: All right.

Bell: You might want a general conference.

H.M.Jr: Sure. 10:15?

Bell: All right.

Sullivan: Are we going to meet this morning?

H.M.Jr: Yes. I want a few minutes after this for Young and Oscar and Harry Hopkins. It won't take very long, and then I will phone you.

Sullivan: Right.

H.M.Jr: And I was very much interested. I didn't miss it by much. You remember I said that I thought that a hundred businesses had 75 per cent contracts?

Sullivan: Yes.

H.M.Jr: Eighty concerns have got 85 per cent. Did you see that clipping?

Sullivan: No, I did not.

H.M.Jr: You might get that. That is that latest bulletin.

If you would get those concerns it wouldn't be very hard then to study war profits. It makes it very easy for us. All right?

Sullivan: Yes, sir.

Cochran: Mr. Acheson wasn't in town yesterday, but I got Mr. Berle and gave him your message, and he said he would clear with Mr. Hull and get in touch with you.

H.M.Jr: I wonder where we stand on that.

Cochran: I asked him to ring me back if he had any information to give us, but he reminded me that they had been in touch with the Minister on several occasions and had let them know that they are anxious to do whatever was --

H.M.Jr: If the President asks me about that --

Cochran: I can get in touch with Mr. Berle this morning and find out.

H.M.Jr: Will you let me know?

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Cochran: Surely. I told Mr. Pehle about it this morning, too.

H.M.Jr: Is the unfreezing order drawn, Pehle?

Pehle: Yes, sir, it is drawn. Something came up, however, that throws a little light on that. Late Friday we got a request for a transaction involving 250 thousand dollars of Yugoslav funds in a small bank going from the United States to Switzerland. I talked to Mr. Bell, and he agreed I should call Dean Acheson, which I did, and Dean agreed it should be discussed with the Minister. Late Saturday afternoon, about five o'clock, Acheson was out of town and Hiss called me back to say that it had been discussed with the Minister or someone at the Legation had discussed it with the Minister, and they said, "Don't put it through," so of course it isn't going through, but it shows, I think, that the Legation is beginning to see that the freezing order is some help to them. They may not want it revoked.

H.M.Jr: That is what the President said. He said to do whatever they wanted.

Cochran: That is all.

H.M.Jr: John?

Wiley: I have nothing.

Kuhn: The William Allen White Committee would like to get all of its chapters steamed up on the need of economic warfare as the next big thing that we can do to help the British, and they mean by that not only freezing but all the other things that we were talking about in

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January. They wanted to know firstly, whether you had any objection to their starting that line in their bulletins, and secondly, whether they could come to the Treasury for information, whether they could talk to anyone around here about what things we have done and what things we could do.

H.M.Jr: I am kind of scared of it. I think my own reaction is that I don't want to give them any advice, and I don't want to help them. Let them go to the State Department.

Kuhn: I will tell them that.

H.M.Jr: Philip?

Young: I have nothing.

H.M.Jr: I will see you and Oscar.

George? George, are you helping Sullivan on this--

Sullivan: Yes, he did most of the work.

H.M.Jr: Shouldn't he be in on this?

Sullivan: I was going to ask you if you didn't want him.

H.M.Jr: Good.

Haas: Allison is down a little.

H.M.Jr: I think we will stop getting that each week. We can get it on a two week basis.

Haas: All right.

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Did you want to talk to me about anything else?

H.M.Jr: No, did you want to talk to me?

Haas: Well, I have got a memorandum, and Phil is looking over it now and probably you had better wait.

H.M.Jr: All right.

Schwarz: Harold is trying to steal one of my men for the defense savings staff and to cooperate with him I would like to bring down a New York man here. There is more happening here now.

H.M.Jr: Who does he want to steal now?

Schwarz: Mr. King.

H.M.Jr: King? I should think you would weep.

Schwarz: I haven't objected.

H.M.Jr: I shouldn't think you would.

Schwarz: But he is well adapted for the particular job that he wants - that they have there--

H.M.Jr: What is it?

Schwarz: On the radio.

H.M.Jr: It gives you a chance to get a good man.

Schwarz: That is what I would like.

H.M.Jr: All right, I congratulate you.

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Schwarz: Thank you. (Laughter)

Bell: Where does that put you (Graves)?

H.M.Jr: Harry?

White: I have nothing.

H.M.Jr: Dan?

Bell: That Morgan report that you asked about apparently was a sort of misunderstanding. Gifford had it that he would do the reporting, and he had some understanding with Morgan that they wouldn't need to report. Merle has been in touch with Gifford, and he is inclined to go along, and said he would like to discuss it more with you first. I think it will be straightened out today or tomorrow.

H.M.Jr: Will Morgan report?

Bell: I don't think there will be any difficulty. They told the Federal they would do anything you wanted, but they had this understanding with Gifford. It is just a misunderstanding all the way along the line, I think.

Cochran: Gifford said he would call back today, and he was sure he would get it straightened out.

Bell: Could you give us some time between, say, 11:30 and 12:30 on the RFC financing to have a discussion of it?

H.M.Jr: Yes. Not that I want to. At 11:00 I have got Cox, Foley, Young, and Bell.

What is that on, Ed?

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Foley: You said you wanted to go over that quid pro quo agreement.

H.M.Jr: That is right. Shall we do it right after that?

Bell: Yes.

H.M.Jr: How would that be?

Bell: That will be fine.

H.M.Jr: Is George in on it?

Bell: Yes, George and Hadley.

H.M.Jr: Right after that. How long will the quid pro quo take?

Foley: Well, I don't know. I don't know what you want.

H.M.Jr: I just want to know the status of it so when I talk to the President I can report to him what we have done and why we can't go any further.

Foley: Well, it is the same as - nothing has been done since that memorandum you took over to the meeting last Wednesday afternoon.

H.M.Jr: Well, we will talk about it.

(Telephone conversation with Mr. Delano follows.)

April 7, 1941
10:13 a.m.

H.M.Jr: Hello.

Operator: Mr. Delano.

Preston
Delano: Good morning, Mr. Secretary.

H.M.Jr: How are you?

D: Pretty well.

H.M.Jr: I've called a Treasury meeting at 10:15 Wednesday at which time I want to go over the plan on what we're going to do on the Hill on bank holding, and Foley is preparing a statement and Bell tells me that you are working on a statement also.

D: Well, we've worked on a lot of data here which is still in the rough, that is a statement for me to follow you.

H.M.Jr: Well, you've got two days notice now.

D: All right, sir.

H.M.Jr: Now, I want you to give somebody - I'd like you to work yourself or with Foley - there must be examples where they've driven banks out of a town and so forth and so on and been perfectly ruthless.

D: I think they've done that. The difficulty is to say so - prove it you know.

H.M.Jr: Well, there must be towns where there were three or four banks and there is one now.

D: Well, we're digging around after that, Mr. Secretary. We're going to find them if we can.

H.M.Jr: Well, you had better step on it because I know they are there. They must be there - they must have gone into towns.

D: We've been working on that thing. These fellows of ours have been a little bit pessimistic about finding them.

H.M.Jr: Well, get in on it yourself.

D: I will get in on it, Mr. Secretary.

H.M.Jr: And between now and Wednesday I expect some results.

D: All right, sir. We'll get right after it.

H.M.Jr: O.K.

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H.M.Jr: Where were we?

Bell: I have made no attempt to have anybody from the Federal Reserve come over and discuss this, but I have been in touch with Piser and told him I wanted to call him today. I don't think you want to see anybody, do you?

H.M.Jr: Not the way I feel today.

Bell: Today or tomorrow?

H.M.Jr: You do it for me.

Bell: Just discuss it with them over the telephone?

H.M.Jr: You do it.

Bell: O.K. We are having Frank in at 10:15 to discuss that fiscal and monetary committee, and we will have something for you before 10 o'clock.

H.M.Jr: I hope I have lunch with the President. It will be terrible if I don't.

Bell: That is all I have.

Thompson: Have you gotten the letter from the President yet on the Harry Hopkins Lend-Lease business?

H.M.Jr: Not yet.

Thompson: Mr. Young and Mr. Cox took care of it.

H.M.Jr: I was counting on you.

Thompson: I was hoping it would come in.

H.M.Jr: No.

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All right. I will see you all later.

TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

201

DATE April 7, 1941

TO Secretary Morgenthau
FROM Mr. Coghlan

In accordance with instructions issued by the Secretary at the Staff meeting on Friday morning, Under Secretary Bell had Messrs. White and Coghlan meet with him at 10 o'clock on Saturday morning to discuss the matter of reports by J. P. Morgan and Company on transactions in British-owned American securities. After Mr. White and I explained to Mr. Bell the history of this problem, and the apparent misunderstanding involved, it was agreed that I should telephone Mr. Gifford and endeavor to effect an understanding.

Consequently I spoke with Mr. Gifford by telephone at 10:30 a.m. on Saturday. I related him that the Treasury had given a definite undertaking not to divulge, or even to use for correcting its figures received from market sources, the daily data with respect to securities sales which the British agents in this country promised to give the Treasury through the British Embassy. I remarked, however, that when this plan had been arranged, it had not been realized that all of the listed securities would pass through the hands of one American banking firm in New York. Since this practice has developed, and the securities which pass from this firm to other distributors are recognized by the latter as domestic transactions, it has resulted that the failure of J. P. Morgan and Company to make the weekly reports on sales of securities on foreign account required by the Treasury through the Federal Reserve System deprives the Government of the information which should normally be expected. Since the figures received by the Treasury in confidence from Mr. Gifford are not used to correct our records, the latter are consequently seriously in error insofar as security sales on British account are concerned. I made the point to Mr. Gifford that the figures which bankers, brokers and dealers give to the Federal are not published by the Treasury until three months after the transactions involved. Furthermore, I pointed out that much information had now been published, as a result of Congressional hearings on the Lend Lease Bill, with respect to British official holdings and sales of American securities. Consequently, there should not now be as much reluctance to risk revealing the proceeds of British sales as in the beginning.

Mr. Gifford stated that he desired to meet Treasury requirements. He said that as the method of distributing securities outside of the official market had grown, he had been obliged to depend upon Morgan's more extensively to prevent clogging of the market. With this concern feeling a direct responsibility for observing the market, he had been able to avoid conflicts with distributions by American private interests and feels that he has a better understanding of market sentiment than could otherwise be obtained. He realizes that we have guarded carefully the data given the Treasury in confidence, and he would be very reluctant to hold back any reports which we might consider useful. He promised to speak with Morgan's on Monday and give me a telephone call later in the day. At the 9:30 Staff meeting this morning Mr. Bell and I reported the above developments.



TREASURY DEPARTMENT

202

INTER-OFFICE COMMUNICATION

DATE April 7, 1941

TO: Secretary Morgenthau

FROM: Mr. Cochran

STRICTLY CONFIDENTIAL

The Secretary telephoned me at my home at 8:45 a.m. Sunday, April 6. He said that the President had asked him at 12:30 Saturday night to have a message communicated to the Yugoslav Minister on Sunday morning to the effect that the President desired to do whatever might be helpful to Yugoslavia in the way of freeing or unfreezing Yugoslav funds in the United States. I suggested that this message be conveyed through the State Department, since it had been officials of that Department who had discussed originally with the Yugoslav Minister the question of our freeing Yugoslav assets. The Secretary approved this suggestion.

At 9 o'clock I called the residence of Assistant Secretary of State Dean Acheson, but learned that he was in New Haven and would not return to Washington until last night. Consequently I turned to Assistant Secretary of State Berle, whom I reached at 9:20 at his home. I gave the message to him as received from Secretary Morgenthau. Mr. Berle found this message in line with the remarks which the President and Acting Secretary Welles had made in recent days on this question. Mr. Berle promised to get in touch with Secretary Hull at once with the view to clearing the message to Minister Fotitch.

I reported the above at the Staff meeting at 10 o'clock this morning. Following the Staff meeting, I telephoned Mr. Berle. He told me that he had promptly relayed yesterday to Messrs. Hull and Welles the message which I had given as coming from the President through Secretary Morgenthau. Mr. Berle was under the impression that Secretary Hull had also received a message in a similar sense from the President. Mr. Berle added that Messrs. Hull and Welles were in touch all day yesterday with the Yugoslav Minister and let him understand clearly that it was the desire of the President and of this Government to do whatever was helpful in regard to Yugoslav funds. Mr. Berle thought, however, that in view of the possibility of a fairly rapid sweep toward Belgrade by the Germans the Yugoslav Government might definitely prefer that our freezing control be continued. It was understood that the Yugoslav Minister would continue to follow the situation and would inform the Department of State as to any observations on this matter which might be received from Belgrade. Mr. Berle asked that I report to Secretary Morgenthau that his message of yesterday had been promptly relayed, and also that I summarize the above conversation to the Secretary.

J. M. S.

April 7, 1941
10:15 a.m.

RE AID TO BRITAIN

Present: Mr. Foley
Mr. Young
Mr. Cox

H.M.Jr: Let me see what the orders are for us first, and then I have got something else I want to tell you.

Young: Cliff has done a swell job on that stuff. These requirements are based upon British requirements for the Middle East, what can be used there, plus certain information from Donovan, plus separate lists of the Yugoslav Minister and checked by both the British and the War Department.

H.M.Jr: Well, they told me last night - I was at Purvis'. Sir Arthur Salter was there and Sir Frederick Phillips, Monnet, Stimson, and myself. They have gotten word now that the Yugoslavs said that they will throw in their lot with the Greeks and the English, and we will let the English be the central pool and divide up everything but the thing that I want to get to you people and the main thing I wanted to take up with the President - but I wanted to know whether anything has happened since - I got the best explanation of the

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British shipping that I have heard from anybody from Sir Arthur Salter.

As best I can remember, they have a formula based on 35 million tons to be landed of which 19 was to be food and 15 tons - million tons was to be - 19 million munitions and 15 million was to be food. As it went from 35 million down to 30, they would continue that same relation but as soon as it dropped below 30, the food would get two for one for munitions. That explains why they have some 430 thousand tons of steel on the docks as of Thursday or Friday awaiting shipment. They have stopped sending munitions and given way to food because really they have dropped down to about thirty million or less tons.

Young:

What is that, a week?

H.M.Jr:

Thirty million tons a year, to be delivered. Now, this is all terribly confidential, but I want you to get it and then I want you to see why I want to hit this thing and hit it so hard. They only have somewhere between 12 or 13 weeks of reserve meat. On wheat, they are all right because they can carry it over with the crops, but anything that would go particularly wrong, you see, they are in a hell of a shape. Now he sits back and says that they are losing at the rate of five million tons a year, that they will build between one million two hundred thousand and a million two hundred fifty thousand tons a year, and they are counting on us with this new program. I think it is about three, isn't it?

Cox:

Yes.

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H.M.Jr:

Million tons. Anyway, the total must be around three because he figured it was about four million and a quarter tons that we would produce in '42, so he said, "Well, we are practically all right." They seem to think that they are in shape as far as food and everything until February of next year unless something happens or we do something drastic. Now, until I asked Purvis Wednesday night how much is on the docks, he didn't know. You (Young) told me five hundred thousand, so you are practically right. That is just steel. But the fact remains that they are not taking any. They have allocated 18 ships to go from here to the Middle East out of their whole pool, which means 82 ships because it takes four months to turn around, two months there, two months back, and depending how long - if these ships stop in India to pick up stuff for us, that delays them that much longer, but it takes about 70 ships. Now, the thing that I have been asking them about, I keep asking them all the time about ships, and they say - he was told Saturday that the Maritime Commission has 60 ships from the coastwise trade that they could throw into this business. I don't believe it, and I will tell you why. If they took 60 ships off our coastwise trade, there would be the damndest squawk go up you ever saw because, after all, a very large portion of it must be lumber from the West Coast.

Cox:

That is right.

H.M.Jr:

And if they threw the whole 60 in, it would throw all that extra stuff on our railroads, and I don't think our railroads are in shape to handle it. Now, what he says is that if

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we could provide 70 ships to take over the Middle East trade, new - he says not the Yugoslav ships, but something new to be added to the pool, that means that they could have the 70 additional ships to take this steel and food and so forth to England, so it gets right down to those Danish ships, and it is just damned nonsense that this thing has been kicking around this town for two or three months.

Cox: More than that. It started last fall.

Foley: We started last summer, late last summer.

H.M.Jr: The President told Hull Wednesday afternoon to go ahead and have the legislation introduced. Nothing has happened, has it?

Cox: No.

Foley: No bill has been introduced yet. We have a draft, if you want it.

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H.M.Jr: Have a bill.

Foley: Yes.

H.M.Jr: Well, the President rapped me over the knuckles when I spoke up about it, what did I know about this thing.

Foley: Well, I told Huntington to get it up when the question came up, and we grabbed the boats because I knew you would be looking for it.

H.M.Jr: I think I am packing the meat of this whole thing in. It is all very lovely, all of these speeches and all of these statements, but the fact remains right now if we want to make a contribution we should supply new ships that will take over entire traffic from here up through the Suez and there is no use sending to Aden. Did you see that report? They haven't even got a dock in Aden.

Cox: Yes.

H.M.Jr: Everything is done from lighters.

Cox: Basra is the best one.

H.M.Jr: That is fair, but that isn't too hot.

Cox: It is better than nothing.

H.M.Jr: It is the best bet, but of course, what he wants is to get --

Cox: He wants to go right up the Canal.

H.M.Jr: Up to the Suez and the President has got to make up his mind and he ought to make up

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his mind today if he is going to do something --

Cox: He has got a practical --

H.M.Jr: But this --

Cox: Advancing along the lines you are talking about because so much of the problem is getting stuff to the middle East that is not arms and munitions, and you run less political danger doing it than you would sending guns.

H.M.Jr: It was all I could do not to call him up last night, but this thing has been knocking around and the bill hasn't been introduced.

Foley: No, it couldn't be introduced because they are in a recess.

H.M.Jr: It couldn't? How about the Senate? It doesn't have to originate in the House.

Foley: No, but I think the Senate is taking three day recesses also, and of course, they have been in session once since Wednesday when Hull was told, but - are they in session this morning?

Cox: I don't know.

Foley: It might be introduced this morning. I will check it.

H.M.Jr: The whole thing gets down to this question of - and I wondered if you men had anything to contradict what I am saying.

Cox: No. I think you are dead right.

H.M.Jr: Isn't that the immediate problem?

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Cox: That is the crux of the problem, yes.

H.M.Jr: That we should take over that group entirely and then relieve these ships so they can take steel and food to England.

Cox: That is the most important thing we can do.

H.M.Jr: Isn't it?

Cox: That is right.

H.M.Jr: You have heard me say this a dozen times, "What goes into the ships?" They will find it. They have got plenty of stuff to go into it. The thing first is to find the bottoms. It just burns me up.

Cox: You would be interested to know that the Danes are just hoping that the requisition will be done.

H.M.Jr: Do you think I should speak to Hopkins before I talk to the President?

Cox: I would.

Young: I don't think he is there.

H.M.Jr: I can find out.

Cox: I think you ought to talk to him.

H.M.Jr: I will call him up.

Cox: I don't know how they decided that legislation was necessary. I suppose the A.G. did that.

H.M.Jr: No, the - Hull did that at that meeting Wednesday.

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Cox: On political grounds?

H.M.Jr: No, legal.

Foley: I think we ought to get legislation, Oscar.
I think it would be quicker and easier.

H.M.Jr: It just burns me up.

Cox: You are right.

H.M.Jr: If the crux - and they haven't got a lot
of time to -

Cox: It takes so long to get there that every day
that you lose on this end may be determinate.

H.M.Jr: It takes two months to get there, and they
are talking about they are going to be in good
shape in --

Cox: '42.

H.M.Jr: It is crazy. I can't understand it. Stimson
sits there and he doesn't know what it is all
about. Another thing which is just an amusing
thing, it seems that while they were down -
I don't know whether you boys know anything
about this - the President was away, they
get a telegram to hold up three planes, not
to let them go, of the Boeings.

Cox: I know that. That is an amazing story. It
is fantastic.

H.M.Jr: They thought these were these Pan American
ships that they were selling to England, and
they held up three Boeings thinking they were
the Pan Americans. Purvis didn't want to say
more than that. They have been released now.
Whose fault was it?

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Cox: He says he can't find out, but more than three Boeings were held up for about fourteen days because they misinterpreted the Pan-American thing to apply to the Boeings.

H.M.Jr: Who did that?

Cox: I don't know.

Young: I got the implication from Hopkins' remarks that the principal difficulties were due to someone in the Embassy getting into the picture, which may or may not be so.

H.M.Jr: Of course those other three Pan-American things were the ones that this fellow Balfour put over with us while I was away.

Cox: And the one he put over on Beaverbrook.

H.M.Jr: But the Boeings have cleared now, haven't they?

Cox: Yes.

H.M.Jr: And the other thing they said last night, that they only took one of the four-engine Consolidated bombers because they have bugs in them.

Cox: What has bugs?

H.M.Jr: These Consolidated bombers. We got them, twenty-six, didn't we? They have only taken one because of the bugs in them. Something is wrong with them. Would you find out?

Young: Yes.

H.M.Jr: Make a note, what is the matter with the Consolidated four-engine land bomber.

Young: I am surprised to hear that, because they have

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been breaking a lot of the records.

H.M.Jr: And find out if - there were twenty of the Boeing 17's, weren't there? I think so.

Cox: I think so.

H.M.Jr: Twenty, weren't there, of the B27C's?

Cox: Yes.

H.M.Jr: Find out if they have all cleared. I might just as well ask Hull about that now. I see no reason to be timid about it. If he gets sore, he gets sore. There were twenty-six, as I remember it, Consolidated, six to be used for ferrying men and twenty for fighting purposes.

Young: Is Hopkins away?

H.M.Jr: He is away. I love the way Stimson sits back and talks about these Boeings as though he got every one of them. He forgets about the engine deal and everything else. He says to Purvis, "Why didn't you come to me? I handle all of this stuff. Why didn't you tell me that you weren't getting these ships?"

But this business of these ships - and I think it is in Hull's hands. We will find out. I am just going to hit like hell.

Cox: They bungled that thing on asking for new legislation to amend the Neutrality Act to allow American ships to carry stuff through Halifax to those new bases. They don't need legislation for that.

H.M.Jr: No, you told me that. Well, the other thing, I am giving you all I know - Purvis said that Saturday they told him they were making him a present of the George Washington. Do you know anything

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about it?

Young:

Who is?

H.M.Jr:

The United States Government.

Foley:

Must be the Maritime Commission.

H.M.Jr:

Inasmuch as she is a coal-burner and they don't want to convert her to an oil-burner. I wonder if he is talking about the old George Washington, possibly, the one that is down here in Chesapeake Bay? He said somebody told him they would just make him a present of her. The Admiral. He said Hopkins' man that contacts him in the Navy.

Cox:

Reeves?

H.M.Jr:

Do you men know anything about it?

Cox:

No.

H.M.Jr:

I asked Stimson if he knew anything about it, and he didn't. The Washington was leased by him. Somebody ought to get together. Well, I am going to hit this other thing very, very hard today. I think it is the most important thing in town as far as the English are concerned.

Foley:

Did you know Forrestal was going to England?

H.M.Jr:

Knox asked permission for him to go at Cabinet Friday. He is going on some battleship.

Foley:

Apparently.

H.M.Jr:

I don't know, it must be an English battleship.

Foley:

I think so, because he is going to fly to Halifax.

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Apparently he is going to go by ship from there.

H.M.Jr:

Yes. Some Admiral is going, too. Knox asked whether the President would give him permission for Forrestal to go. I think I have told you about everything that is worth while. But you men agree with me that these ships to handle the shipping, to concentrate everything on that --

Cox:

That is the heart of the problem.

H.M.Jr:

All right, gents.

April 7, 1941

10:45 am

Present:

Mr. Sullivan
Mr. Haas
Mr. Blough

HM, Jr: Well, gentlemen, where are we?

Mr. Sullivan: You should have bet some money on your companies. It works out 74%.

HM, Jr: What about the C.I.O. thing? Were they off a little bit?

Mr. Sullivan: We can't find out from the Defense Commission the total amount of contracts or the total number of contracts. They can give us the number of and amount over \$10,000, but they just can't give us the other and don't know when they can get it.

Mr. Blough: They can't give us the total volume of contracts let or the total number of contractors to whom they were let.

HM, Jr: Why not?

Mr. Blough: We do know the total number of contracts let where the contract was over \$10,000, and we have that figure. That should be fairly close on the total. They do not know how many contractors received those contracts of \$10,000 and over.

HM, Jr: They know every contract that has been let over \$10,000? They don't know to whom?

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Mr. Blough: They had not yet figured out how many there were.

Mr. Sullivan: How many different contractors is what they don't know.

HM, Jr.: I still don't get it. Haven't they got a list under the Walsh-Healey?

Mr. Blough: They have not finished their tabulations.

HM, Jr.: It has to be published once a week. Every contract let has to be published.

Dr. Haas: Every Government, including defense.

HM, Jr.: Yes. Maybe you went to the wrong place.

Mr. Blough: I think not. If a contractor gets 5 or 6 contracts, it would be necessary to go through and consolidate.

HM, Jr.: Have you looked at it through the Department of Labor?

Mr. Blough: No. We went straight to the Defense Commission.

HM, Jr.: Why not look over the Walsh-Healey releases. They are released each week from Labor.

Mr. Blough: But we did get the consolidation on the 10 largest.

HM, Jr.: You have those?

Mr. Blough: Yes. We have the list of companies

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and contracts. While they reported one error at the last minute and will probably report some more

HM, Jr: 100? You have got a lot down here. \$7 billions.

Mr. Blough: The 100 companies received the \$7,818,000,000 out of the total \$10,545,000,000.

HM, Jr: I see.

Mr. Blough: Or 74.1%.

HM, Jr: Wait. Let me see. One hundred companies received \$7,800,000,000 or 74%.

Mr. Blough: And those were all of the companies which received contracts of \$10,000,000 or more apiece.

HM, Jr: Right here in your own figures it does not say so.

Mr. Blough: In the first column is the amount of the contract received by each company. Take the 100th, Mergenthaler Linotype and it received \$10,000,000 defense contracts.

HM, Jr: But what is the \$7,818,000,000?

Mr. Blough: That is an accumulation of all those above so you can readily tell how many contracts.

HM, Jr: It means Mergenthaler got \$10,000,000 or more?

Mr. Blough: \$10,000,000 or more. And there were 100 companies that got \$10,000,000 or more. So far as we know, exactly 100.

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HM, Jr.: Oh, I see! The second column is the accumulation.

Mr. Blough: Yes.

Mr. Sullivan: That's right.

HM, Jr.: 19 companies got 50% of the business.

Mr. Sullivan: That's right.

Dr. Haas: That's correct.

HM, Jr.: Now, all right. So much for this. Now, what's the next thing you have to report?

Dr. Haas: Mr. Secretary, on this, it may not be anything seriously out of line that you have this concentration in a few companies because our whole industrial set-up is extremely concentrated.

HM, Jr.: That raises the question I raised of inter-corporate dividend tax and it also makes it very easy to examine these 100 companies and look at their 1940 annual report.

Mr. Blough: We looked at the annual reports available for those companies which showed wages, sales, taxes, and found only 9 which reported sales, wages and salaries, Federal income and excess profit taxes, net profits, all of those items, and those 9 are set up on this table. Now, some of them reported other taxes, but most of them did not.

HM, Jr.: Wages. Roughly wages and salaries -- about 1/3. Roughly 1/3. Wages to sales.

Dr. Haas: I made those calculations roughly on on a piece of paper.

Mr. Sullivan: He has that for all 9. Percentage

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of sales for 1939 is that percent (referring to chart.)

HM, Jr: Federal taxes went up. So did profits.

Dr. Haas: That isn't so bad when you consider that taxes increased sufficient to absorb most of the increase.

HM, Jr: You mean to say these 9 made a net profit of almost 10%?

Dr. Haas: That's right. On sales.

HM, Jr: On the sales? Oh, on their sales!

Dr. Haas: Percent of sales.

HM, Jr: Perfectly good way to figure it.

Dr. Haas: Good way to compare it -- what gross, how much went to wages, how much to taxes. That was the theory.

HM, Jr: Now, you don't know what the profit is on common stock.

Mr. Blough: That we can get in most of those cases.

HM, Jr: Is that net on the common? I thought you said net on the sales.

Mr. Sullivan: Percentage figures.

HM, Jr: But you have to divide that by the number of shares.

Mr. Sullivan: That's right.

HM, Jr: Why can't you gentlemen, through your various income tax offices or wherever it is, John, send out for those reports?

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Mr. Sullivan: On these 9?

HM, Jr: No, no. On the others. To try to get a breakdown to add to this list as fast as possible, wages and salaries

Mr. Sullivan: Of the 100.

HM, Jr: Yes. Build it up as fast as you can.

Mr. Sullivan: Many of them have extensions and have not yet filed.

HM, Jr: But, on the other hand, if the list is 30 instead of 9, it would be that much more significant.

Mr. Sullivan: That's right.

HM, Jr: And it might be easier to go to the company and ask for the information. Figure it out.

Mr. Sullivan: We will get it.

Mr. Blough: You would like to have as many of the 100 as possible run down like this.

HM, Jr: Yes.

Let me ask you people a question. This is what was running through my mind. See whether this sounds too advanced of the times. Supposing we said that those companies which are getting war munition business, what percentage of its business is -- until we can define it, munition makers -- that anything that they made after depreciation, amortization, all the allowances that they have, that anything over 6% profit we take it away from them.

Mr. Sullivan: Vinson-Trammell.

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Mr. Blough: 6% on their capital or stock rather than 6% on their contract business.

HM, Jr: No. 6% on the return to the stockholders.

Mr. Blough: As Great Britain has done.

HM, Jr: Is that what they have done?

Mr. Blough: Very similar.

HM, Jr: What have they done?

Mr. Blough: They have taken all increase of profit over a base period, but have allowed certain minimum return to stockholders before it is all taken.

Mr. Sullivan: Rate on excess profits is 100%.

Mr. Blough: They have taken average earnings of a period and compared it with earnings of the current year and the excess has been taken 100% except that the stockholders have been allowed some return.

HM, Jr: Do you know how much?

Mr. Blough: I think it is 5%.

HM, Jr: Well, I did not even know that. That's what they have done?

Mr. Blough: That's what they have done. There is some complaint that the companies are not efficient; they have no incentive to be efficient.

HM, Jr: They have the incentive to win.

Mr. Blough: That they have.

HM, Jr: For instance, in 1941, on any earnings over and above 1936 to 1940, or something of that kind.

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Mr. Blough: 1936 to 1939 was there average period.

HM, Jr.: You would want to give a fellow the benefit of 1940 and make it the last 4 years or the last 3. That's immaterial.

Mr. Blough: But the British have not limited it to companies receiving munitions contracts. They have made it general.

Mr. Sullivan: I think the minute you try to distinguish between them you get into trouble.

HM, Jr.: That may be true, but I was just thinking if -- mind you, I appreciate you are not going to get it, but at least if we pointed out that that is what we will have to come to eventually and sort of lay the groundwork for it.

Dr. Haas: I think you are justified in treating them all alike.

HM, Jr.: 6%, after all deductions, all allowances, that gets down to what I am thinking, in terms of common stocks. That would not be any more radical than what the English have done.

Mr. Sullivan: No. What I would like to see this time, when we determine what we will try to derive in this bill, to accomplish this by means of cutting down of the credits allowed on excess profits. For instance, they are now allowed 8% on invested capital and they are allowed average earnings of the last four years before they pay anything; that is, they are allowed 95% of that average earning. We can start towards this objective by saying instead of 8% they will only be allowed 6, and instead of 95% of average earnings in the last four years they will only get 75%.

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HM, Jr: And how does that work?

Mr. Sullivan: That will send receipts from excess profits up very, very fast.

HM, Jr: I don't understand the 75% allowance.

Mr. Sullivan: Well, now, the company that chooses to elect to file its return on the basis of average earnings without regard to the amount of invested capital gets a credit which is equal to 95% of its average earnings for 1936, 1937, 1938, 1939.

HM, Jr: I see. Well, of course, that's the thing we fought so much. I do not think they should be given the option, because all of that -- as soon as you get into that, there isn't one man in 100 on the street can understand what you are talking about, but if you simply say -- the way I put it, that after a company has earned 6% on its invested capital, that anything over and above that as compared with his three previous years, the Government is going to take it away, he can understand that.

Mr. Sullivan: Yes, the man on the street will understand it, but he won't be able to understand what that will do to business. I think it would completely disrupt the whole show and impede the defense. It would be no incentive to General Motors or the steel companies to really go to town on the defense program.

HM, Jr: They certainly have the incentive now. Too damn much.

Mr. Sullivan: Let's take away part of it.

HM, Jr: They have too damn much. And the people are right on the wages. Wages have not kept up.

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Mr. Blough: That is the common situation at this stage in the upward movement. Wages almost never keep up.

HM, Jr.: That's what labor is kicking about.

Mr. Blough: The National City Bank made an estimate -- I don't know how good it is, -- on manufacturing corporations which gives some idea how they think manufacturing corporations divided their gross receipts.

HM, Jr.: Let me just see this a minute. They show increase in wages.

Dr. Haas: The percent is at the bottom of that table.

HM, Jr.: They claim 16%; taxes, 33%; profits, 41%; other, 9%.

Mr. Blough: And then in the distribution of the 100 in the share in the pie, at the bottom of the page, 1939 they show wages got 19.6% of the total and in 1940, 20.3%.

HM, Jr.: You don't believe it?

Mr. Blough: Well, I know the methods they have to use to make their estimates. Until I look into it a good deal more carefully I would not want to sponsor it. They may or may not be correct. Since interest is maintained rather stably and this includes other things like raw materials, and so on, it's quite conceivable that wages did constitute a larger percentage of the sales in 1940 than in 1939. But they did not go up as fast as profits. That is clear. Even the National City Bank shows that.

HM, Jr.: Well, what else do you people want to show me today?

Mr. Sullivan: Depends upon how far you want to go. Do you want to go into different schedules or should we

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start to determine how much we want to raise in new revenue?

HM, Jr: Well, as I said, I would like to approach it from the place where business can most readily afford to give up, rather than just -- I think it's a less stupid way to do -- well, you have a 24% excess tax; let's make it 30. What is it, 4% normal? Let's make it 6. Fine! We have just increased it. You know what my formula is. I would like to raise 2/3 of the deficit through taxes. Roughly that means an increase of 50% in the revenue.

Mr. Sullivan: \$5,000,000,000 -- 4½ to 5 billions.

HM, Jr: Well, George, listen to this, rather than simply say "if it's 24% we will make it 30. Increase all existing things", I would like to take the thing where can the social structure give up the most easily irrespective of what the law is now.

Dr. Haas: In other words, you know how much you want. Where is the best place to take it?

HM, Jr: Yes. Are you mean ready to talk on that line?

Mr. Sullivan: Yes, we have schedules.

HM, Jr: Have any of you got social engagements tonight?

Mr. Sullivan: No.

Mr. Blough: Not important.

HM, Jr: I can give you 8:30 tonight to 9:30. I am alone. Mrs. Morgenthau is out to dinner. All right?

Mr. Sullivan: Fine.

HM, Jr: I could give you an hour tonight and I would

-12-

like to approach it from that standpoint. We are going to raise the money; where's the place that we can do it irrespective of existing tax laws. Huh? Let's have a crack at it tonight.

Mr. Sullivan: Right. Would you like Tarleau there too?

HM, Jr: Yes.

oOo-oOo

April 7, 1941
11:10 a.m.

RE AID TO BRITAIN

Present: Mr. Foley
Mr. Bernstein
Mr. Cox
Mr. Young
Mr. Bell

Foley: All I have, Mr. Secretary, is a copy of the memorandum and the agreement that I gave you last Wednesday.

H.M.Jr: Well, what do I tell the President about this thing?

Sit down, gentlemen.

(Mr. Young entered the conference)

Foley: Well, you tell him that we have made the revisions that he suggested at the meeting when we went over together.

(Mr. Bell entered the conference)

Foley: We are prepared now to take the matter up with the British, with the State Department, and the Justice and the Director of the Budget if it is his wish that we go ahead with the matter. On the other hand, if the State Department is going to carry the ball, then

- 2 -

we ought to turn this stuff over to them and let them go ahead.

H.M.Jr: I see. Did you give me the original of this?

Foley: I gave it to you last Wednesday, sir. You took it over to the meeting. The first meeting of the War Board.

H.M.Jr: Yes.

Foley: I called Dean Acheson on this more than a week ago, and I asked him to let me know not later than a week ago today if we could get together with him and how he wanted the matter handled, and he said, "Oh, I will call you back, Ed, before Monday." He just never did call me back.

H.M.Jr: Well, then, the thing is just to take it up with the President the way it is.

Foley: That is right. After the meeting over there before you went away and before he went away, he said that he wanted us to revise it in the light of his suggestions and then take it up with State and Justice and the Budget, and then if the appropriation bill passed before he got back to Washington, start in a preliminary way our discussions with the British, all subject to Harry talking with Dean to determine whether or not we should carry the ball or whether the thing should be turned over to the State Department.

H.M.Jr: And we haven't heard from him?

Foley: Not a word.

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Have you got a copy of this, Dan?

Bell:

No.

(Mr. Foley handed copy of over-all Agreement to Mr. Bell. See Attachment 1.)

(Telephone conversation with Mr. Acheson follows;)

April 7, 1941
11:14 a.m.

H.M.Jr: Hello.

Operator: Mr. Acheson.

Dean
Acheson: Hello, Henry.

H.M.Jr: How are you?

A: First rate. I've just come back from
New Haven.

H.M.Jr: Good. Dean, we're just sitting here talking
about this quid pro quo and Foley tells me
that the way it stands was that he was to
have heard from you about it.

A: He was to have heard from me and I talked
with the Secretary and the last time I saw
the Secretary he was on his way to a meeting
of your committee with some material in his
hand. He was going off to talk with you
and Mr. Stimson and Mr. Knox and the President.
I heard when he came back that he hadn't
done it, but I urged him to do it again and
I haven't seen him since then.

H.M.Jr: Uh-huh. Well, I was going to mention it at
lunch to the President and ask him what he
wants done with the damn thing, and whether
he wants the State Department to go ahead
with it or whether he wants us. But you
can't help me on that.

A: I can't help you. I can tell you what my
own views about it were but whether those
views were accepted by the Secretary I just
don't know.

H.M.Jr: What are your views?

A: My views are that we should do two things:
that so far as a re-payment in either cash
or goods is concerned that that in the long
run is really futile, that you can't - we
tried collecting cash before and couldn't
do it and goods is just another way of doing
the same thing.

H.M.Jr:

Yeah.

A:

The thing that we should do and can do now and never can do again is to get these British together and make them agree first of all on trade arrangements by which the imperial preference system will be broken down in return for breaking down of the outrageously high tariff schedules that we have. Secondly, that financial arrangements can be made by which after the war there will be no more blocked currencies and no more arrangements of that sort. Three, an arrangement by which any nation after the war can come into this open economy and you won't have closed ones against it and - I had another one which has now slipped my mind - the general purpose of the thing being two-fold. One is to nail them down now to an obligation to enter into specific discussions resulting in immediate agreements to be made within the next ninety days, because that is going to be our only chance to do it.

H.M.Jr:

Well, if it would go along the line that you're talking, I'd distinctly say that the State Department should do it; it's out of my line.

A:

Well, I thought that we would really have two things - what we ought to have is two things. One, a short agreement on the Lease-Lend business, which I don't really see that you can expect much more in that than to say first of all, we will give them materiel now and they make two promises: one is that when we get into the situation which they're in now and call on them, they will do the same for us according to the same terms. That's a future thing. The second one is, they'll give us back everything they have left at the end of the war. I don't believe that any other - you could say also if you wanted to at the present time that they would give us what we wanted at a reasonable price/tin, jute and things like that. But if they give us those

- 3 -

commodities, it just means that we have to extend more aid if we buy them - perhaps less. That doesn't seem to be terribly important. Then just a general statement saying that they recognize that the whole situation during and after the war has got to be different and they agree to enter into discussions of these various types for the purpose of making a different kind of a world, and that could be sort of the answer to the tripartite pact. Then we'd sit down with them right away and work out these other things. Now whether Mr. Hull thinks that is nonsense or not, I don't know.

H.M.Jr: Well, thanks, and I'll see whether I can get somewhere with the President, but I think something ought to be done by one Department or the other.

A: Yes.

H.M.Jr: Because I mean they're making these things and the stuff is going and we have no contract.

A: Yes.

H.M.Jr: Well, thank you, Dean.

A: Do you think what I said sounds very foolish?

H.M.Jr: Not foolish at all. You said a great deal and I wouldn't want to say I'd underwrite it all, but I certainly would say that you and I have the same attitude. It's just a question of getting down to how much you want to include.

A: Yeah.

H.M.Jr: But if it goes along those lines, I'd very much want the State Department to do it, but I'm going to try to get it cleared up today.

A: Fine, Henry.

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H.M.Jr: I've been trying to get Mr. Hull all morning and trying to find out what, if anything, has been done to take over these Danish ships. I can't find out.

A: Yeah. Has your committee found out yet what countries you people are handling and what we're supposed to deal with.

H.M.Jr: Well, I can make it very simple as far as the Secretary of the Treasury is concerned. I'm not handling any countries any more.

A: Well, I know that, but I meant your four Cabinet member committee - the Harry Hopkins group.

H.M.Jr: You mean the - that's a wonderful name

A: The Plus-four Committee as it's called.

H.M.Jr: Yeah. Well, Harry Hopkins hasn't told us so we don't know.

A: My goodness, I wish - for instance, we had the Norwegians over here.

H.M.Jr: Well, Philip Young has had the list; he gave it - it must be at least a week ago - he's been begging Hopkins to make up his mind and he can't get anywhere. He's had it over there at least since - for a week - the list of countries - trying to get him to decide what countries besides England - he's been unable to do it. Now we did get an acknowledgment from the State Department relieving us of the Russia et al.

A: Yes.

H.M.Jr: But I've never had a formal acknowledgment from the President or from Hopkins to which I have written that I no longer consider myself responsible for England, China and Greece. I've never had an answer.

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A: Well, now, first of all in that first list that the President dictated and you had in your letter to Mr. Hull, Norway and The Netherlands were going with England and Greece and those countries. Then apparently somebody got mixed up and I think the President sent the Dutch Foreign Minister over here and then the Norwegian appeared here. I've been trying to work along with Phil. It certainly doesn't matter who does it as long as we get it going, but it's terribly hard to know what you're doing.

H.M.Jr: I know it is, but we've done everything we can to try to bring it in. We've brought McReynolds in to try to get the thing straightened out to wipe the Liaison Committee off the map, the letter is all written waiting the President's signature before five days.

A: Yes.

H.M.Jr: We've done everything we can here but the bottle-neck is Harry.

A: Oh, goodness.

H.M.Jr: And I'm expecting through Merle to hear something from State on freezing or unfreezing of Yugoslavian funds. Have you heard yet from Merle on that?

A: No, I haven't heard from him.

H.M.Jr: Well, he said he'd let me know by 1:00. I had this request from the President at 12:30 Saturday night to tell the Yugoslav Minister - he asked me to do it - to tell the Yugoslav Minister that we'd do anything that he wanted.

A: Yes.

H.M.Jr: Well, I spoke to Merle Cochran the next morning and we decided it would be a mistake for me to do it, although the President asked me to. We were going to ask you to do it.

A: Yes.

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- H.M.Jr: Well, you were out so we got hold of Berle, and I'd like to know by 1:00 to report to the President what is the latest on the freeze or un-freeze with Yugoslavia.
- A: All right. I don't know whether Berle knew that while you were away Dan telephoned me and they had four possibilities. The one that at that time seemed to Sumner Welles and me and I think to Dan Bell and Bernie the best one was to say that we will give general licenses to the Government, the bank, the Minister and any persons selected by the Minister, but perhaps it might be a little dangerous to unfreeze in case the Germans should go sweeping through Belgrade and take over the works.
- H.M.Jr: Well, if between now and 1:00 somebody in the State Department would let me know, it would be helpful.
- A: I will, Henry. I'll get at it.
- H.M.Jr: And I would like to look to you on it.
- A: It's a little ticklish because you know that falls under Berle's general jurisdiction. I have to - these financial matters are supposed to be under Berle so I move a little gingerly in that field, but I certainly can remind him that you want to hear by 1:00 o'clock.
- H.M.Jr: Well, I tell you, what I'd better do so I don't get - Merle was going to - supposing I have Merle call you up and bring you up to date, or do you want to call him when I hang up?
- A: All right.
- H.M.Jr: He may have the answer already, you see.
- A: I'll call him as soon as I can. The Portugese Minister is waiting to see me and I have to see him, so I'll call Merle when I get through.

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H.M.Jr:

Thank you.

A:

All right, Henry. Good-bye.

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H.M.Jr: Well, that is that.

Bell: There is provision in this Agreement for doing the things subsequently that he wants to do in the way of trade and so forth, isn't there?

Foley: Sure.

Bell: The President can take benefits to the United States.

Foley: Do you want me to read what happened at the end of the discussion over there that day with the President just to refresh your memory?

H.M.Jr: Yes.

Foley: "When the President concluded reading the draft, the Secretary asked him how he liked it. He said he thought that it was a good first draft and embodied substantially what he had in mind. The Secretary then asked where we go from here, and the President replied that the draft should be taken up, first, with the State Department, second with the Attorney General, and third, with the Director of the Budget.

"The President said that he was in no hurry to get it signed. His tentative plans were to leave Washington on a ten-day holiday next Wednesday. He added that he did not want to sign the document until after he returns to Washington.

"Secretary Morgenthau asked the President about taking the Agreement up with the British during the interval. The President said that he did not want the British brought in until

after the \$7-billion appropriation measure passed the Senate. When this happened the President said he wanted the discussions with the British to commence even though he had not returned to Washington at that time.

"Secretary Morgenthau then asked the President whether the negotiations should be conducted by the Treasury or by the State Department. The President replied that, strictly speaking, the matter was one for the Treasury to handle, and drew upon his World War experience for precedents. The President pointed out, however, that he did not want to have the Secretary of State "get his nose out of joint" because the negotiations were being taken out of diplomatic channels. At this point, Secretary Morgenthau said that, for his part, he wouldn't be the least offended if the President asked Mr. Hull to take up the burden.

"Harry Hopkins said he thought the Treasury should handle the negotiations since they were primarily financial. The President then suggested that Harry Hopkins speak informally to Dean Acheson and tell him that the Treasury would handle the negotiations unless this would unduly upset Cordell Hull."

H.M.Jr: Who wrote that memo?

Foley: I did.

H.M.Jr: Very good. I mean it. (Laughter) I am surprised.

I will see, for your benefit, once more if we can get hold of Hull.

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H.M.Jr: Who wrote that memo?

Foley: I did.

H.M.Jr: Very good. I mean it. (Laughter) I am surprised.

I will see, for your benefit, once more if we can get hold of Hull.

- 6 -

- Foley: And then we also have this. The President said that he wanted Harry Hopkins to handle the Polish, Iceland, Greenland, Norway, British Empire, Greece, Holland, and China missions and the remaining purchasing missions to be handled by the State Department. The President asked Harry Hopkins to prepare a letter to accomplish this objective.
- H.M.Jr: Well, all right. I will see what I can do, and we will now go on with our financing?
- Bell: Yes. Why shouldn't copies of this agreement go to State, Justice, and Budget anyhow, whether the President is ready to make up his mind? Why shouldn't they work on it and get to a point where they are satisfied with it?
- H.M.Jr: Let me just speak to him at lunch and see what happens. All right, gents, we will go on our financing. I will let you know what happens.

COPY

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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

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.

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 times 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.

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

- 5 -

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

- 6 -

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)

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Y

March 14, 1941

MEMORANDUM FOR THE SECRETARY'S DIARY

Secretary Morgenthau, D. W. Bell, Harry Hopkins, and Ed Foley conferred today with the President on a draft overall Agreement covering the defense articles which the President is authorized to dispose of under the Lease-Lend Bill. The conference took place at the Executive Offices, starting at 11:45 and concluding at 12:30.

Secretary Morgenthau handed the President his reply to the President's letter of March 13, and the draft Agreement, (copy attached).

The President suggested that the word "Agreement" be deleted and whereas substituted. He pointed out that he did not want the contract in any way to be considered as a treaty which will require a two-thirds vote of the Senate for ratification. Mr. Foley said that the suggestion was a good one, although the document was considered to be an Executive Agreement to carry out the powers conferred by Congress on the President in the Lease-Lend Bill, and it in no sense should be looked upon as a treaty.

The President raised the question as to the mutuality of the provision in regard to the return of defense articles which, in the opinion of the President, are not used up, worn out, or destroyed. The President was concerned that the British might consider this to be too harsh. After some discussion pro and con, the President said he was willing to leave it the way it was for purposes of negotiation.

In Paragraph (b), on page 2, the President suggested that the words "and relative value" be inserted after the word "efficiency" and before the word "substantially". He thought this would give him a little more leeway if he did not want exactly the same kind of articles returned by Great Britain as were made available.

On page 2, Paragraph (c), the President suggested that the words "dollar value of" be deleted and the word "in" inserted. This change, the President said, would get away

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from the dollar standard of value and would more nearly carry out the purposes of the lend-lease arrangement as he envisaged it. The President also suggested, in the same paragraph, that the words "or elsewhere" be inserted after the words "British Empire" and before the word "and". In this way, the President said, the British could obtain Bolivian tin for other Empire commodities, and the tin could then be made available to the United States if there was need for it.

On the balance of the Agreement the President had no suggestions. He asked several questions in regard to some of the provisions, but was satisfied when he was told that they were either unusual or inserted because of the provisions of the statutes. When the President concluded reading the draft, the Secretary asked him how he liked it. He said he thought that it was a good first draft and embodied substantially what he had in mind. The Secretary then asked where we go from here, and the President replied that the draft should be taken up, first, with the State Department, second, with the Attorney General, and third, with the Director of the Budget.

The President said that he was in no hurry to get it signed. His tentative plans were to leave Washington on a ten-day holiday next Wednesday. He added that he did not want to sign the document until after he returns to Washington.

Secretary Moregenthau asked the President about taking the Agreement up with the British during the interval. The President said that he did not want the British brought in until after the \$7-billion appropriation measure passed the Senate. When this happened the President said he wanted the discussions with the British to commence even though he had not returned to Washington at that time.

Secretary Moregenthau then asked the President whether the negotiations should be conducted by the Treasury or by the State Department. The President replied that, strictly

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speaking, the matter was one for the Treasury to handle, and drew upon his World War experience for precedents. The President pointed out, however, that he did not want to have the Secretary of State "get his nose out of joint" because the negotiations were being taken out of diplomatic channels. At this point, Secretary Morgenthau said that, for his part, he wouldn't be the least offended if the President asked Mr. Hull to take up the burden.

Harry Hopkins said he thought the Treasury should handle the negotiations since they were primarily financial. The President then suggested that Harry Hopkins speak informally to Dean Acheson and tell him that the Treasury would handle the negotiations unless this would unduly upset Cordell Hull.

The President asked Secretary Morgenthau with whom he would commence his discussions. Mr. Morgenthau said that he would take the matter up in the first instance with Sir Frederick Phillips. The President made some jocular references to Sir Edward Peacock, whom he likened to Sir Ronald Lindsay, and told a humorous story of his experience with Lindsay's lack of a sense of humor.

Harry Hopkins suggested that the Agreement be changed so that the President could ask for bases in the Pacific and British defense information and experience on a two-way basis.

Secretary Morgenthau then asked that action be taken on his letter suggesting that the liaison committee for contracts with foreign purchasing missions be terminated. The President said that he wanted Harry Hopkins to handle the Polish, Iceland, Greenland, Norway, British Empire, Greece, Holland, and China missions, and the remaining purchasing missions to be handled by the State Department. The President asked Harry Hopkins to prepare a letter to accomplish this objective.

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

EHF:mp/s 3-15-41

April 7, 1941
11:29 a.m.

Cordell
Hull:

Hello, Henry.

H.M.Jr:

Hello, Cordell.

H:

I'm sitting here having a very interesting talk with the new Hungarian Minister. What's going on?

H.M.Jr:

Well, what I wanted to ask was this, before I went over for lunch with the President, has anything happened toward taking over those Danish ships? Remember we spoke about it

H:

No, I haven't anything new on that question because I really dropped out of the picture. I was away when the seizures took place. I haven't had anything new suggested to me to do here on the subject.

H.M.Jr:

I thought at Wednesday's meeting you gave the President a draft of some legislation and he O.K'd it.

H:

Oh, I thought that was - I found that when I came back that had been gotten up and I thought that was in harmony with everybody's ideas

H.M.Jr:

Yes.

H:

..... and that was a very simple enactment giving the Government power to requisition, and he and Jackson both said to send it on over. I asked them what they wanted to do about it and they said send it on over.

H.M.Jr:

To the White House.

H:

Yes. And the President will presumably send it on to Congress.

H.M.Jr:

But nothing has happened.

H:

No.

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H.M.Jr: Would you mind if I speak to him at lunch what he's going to do with it?

H: Oh, of course, or anything about it. Anything about it - it's up to him.

H.M.Jr: But it's in his lap.

H: Yeah.

H.M.Jr: And not in yours.

H: Yeah.

H.M.Jr: Well, then you don't mind if I put a little pressure on him.

H: No, anything you want to say.

H.M.Jr: Because they need those ships desperately.

H: Oh, I'm sure of that. You know how we've worked for four or five months at least and haven't gotten anywhere.

H.M.Jr: I know. Well, I didn't want to say anything without first talking to you.

H: All right, Henry.

H.M.Jr: If I get anything on it, I'll call you after lunch.

H: Yes, all right. Thank you.

April 7, 1941

253

The original of this was handed to the President today by the Secretary at White House lunch.

April 7, 1941.

Memorandum for the President:

Subject: Seized Ships

Of the 27 Italian, 2 German and 35 Danish ships seized by the Coast Guard on Sunday, March 30, 26 Italian ships and one German ship had been sabotaged by their crews. All of the Danish ships were found to be in good order.

As to the ships which were sabotaged, the Attorney General plans to initiate actions for forfeiture under the Espionage Act as soon as he has State Department approval. However, it is the Attorney General's informal opinion that we have authority to proceed immediately to put the ships in operating condition. At our request the Maritime Commission now has surveys in progress to determine the extent of the damage and prepare plans for making repairs.

It is our understanding that it is the opinion of the Attorney General that legislation is desirable if we are to take title to the remaining ships which are undamaged, consisting of 35 Danish, 1 Italian and 1 German. We understand that a draft bill has been prepared and is before you. It would appear advisable that it be introduced at the earliest possible date.

It seems clear that responsibility for repairs and operation of any ships that may be acquired would rest with the Maritime Commission.

Secretary of the Treasury.

W.H.G. 121.

April 7, 1941

255

This was held and presented by the Secretary
to the President at White House lunch today.

Dear Mr. President:

Thank you for your letter of March 13 asking me to undertake to negotiate the "quid pro quo" with the British for the material which you are authorized to transfer to them. I shall be very happy to undertake this assignment.

In accordance with your suggestion, I have drafted an over-all agreement (copy attached) which I should like to discuss with you at your convenience.

Faithfully yours,

(Rgd) H. Morganthau

The President

The White House.

Enclosure

KHFJr/fm
Rewrite 3/14'41

AGREEMENT dated as of March 11, 1941, at the City of Washington, District of Columbia, between His Majesty's Government in the United Kingdom (hereinafter called the United Kingdom) and the United States of America (hereinafter called the United States).

WHEREAS, the President of the United States (hereinafter called 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 as follows:

1. Pursuant to the Act of the Congress of the United States of March 11, 1941 (Public No. 11, 77th Congress and hereinafter called the Act) the United States will transfer, exchange, lease, lend, sell, or otherwise dispose of certain defense articles and defense information to the United Kingdom, as listed and valued in schedules, appropriately identified, now or hereafter to be attached to this Agreement.

2. Within such period or periods as determined by the President:

(a) The United Kingdom agrees to return to the United States such defense articles 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 return to the United States an equivalent amount of similar defense articles, which, in the opinion of the President, are of a quality and efficiency substantially equal to the defense articles transferred hereunder to the United Kingdom.

(c) The United Kingdom agrees,

- (i) in return for agricultural commodities, and
- (ii) in return for other defense articles and
defense information

transferred to it hereunder and for which the United States has not otherwise received full reimbursement, to deliver to the United States an equivalent dollar value of tin, rubber, jute, and other products and commodities produced in the British Empire and which, in the opinion of the President, are needed by the United States. Such products and commodities

- 3 -

shall be delivered in such quantities and at such time or times as shall be determined by the President.

(d) The United Kingdom may at its option and in lieu of the return of the defense articles or similar defense articles, as provided in Paragraphs (a) and (b) above, deliver to the United States any other raw materials, services, facilities, or other consideration or 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.

4. The President shall determine the fair value of any defense article 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 and defense information transferred to the United Kingdom hereunder.

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, transferred to the United Kingdom hereunder or

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permit its use by anyone not an officer, employee, or agent of the United Kingdom.

6. If, as a result of the transfer to the United Kingdom of 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. 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 articles" and "defense information" as used in this Agreement shall have the same meaning as defined in the Act.

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

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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.

THE UNITED STATES OF AMERICA.

By

(Title)

HIS MAJESTY'S GOVERNMENT IN THE
UNITED KINGDOM.

By

(Title)

April 7, 1941
11:33 a.m.

H.M.Jr: Hello.

Operator: Mr. Kamarck.

H.M.Jr: Kamarck.

Andrew
Kamarck: Yes, sir.

H.M.Jr: Would you run me a war map on this Balkan
campaign similar to the one you did on
Ethopia?

K: Yes, sir.

H.M.Jr: Have something to show me tomorrow if you
can get any information.

K: I'll have it tomorrow. Do you want me to
get in contact with Military Intelligence?

H.M.Jr: Yes.

K: I'll do that.

H.M.Jr: Can you do that?

K: Yes, sir.

H.M.Jr: You can get over it and then I can have
something in the morning.

K: Right-o.

H.M.Jr: Thank you.

April 7, 1941
12:10 p.m.

H.M.Jr: Hello.

Sidney
Hillman: Hello, Mr. Secretary. How are you?

H.M.Jr: How are you?

H: I am much better, fortunately, and you know until a week ago I was a little under the weather, you know. Now, you and I ought to get together. I feel I ought to do it now and can do it and I'm anxious to do it.

H.M.Jr: Get together.

H: Yeah.

H.M.Jr: That suits me.

H: Now, I have a luncheon engagement in the British Embassy today and then about 4:00 - from 3:30 to 4:00 I'm to see Madame Perkins. Now, if I could see you as soon as I get through with that luncheon engagement and have that in between, that would suit me.

H.M.Jr: What time are you seeing Madame Perkins.

H: About 4:00 o'clock.

H.M.Jr: Look, I have press at four

H: You have what?

H.M.Jr: I have a weekly press conference at 4:00 but I could see you before that.

H: That's what I say. Between the luncheon-- as soon as I get through from the Embassy with luncheon, I'd like to come over and see you.

H.M.Jr: Well, what time would that be about?

H: I'm to be there at 1:15. How long do you think those things last?

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H.M.Jr: I don't know. I am free at 3:00 - just a second - let me just get this thing right. Could you make it 3:15 because I have somebody out of town at 3:00.

H: I think I can do it at 3:15 very comfortably.

H.M.Jr: 3:15. I'd be delighted.

H: All right. I'll be over at your place at 3:15.

H.M.Jr: Thank you.

H: Thank you.

For Miss Chapman

TREASURY DEPARTMENT

265

INTER-OFFICE COMMUNICATION

DATE April 7, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 12:40 this noon Assistant Secretary of State Acheson telephoned me. He said that Secretary Morgenthau had spoken with him by telephone this morning in regard to Yugoslavia, and had suggested that Mr. Acheson telephone me with respect to developments over the weekend.

I recounted to Mr. Acheson the message from the President which Secretary Morgenthau had conveyed through me to Mr. Berle for communication to the Minister of Yugoslavia. I also reported my conversation of this morning with Mr. Berle in which the latter recounted the relaying of the message. Mr. Acheson was of the opinion that the Yugoslavs might not now desire any relaxation of the control. He seemed to think that we had done everything necessary, and it now remained for the Yugoslav Minister and ourselves to watch developments and then decide what may be appropriate. He thanked me for bringing him to date.



April 7, 1941
11:30 a.m.

RE FINANCING (R7C)

Present: Mr. Bell
Mr. Hadley
Mr. Murphy
Mr. Haas

H.M.Jr: Does somebody want to interpret this for me?

Bell: Do you want me to give you a little reaction in New York?

H.M.Jr: I would love it.

Bell: I talked to Rouse at eleven o'clock and he talked to a number of the dealers and bankers. He said the market was down this morning at the beginning, of one eighth, because of the news from abroad; but later it reversed, and now it is back to the Saturday closing.

It has a firm tone and not very much doing, and they have come to the conclusion that the news over there shouldn't affect our market seriously.

He said that there is some feeling that maybe this news will get bad and maybe you would like to do it tomorrow instead of Wednesday. Someone just raised that question. He said this is a bank operation entirely, and that there is a feeling that the allotments might be larger than on other issues.

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They also say that there is a definite widening of the market at a one per cent coupon. In other words, one per cent below is definitely within a very narrow banking area, whereas if you get out beyond one per cent, one per cent beyond, you will get others in the picture than banks.

They all seemed to agree that you ought to have at least a one per cent coupon wherever you put it, and in order to get away from the strictly banker market. There is a further element in the guaranteed issues, and that is their lack of eligibility for the Federal.

We have been looking into that some time to see whether or not we couldn't bring all guaranteed issues under the same eligibility status as Government securities. There is a differential of fifteen to twenty points between guarantees and direct, and that was responsible for some of it.

(Mr. Haas and Mr. Murphy entered the conference.)

Bell:

There is not as much right value in the guarantees as in the direct. They all seem to agree that five or six hundred million dollars is not too much for one time.

H.M.Jr:

In one issue, not to split it?

Bell:

Well, you can split it, they mean at one time, but it will go in one issue, and I think there is a little preference for one issue. Say liberality, many of them stress this, that liberality is desirable in order to maintain the present tone of the market.

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They feel that the July, '43, at a one per cent coupon will give you about eighteen thirty-seconds premium. A one and an eighth on a three year basis, which would be April, '44, would be too thin, so that if you are going to put it in that area, you ought to go to three and a half and make it one and a quarter per cent.

January, '43, three quarters per cent coupon, that is the one you and Jones talked about, one of them, would sell at about eleven thirty-seconds, and the July, '43, a seven eighths coupon would be about thirteen thirty-seconds premium.

He says there is no question about these two issues going, and that they certainly will be oversubscribed; but everyone feels that within a short time they will be in the New York market. They are held largely by the New York banks. They would prefer to see one issue either of the July, '43, or a little further out, in order to get the one per cent coupon. They think that if you are going to do two issues, it might be well to just ask for the six hundred million dollars to be divided between the January and the July, because it is in effect one issue; and then allot - make allotments in proportion to the subscriptions you get.

I think we have done that a few times.

H.M.Jr: You mean call it one issue?

Bell: No, put out six hundred million, but you put out a January '43 and a July '43.

H.M.Jr: Same coupon?

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Bell: No, three quarters and seven eighths if that is the right coupon, and then say that you make allotments on the basis of the proportion of the total subscriptions - or that the subscriptions on each bears to the total subscription.

In other words, if you get three billion subscriptions, two billion of the July '43 and one billion of the January '43, you give two to one. You would give four hundred million in July and two hundred million in January.

H.M.Jr: I still don't get it.

Bell: Don't you?

H.M.Jr: No.

Bell: If we get three billion dollars total subscriptions --

H.M.Jr: I am a bank. Put it that way. You are a bank and you want to subscribe. What would you - supposing you subscribed ten million for each issue, but the longer issue had twice as many subscriptions.

Bell: They would get two thirds of their ten million on the longer issue, and one third on the shorter issue.

H.M.Jr: I see.

Bell: On that percentage basis.

H.M.Jr: Is that a good wrinkle?

Bell: Well, it isn't good generally speaking, but we have done it in one or two cases.

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Murphy: The HOLC is the one that I was thinking of, Mr. Bell, and that is a little different. There may be one like you say. The one I was thinking of, we received subscriptions for two issues jointly.

As a matter of fact, it was an exchange, and you had to make the exchange - I think it was sixty per cent of one and forty per cent of the other, and that was the proportion.

Bell: I think we have done something like this before. It isn't the best thing, but when we have got two issues together, it is all right.

Haas: If a fellow subscribed for one issue, he is bound to get one of the two.

Bell: He gets what he subscribes on the basis of the ratio of the subscriptions in his issue to the total subscriptions of both issues.

H.M.Jr: What do you think, George, about what should be done? Let's talk in terms of six hundred million.

Haas: I was thinking of - at the moment we are thinking about two issues, and probably that will be somewhat governed by the fact that the two issues which there seemed to be the most preference for was January '43 and July '43.

You could split three hundred between the two, but if the market thinks you can put it in one issue, I think it is a cleaner job.

Our prices are not quite in line with what Dan spoke of, but we have still got another day on that.

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H.M.Jr: Above or below?

Bell: They aren't far apart, are they?

Haas: We are thinking about one and an eighth for July 15, 1943. You had one.

Murphy: Hadley has cut his coupon - at least you have, a little, from the last time we talked to you. We have raised ours a little. We were both thinking of seven eighths, for example of this January, '43, and we were on the margin of hesitation between the seven eighths and a one; but after a little additional research, we are recommending a one, and after a little additional research, Hadley is recommending a three quarter.

Hadley: No I am not.

Bell: I am talking about Rouse's figures.

Murphy: Oh, pardon me. You see, I - I attribute too much weight to - I supposed automatically that he was giving your (Hadley's) figures.

Rouse has a three quarters, Hadley has a seven eighths, and we have one. The main difference is that we are taking a thirty per cent tax assumption, and I know that Mr. Hadley is taking a twenty-four. Of course, I don't know what Mr. Rouse is.

Bell: Rouse took a twenty-four.

Murphy: I might say that Piser took twenty-four, and still he gets the same results that we do.

H.M.Jr: Just a second. On the two and a quarter year, 7-15-'43, what do you get?

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Murphy: We get one and an eighth.

Hadley: I have both of them listed there. I would take the one and an eighth on that issue.

Bell: You mean if it is six hundred million?

H.M.Jr: I am going to split it. I don't see any sense --

Murphy: Ours are based on splitting it, Mr. Bell.

H.M.Jr: I would split it.

Murphy: Now, there is a question as to what premium you want, Mr. Secretary. The July issue at one and an eighth, we figure it for eighteen thirty-seconds premium.

H.M.Jr: For which?

Murphy: The July 15, '43, one and an eighth.

H.M.Jr: That is 7-15-'43?

Murphy: Yes. We figure a premium of eighteen thirty-seconds.

Bell: That is one and an eighth.

Murphy: Now, the past record on premiums on RFC issues, there are now four of them outstanding, and the premiums are going back on their first day of trade. They have been 24, 17, 14, and 18. So our premium is right in the neighborhood of the premiums that we have been offering in the past.

H.M.Jr: Well, Jones won't go one and an eighth. You might just as well make up your mind.

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Murphy: You can chisel the one and an eight when you chisel the premium, but it would be chiseling below the premiums we have been offering in the past.

H.M.Jr: What can you give me for one per cent?

Murphy: April.

H.M.Jr: You (Hadley) haven't got an April down there.

Haas: Fifteen thirty-seconds. That is smaller than we have got before.

H.M.Jr: I think fifteen thirty-seconds is enough.

Haas: It puts you back three more months, and you get seventeen.

Murphy: On the same coupon?

Bell: That depends on the tax assumption.

Murphy: This is on eighteen per cent tax assumption.

Hadley: April would be about twenty on my basis.

H.M.Jr: That isn't 7-15. That is 4-15, is it?

Murphy: Four, fifteen.

H.M.Jr: Four, fifteen, forty-three, and he has for that twenty-three thirty-seconds.

Hadley: I have twenty-three for January, and I would have about twenty for 4-15.

H.M.Jr: What is that?

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- Hadley: I would have twenty thirty-seconds for April 15th. It is just half way in between those two issues.
- Murphy: We would have eighteen thirty-seconds on a twenty-four per cent tax assumption, so you can see the difference in the tax.
- H.M.Jr: If Jones wants to go to July 15, '43, you say he has to pay one and an eighth?
- Murphy: Yes, sir.
- H.M.Jr: And January 15, one and three quarters?
- Haas: No, that is the number of years. One per cent.
- H.M.Jr: I would like to put an issue for him 7-15-'43, which is two and a quarter years. Hadley has one per cent. You think that that would take --
- Murphy: One and an eighth.
- H.M.Jr: You don't think it would do it for one?
- Murphy: Well, it will go for one, probably. It will give a lower premium than the premiums we have been accustomed to offering in the past. The premium would be about, say a twelve.
- Bell: Our recent guaranteed issues, we have gone pretty low on some of them.
- Hadley: On that short stuff you have to add a lot of coupon to give much premium.
- H.M.Jr: I know. I wouldn't be afraid of it the way you fellows figured it.

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Bell: Well, are you in favor of one issue?

H.M.Jr: No.

Bell: You want two issues?

H.M.Jr: Yes.

Bell: Where are you going to put the other one?
You want two and a quarter, July, '43,
for one issue.

Hadley: Shorter or longer on the next one?

Bell: You don't think Jones would pay one and
a half?

H.M.Jr: I don't think so. Seven, one, forty-two,
that is the first of July, isn't it?

Bell: July, '41, is the first one, two hundred
eleven million; then we have got one in
November.

H.M.Jr: July, '42, next year.

Bell: Then we have got one in November, two hundred
ninety-seven million. Then we have got
January, '42, three hundred and ten million.

H.M.Jr: I was just thinking, put the --

Bell: A nice schedule, Mr. Secretary, would be
one of January, '43, and January, '45, as
the second issue.

H.M.Jr: January, '45?

Bell: Yes. That would be two years apart. It
would get you out into a coupon area where
you could get other than bankers interested,
maybe. You might get some insurance companies
into it.

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H.M.Jr: Don't you think - does anybody - don't you think we had better split this issue?

Hadley: I think it ought to be split.

Murphy: Yes, sir.

Hadley: I think the difference between the two issues should be at least one year. I don't think that six months between two issues is sufficient.

Bell: It is really one issue, that is what it is, if you put it that close.

H.M.Jr: Well look, if we had January, 15, '43, you couldn't make it seven eighths, could you?

Bell: You might if you only put three hundred million in there.

Hadley: You could on my figures.

Murphy: We get a premium of twelve, Mr. Secretary. I think twelve is enough, but I just want to call your attention to the fact that there are four RFC issues now outstanding, and the lowest premium that was offered on any of them was fourteen, and we used that as our guide.

Haas: Our tax assumption may be wrong, too.

Murphy: Oh yes.

H.M.Jr: Seven eighths is equal to twelve thirty-seconds, and it would be a one per cent, wouldn't it?

Bell: No, seven eighths.

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H.M.Jr: No, July 15 would be one per cent.

Bell: Oh, July 15.

H.M.Jr: I said January 15, '43, pays seven eighths and July 15 --

Bell: Would have to be one.

H.M.Jr: Would be one per cent.

Murphy: You would get twelve for that, also. Hadley would get more.

H.M.Jr: How much do you say, Hadley?

Hadley: On July for one per cent, I would get sixteen to eighteen.

Bell: On the January he gets fifteen, sixteen. They are both within the range of what we have been giving you.

H.M.Jr: What I think is this, gentlemen. I don't think it would be too smart to try to beat the gun and do this thing tomorrow.

Bell: It is a little rushing it.

H.M.Jr: I would rather have some bad news and have the thing go down and get the repercussions.

Bell: Rouse raised the question as to whether you would want to put it out if you thought bad news were coming.

H.M.Jr: I would much rather get the bad news and have the thing go down, and then sell it and then get the - if there is going to be any movement, I want to see it up. I think I will call up Jones and just talk

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to him on how it looks as of this morning, you see. He called me.

Bell: George, what did you get for January, '45?

Murphy: For April, we have one and a half at 5-17. The one and a half would be an original, but I don't think we could get it down to one and three eighths. It would be right on the border. One and three eighths for April - I mean for October, '44, we have par eighteen. If you push that out until January, it would cut it down to say fifteen; and of course, we are out in a region there where fifteen thirty-seconds premium isn't so much.

Bell: Hadley has twenty-eight and thirty-one.

Murphy: We would have for the October '44, twenty-seven on a twenty-four per cent tax assumption. That is the difference.

Bell: Yes.

H.M.Jr: But you take a bank, for instance - you say it is the same as one issue. The reason I argue the other way, I am a bank and I have got some of my money coming due in January, and I have got another bunch coming due in July, and it is six months apart. For a bank, that is quite awhile.

Bell: But you won't get anything but bankers.

H.M.Jr: Well, that is all right. You might get a few corporations.

Murphy: I don't think you would get much besides bankers anyway.

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H.M.Jr: I don't either. I don't think it makes much difference.

Bell: You might if you went to the one and a half.

(Telephone conversation with Mr. Jesse Jones follows:)

April 7, 1941
11:52 a.m.

Operator: Operator:
H.M.Jr: Jesse Jones, please.
Operator: Right.

11:54 a.m.

H.M.Jr: Hello.
Operator: Secretary Jones.
Jesse Jones: Hello, Henry.
H.M.Jr: Jesse, we've been working on your financing. The Balkan news didn't help it any. Hello?
J: I suppose not.
H.M.Jr: Have you got a pencil?
J: Yeah.
H.M.Jr: This is the way it looks as of this morning. If we borrowed \$300 million to come due in January 15, 1943, at 7/8s coupon, it would sell we figure between 12 to 15/32nds above par. Hello?
J: Yeah, I'm listening.
H.M.Jr: And the other \$300 million July 15, 1943, 1%, which we figure would sell somewhere between 12 to 16/32nds above par.
J: Yeah.
H.M.Jr: Now, this is a little bit closer - less margin than we've usually used for you and of course heretofore your notes were tax exempt and it's

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J: Whatever your judgment about it is, Henry,
will be satisfactory over here.

H.M.Jr: Well, I couldn't ask for anything better.
Now, we'll work on it again about this
time tomorrow and give you another ring.

J: O.K.

H.M.Jr: Thank you.

J: Fine.

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H.M.Jr: Can't ask for any better. What?

Murphy: Perfect.

Bell: There is a thirty million private issue, Hadley says, coming out Wednesday. Koppers Coke, is that what it is?

Hadley: That is right. It is not definite.

H.M.Jr: Well, would you (Hadley) mind when you come in tomorrow just keeping this for me like this and bringing it in tomorrow? Then we can do it at eleven thirty tomorrow again.

Bell: Yes.

H.M.Jr: How is that?

Bell: Fine. We will settle it then. You still lean to the January and July, two issues?

H.M.Jr: I think so. This is the way I look at it. This fellow is going to have more stuff and if he has three hundred million dollars coming due twice a year, I mean that is about the way he works. I know it is the way he likes it. It kind of fits into his pattern. We have nothing ourselves, we don't want to go into that area particularly now. Nobody else particularly. It gives him cheap money, and it gives him money that costs one per cent or less, and this bank stuff, I am for the bank stuff but - I mean to get out of the bank, but he won't pay one and a half.

Bell: He has been pretty wise in getting all his legislation, you know. He has gotten his authority to loan up to fifteen years, but

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he has never gotten his authority to borrow beyond the five years changed. He gets the backing of the treasury.

H.M.Jr: It is all right getting cheap money. He is going to take terrific losses, certainly in South America.

Bell: How about Byrd's proposal to make all these corporations pay the Treasury on this capital percentage, the average cost of the money, so that they could show a true cost in their profit and loss statement.

H.M.Jr: All right, gents. Thank you all.

Estimated Yield Bases and Probable Prices of New Issues
of Reconstruction Finance Corporation Notes

(Based on Closing Bid Prices, April 7, 1941)

Maturity	Coupon	Estimated yield basis	Probable opening price
January 15, 1942 (9 months)	5/8	.34	100- 7/32
July 15, 1942 (1-1/4 years)	3/4	.48	100-11/32
January 15, 1943 ✓ (1-3/4 years)	1	.70	100-17/32
July 15, 1943 ✓ (2-1/4 years)	1-1/8	.87	100-18/32
January 15, 1944 (2-3/4 years)	1-1/4	1.03	100-19/32
July 15, 1944 (3-1/4 years)	1-3/8	1.17	100-21/32
January 15, 1945 (3-3/4 years)	1-1/2	1.31	100-22/32

Treasury Department,
Division of Research and Statistics.

April 7, 1941

Premiums on First Day Traded (When Issued) of
Outstanding Reconstruction Finance Corporation Notes

Date first traded	Coupon	Maturity	Term	Premium
November 1, 1939	1	July 1, 1942	2 yrs., 8 mo.	24/32
February 7, 1939	7/8	January 15, 1942	2 yrs., 11 mo.	16/32
October 24, 1938	7/8	November 1, 1941	3 yrs.	14/32
July 12, 1938	7/8	July 20, 1941	3 yrs.	16/32

Treasury Department,
Division of Research and Statistics.

April 8, 1941

TREASURY DEPARTMENT

286

INTER-OFFICE COMMUNICATION

DATE April 7, 1941

TO Secretary Morgenthau

FROM W. H. Hadley

OUTSTANDING R.F.C. ISSUES

<u>Date</u>	<u>Amt. Outstanding</u>	<u>Coupon</u>
7/20/41	211 mil.	7/8%
11/1/41	297 mil.	7/8%
1/15/42	311 mil.	7/8%
7/1/42	276 mil.	1 %

Estimated Yield Bases and Probable Prices of New Issues
of Reconstruction Finance Corporation Notes

(Based on Closing Prices, April 5, 1941)

Maturity	Coupon	Estimated yield basis	Probable opening price
April 15, 1942 (1 year)	3/4	.43	100-10/32
October 15, 1942 (1-1/2 years)	7/8	.59	100-13/32
X January 15, 1943 (1-3/4 years)	1	.70	100-17/32
April 15, 1943 (2 years)	1	.77	100-15/32
X July 15, 1943 (2-1/4 years)	1-1/8	.87	100-18/32
October 15, 1943 (2-1/2 years)	1-1/8	.92	100-16/32
April 15, 1944 (3 years)	1-1/4	1.07	100-17/32

Treasury Department,
Division of Research and Statistics.

April 7, 1941.

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE April 7, 1941

TO Secretary Morgenthau
FROM W. H. Hadley

R.F.C. FINANCING

<u>Date</u>	<u>Coupon</u>	<u>Yield</u>	<u>Price</u>	<u>Premium</u>
1/15/42	1/2%	0.25	100.6	6/32nds
(3/4 yr.)		0.27	100.5	5/32nds
	5/8%	0.25	100.9	9/32nds
		0.27	100.8	8/32nds
7/15/42	5/8%	0.42	100.8	8/32nds
(1 1/4 yrs.)		0.44	100.7	7/32nds
	3/4%	0.42	100.13	13/32nds
		0.44	100.12	12/32nds
1/15/43	3/4%	0.58	100.10	10/32nds
(1 3/4 yrs.)		0.60	100.9	9/32nds
	7/8%	0.58	100.16	16/32nds
		0.60	100.15	15/32nds
4/15/43	1%	0.58	100.23	23/32nds
		0.60	100.22	22/32nds
7/15/43	1%	0.75	100.18	18/32nds
(2 1/4 yrs.)		0.77	100.16	16/32nds
	1 1/8%	0.75	100.27	27/32nds
		0.77	100.25	25/32nds
1/15/44	1 1/8%	0.90	100.20	20/32nds
(2 3/4 yrs.)		0.93	100.17	17/32nds
	1 1/4%	0.90	100.30	30/32nds
		0.93	100.28	28/32nds
7/15/44	1 1/4%	1.07	100.19	19/32nds
(3 1/4 yrs.)		1.10	100.15	15/32nds
	1 3/8%	1.07	100.31	31/32nds
		1.10	100.28	28/32nds
1/15/45	1 1/2%	1.24	100.31	31/32nds
3 3/4 yrs.		1.27	100.28	28/32nds

April 7, 1941
3:10 p.m.

H.M.Jr: Hello.

Operator: Stettinius.

H.M.Jr: Hello.

Edward Stettinius: Hello, Henry.

H.M.Jr: Ed, I want you to help me out on this even though it doesn't come directly under you.

S: Right.

H.M.Jr: I have the purchasing agent here for the Dutch East Indies-Netherlands Government.

S: For what?

H.M.Jr: Dutch East Indies. Now, they've got a lot of steel they want to buy and they can't buy it.

S: Yeah.

H.M.Jr: You fellows say there is no trouble on production.

S: This is the Dutch East Indies.

H.M.Jr: Yeah.

S: And they want structural?

H.M.Jr: Well, he's got a lot of different kinds of steel.

S: Well, we'll get it for him.

H.M.Jr: Will you?

S: Sure, as long as it isn't alloy tool steel.

H.M.Jr: No, it's round steel bars, flat steel bars, angles, plates, galvanized, corrugated sheets.

- 2 -

S: No reason why he can't get them, Henry.

H.M.Jr: Well, he's been trying for two weeks.

S: Who has he been trying to get them from?

H.M.Jr: Well, I don't know. He can tell you.

S: Well, now, will you tell him to come over to see me?

H.M.Jr: When?

S: 4:15 this afternoon. Mr. Baruch is with me and my staff now, and I'll be delighted to see him at 4:15 or 4:30 and we'll take care of him.

H.M.Jr: Did you say 4:30?

S: 4:30 in my office. What's his name?

H.M.Jr: Just a minute. I'll make him write it out.

S: (Laughs).

H.M.Jr: It's just difficult for me to pronounce. Wait a minute.

S: You can say it if you can spell it.

H.M.Jr: Philip Young is here with him.

S: Tell Phil to come with him.

H.M.Jr: It's Nieuwenhuis, N-i-e-u-w-e-n-h-u-i-s, J.H.

S: Right. We'll take care of him, Henry.

H.M.Jr: Phil knows where you are.

S: Phil knows exactly where I am.

H.M.Jr: Well, I'll be curious to see whether you do now.

S: If you wait and see you'll be pleased.

H.M.Jr: (Laughs). I like to be pleased.

S: O.K., Henry.

H.M.Jr: Thank you.

April 7, 1941
3:26 p.m.

H.M.Jr: Hello.

Operator: Secretary Hull coming on.

Cordell
Hull: All right, Henry.

H.M.Jr: Cordell, I asked the President at lunch about this legislation to take over the Danish ships.

H: Yeah.

H.M.Jr: And he didn't seem to know anything other than he thought he'd O.K.'d it, F.D.R., last Wednesday - a memo that was given to you.

H: Well, it was O.K.'d then. I brought it up in Cabinet and showed him the copy of the bill that had been drafted and he O.K.'d it and told me to get it in shape for him to send to Congress, which I did, and he's got it on his desk.

H.M.Jr: Well, he couldn't find it.

H: Well, it's over there.

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

H: Yes, I'll have it checked.

H.M.Jr: Would you, because he couldn't find it.

H: Well, it's over there with a proposed message.

H.M.Jr: Well, for heaven sakes.

H: All right, Henry. Thank you for bringing it up.

H.M.Jr: Thank you.

April 7, 1941
3:45 p.m.

H.M.Jr: I've got another idea. On those hundred companies that you gave me, you know you can get a list through Norman Thompson from McReynolds of the men in the National Defense and what companies they are connected with. They've published such a list, you see.

John
Sullivan: Right.

H.M.Jr: A roster.

S: Right.

H.M.Jr: And I'd like to know of these hundred companies how many of them have officials down here working for the Government. I think it would be just interesting.

S:M.J Right.

H.M.Jr: What I saw two or three months ago from Norman Thompson, they had about 800 men down and each one was listed, what company he came from.

S: Yes, sir.

H.M.Jr: Wouldn't you be interested?

S: Very.

H.M.Jr: And I'm begging off tonight because I feel too lousy, but I'll give you 9:30 tomorrow morning.

S: That's all right. I'm going up to the Henderson dinner.

H.M.Jr: Oh.

S: They left at 2:00 but I'm going to try and get the 4:00 o'clock to Wilmington and then drive over to Millville.

- 2 -

H.M.Jr: Oh, good.

S: I present your regrets and very high regard
for him?

H.M.Jr: If you please.

S: Right.

H.M.Jr: Thank you.

S: Thank you, sir.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 7, 1941

TO Secretary Morgenthau
FROM Oscar Cox

For your information:

Mr. Hopkins has asked Lauchlin Currie to take the primary responsibility in developing contacts with the Chinese Government in the administration of the Lend-Lease Act.

OAC

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

Week ended April 5, 1941

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	240,000 Bbls.	--	--	--
Crude -				
Blended or California High Octane Crude*	155,750 Bbls.	--	--	--
All Other Crude	143,138 Bbls.	--	--	55,000 Bbls.
Gasoline -				
Gasoline A**	--	--	--	--
Gasoline B*	11,250 Bbls.	--	--	205,000 Bbls.
All Other Gasoline	117,700 Bbls.	--	--	--
Lubricating Oil -				
Aviation Lubricating Oil***	8,657 Bbls.	--	--	16,087 Bbls.
All Other Lubricating Oil	22,840 Bbls.	--	--	15,139 Bbls.
Tetraethyl Lead***	--	--	--	--
"Boosters", such as Iso-Octane, Iso-Hexane, or Iso-Pentane	--	--	--	--
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	--	--	--	11,517 Tons
All Other Scrap	--	--	--	9,503 Tons

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

April 7, 1941.

Source: Office of Merchant Ship Control, Treasury Department.

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

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE April 7, 1941

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending April 5, 1941

Summary

(1) The marked upturn in prices of basic commodities in recent weeks, which has extended to domestic as well as import commodities, suggests that a more critical price control situation is developing as industrial production approaches present capacity. The situation bears some resemblance to that during the World War period, beginning near the latter part of 1915, when an increasing portion of the pressure of demand was diverted toward raising prices after production had reached virtual capacity.

(2) Maximum prices for steel scrap and lead were established last week, while prices of bituminous coal were frozen at current levels pending the strike settlement. On the other hand the Department of Agriculture announced a program of increased Government purchasing of hogs, poultry, and dairy products as a means of establishing minimum prices and stimulating production.

(3) Due to the further increase in steel ordering in March, steel mills entered the current month with backlogs at a new high. U. S. Steel orders in the last week of March were at 159 per cent of capacity, versus 132 per cent in the previous week. Steel production apparently was reduced but slightly by the recent Bethlehem steel strike.

(4) Weekly business indexes on a seasonally-adjusted basis spurted to record high levels in the last week of March. Freight carloadings have been making a particularly strong showing, partly as a result of increased production and shipment of coal in anticipation of labor trouble.

(5) The FRB index for March is estimated tentatively by the Reserve Board at 143, which compares with 141 for February.

Price situation reaching critical stage

The marked upturn in prices of basic commodities during the past several weeks, which has extended to domestic as well as import commodities, directs attention to the more critical price-control problem that is arising as industrial output approaches present capacity.

The BLS price index of 28 basic commodities (see Chart 1, lower section) has risen as much in the past two months as in the previous 6 months. The upturn has been reflected in a sharp increase in the BLS all-commodity index (shown in Chart 1 monthly and weekly) which has risen more in the two latest weeks reported than in any other similar period since the outbreak of the war in September 1939.

The price upturn appears to reflect a somewhat more definite tendency in the direction of price inflation, in which an important factor has been the failure of production to expand sufficiently to meet the increase in demand. In the cotton textile industry, for example, the demand has been so heavy that print cloth prices have been lifted 23 per cent since early February, despite the record level of mill activity.

The situation recalls somewhat that of the World War period beginning near the latter part of 1915 (see Chart 2), when an increasing proportion of the pressure of demand was diverted toward raising prices, since production had reached virtual capacity. In the present situation, the amount of upward pressure on prices is doubtless concealed somewhat (but not eliminated) by the prompt action of the Administration to stabilize prices. There is little doubt, for example, that prices of steel, steel scrap, zinc, aluminum, and various other materials, would be selling considerably above present levels had it not been for Government action.

Contributing toward a more inflationary tendency in the past few weeks has been an apparent increase in speculative activity. The volume of trading in the commodity futures markets, for example, has increased steadily since January. In the last four weeks new records since at least 1939 have been established for futures trading in a number of commodities.

Heavy ordering of steel pushes backlogs higher

Steel mills entered the current month with a further increase in backlogs as a result of the very heavy inflow of orders during March. Weekly new orders received by the

U. S. Steel Corporation corroborate trade comment that March ordering, even on a daily average basis, ran ahead of the unusually heavy volume of business booked in February. New business of the U. S. Steel Corporation in the last week of March was at 159 per cent of capacity, as compared with the high figure of 182 per cent in the previous week.

The defense program is taking an increasing proportion of steel output. The shipbuilding program has resulted in a very heavy demand for steel plates, and deliveries of this item for non-defense purposes generally cannot be obtained before 5 or 6 months. Chiefly as a result of lettings of steel for defense projects, construction steel orders in the week ended April 1 spurted sharply, and were nearly four times as large as bookings in the corresponding week of 1940. Apart from the defense program a heavy demand is said to be still coming from the automobile industry.

Steel production high despite strike

Although mill operations were somewhat curtailed, it now appears that steel ingot production was little affected by the strikes in Bethlehem Steel plants near the end of March. As a matter of fact the company's production in March reached a new record high, and the operating rate for the month was reported to be 101.2 per cent of rated capacity. Steel operations for the industry as a whole last week were scheduled at 99.2 per cent of capacity as compared with 99.8 per cent in the previous week. Operations in the current week are scheduled at 99.3 per cent of capacity.

Although steel mills and by-product coke ovens on March 1 had average supplies of bituminous coal on hand amounting to 30 and 43 days' consumption, respectively, repercussions of the current coal strike have already been felt in the steel industry. Thus near the end of the week it was reported in the press that one blast furnace in the Youngstown area was unable to resume operations because of the strike, and that continued operations at several others were threatened.

Business indexes spurt at end of March

The FRB index of industrial production for March is estimated tentatively at 143, or 2 points higher than for February.

The New York Times index, after showing a tendency to level out in the earlier weeks of the month, spurted 1.8 points to a new record high of 124.1 at the close of March.

(See Chart 3.) During the same week Barron's index of business activity also rose to a new record high, advancing to 133.3 from 131.5 in the previous week.

The principal factor in the rise was a substantial increase in freight carloadings to a new high for the year. (Refer to Chart 3.) It will be noted that the gain over year-earlier levels has been widening in recent weeks, and had increased to no less than 26 per cent by the week ended March 29. Although the sharpest gain in the week mentioned was in miscellaneous carloadings, coal loadings showed a further moderate gain and reached the highest levels for that period since 1927.

Coal production and loadings reflect strike threat

Recently coal loadings have undoubtedly been stimulated to some extent by the increased production of bituminous coal. (Refer to Chart 3.) Preliminary figures indicate that bituminous coal production last month was about 36 per cent higher than in March 1940. Part of this gain reflected increased stocking of soft coal in anticipation of a strike, which actually developed when negotiations for a new wage agreement failed at the end of the month. Until agreement is completed between the operators and miners covering the Appalachian soft coal area, carloadings will be adversely affected.

Another factor contributing to the rise in the New York Times index during the last week of March was a rise to a new record high in the adjusted index of electric power production. Reference to Chart 3 will show that electric power output thus far in 1941 has been maintained at a relatively steady level, in contrast to the rather pronounced normal seasonal decline. As a result, the gain in electric power production over year-earlier levels had widened to 16 per cent by the latter part of March.

February decline in exports less than seasonal

Due to the shorter month, the value of exports of United States merchandise in February declined 6 per cent below the previous month. However, the decrease from the total of \$318,000,000 in January to \$298,000,000 in February was less than seasonal. The decline was entirely accounted for by nonagricultural products, since agricultural exports actually gained \$2,000,000 during the month.

Aside from a sharp increase in exports of firearms and ammunition, which rose to nearly \$13,000,000 from less than \$7,000,000 in January, most of the major groups comprising nonagricultural exports declined. Iron and steel exports fell to the lowest levels since last May and were only 3 per cent above the corresponding month of 1940. Despite an increase in engine shipments, aircraft exports of \$34,000,000 were 17 per cent below the record high figure reached in the previous month. (See Chart 4.) However, after allowance for the smaller number of working days in February, few of the declines during the month reached really significant proportions.

Although agricultural exports rose 10 per cent in February to \$24,000,000, this figure contrasts sharply with the February 1940 total of no less than \$80,000,000. At that time agricultural exports were totalling up to large figures chiefly because of very heavy exports of cotton, which amounted to \$44,000,000 in February 1940 as compared with only \$4,000,000 in the same month of this year.

New orders lower for week

Our new orders index for the week ended March 29 declined to 190.4, as compared with the very high level of 228.5 in the preceding week. (See Chart 5.) The decline was due to lower orders for steel and textiles.

Prices of imported commodities flattening out; prices of domestic commodities higher

The BLS index of prices of imported commodities flattened out last week (see Chart 6, upper section) following the British naval victory and the reduction of marine insurance rates for the Eastern Mediterranean. Price changes among the following imported commodities seem worthy of comment. (Refer to Chart 6, lower section.)

Burlap: Increased 3.6 per cent. Offerings have been so small recently that price quotations are nominal. The amounts scheduled to arrive are very limited and uncertainty exists in the trade as to whether even these restricted schedules will be maintained. A United Press dispatch says that defense officials have burlap under "price surveillance."

Flaxseed: Increased noticeably. Intended domestic acreage this year reported by Government as slightly lower than last year. Demand for linseed oil has increased because of increased demands for paints and varnishes and substitution of linseed oil for higher priced chinawood oil.

Coffee: No increase. Miss Harriet Elliott of the Defense Commission issued a warning Wednesday that recent advances in coffee prices were not warranted.

Tin: Slight decrease. Major can manufacturers are expected to request steel companies to reduce the amount of tin used in tin plate by 10 to 25 per cent. The conservation unit of the OPM has called a meeting of can manufacturers to consider other means of reducing non-essential civilian uses of tin.

Rubber: Declined noticeably on announcement of allocation of April cargo space for shipments from Far East, although only a small part of space applied for was granted.

Cocoa: Decreased 3.7 per cent. Britain has turned down proposed quota allocations suggested by Latin American nations, who, in turn, have vetoed British suggestions.

Among the domestic commodities, the main price increases were among the fats, oils, and provisions, for which futures prices also advanced steeply. The announced Government buying program stimulated prices of lard, cottonseed oil, and hogs, while heavy purchases of tallow by soap manufacturers carried the price to 100 per cent above the August low. (See Chart 6, lower section.)

Maximum prices established for certain metals

Further maximum prices were established last week on steel scrap and lead, in addition to those previously mentioned for scrap aluminum, secondary aluminum ingots, scrap zinc, and secondary slab zinc. Commissioner Henderson announced that the price of Number 1 heavy melting steel scrap at Pittsburgh would be \$20 per ton, with differentials for various grades and regions. This is about \$1 a ton below actual prices, and is the same level as the goal mentioned when the industry was asked voluntarily to reduce prices. A maximum price was set on lead Saturday at the prevailing price of 5.85 cents a pound at New York.

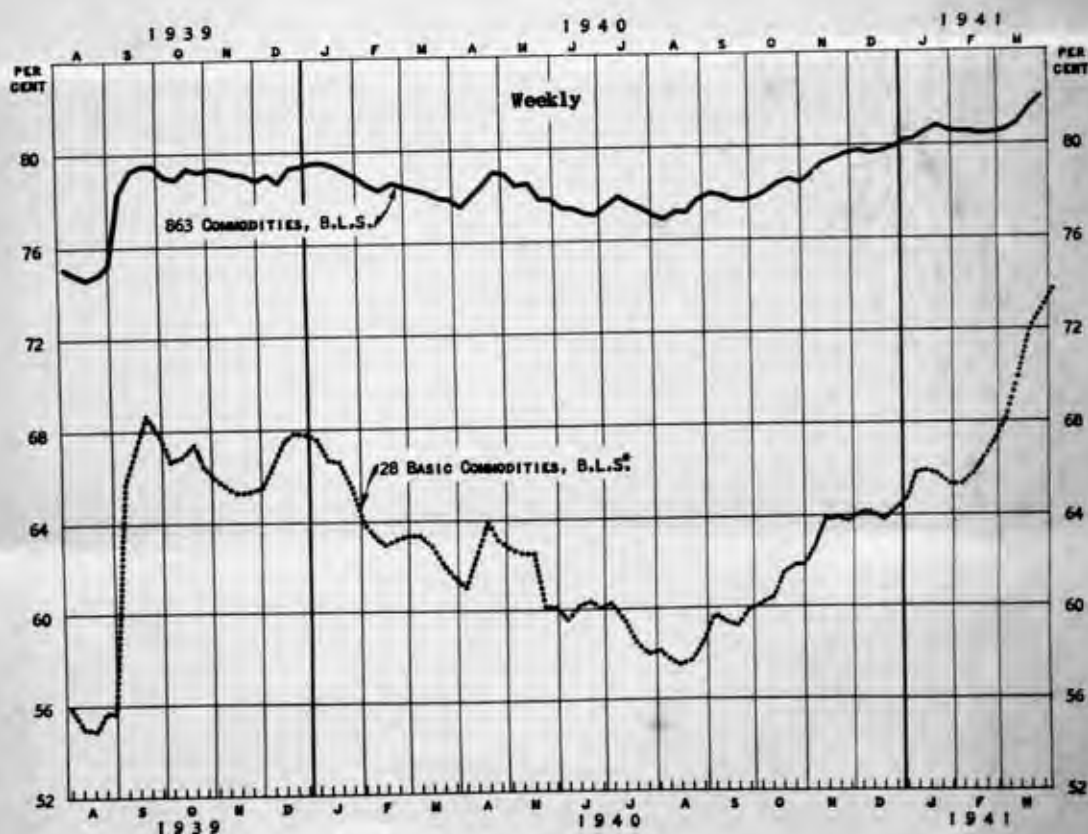
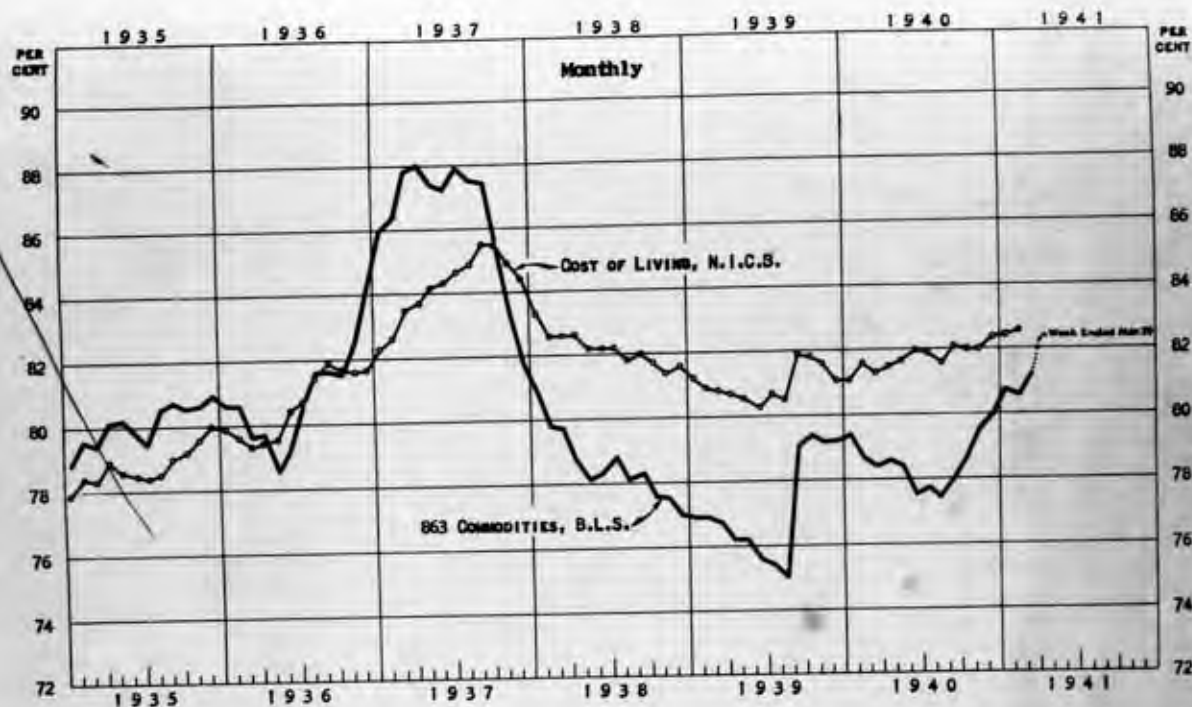
- 7 -

In the bituminous coal industry, sellers were instructed by the National Defense Advisory Commission to freeze prices at or below levels prevailing on March 28. This order, which was inspired by the coal strike, will supposedly be revoked after production is resumed.

In contrast to the establishing of maximum prices on metals, the Department of Agriculture last week announced a program of increased Government purchases with a view to establishing minimum price levels for hogs, poultry, and dairy products. The purpose of the program is to stimulate production in order to assure an adequate supply for both domestic and possible British needs. The price mentioned for hogs was \$9.00 per hundred pounds, whereas the current price is around \$8.00. The prices indicated for dairy products were approximately in line with current quotations, hence the program would operate to prevent the normal spring and summer price declines.

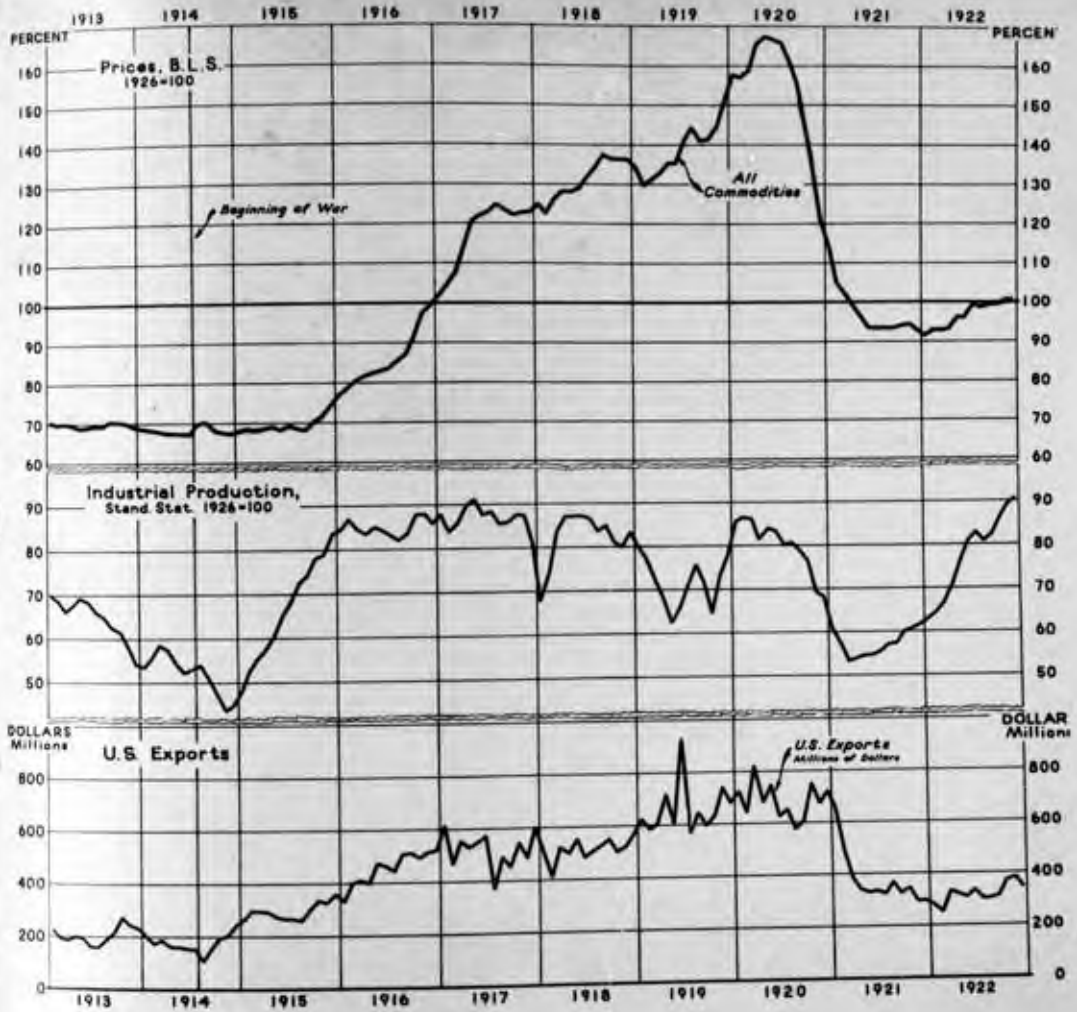
COMMODITY PRICES AND COST OF LIVING

1926 = 100



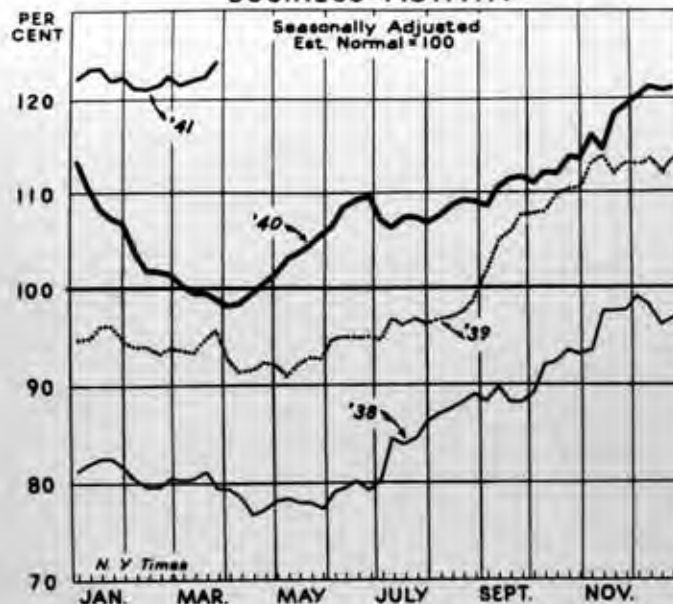
*30 Commodities Prior to January 1940

COMMODITY PRICES DURING WORLD WAR In Relation to Exports and Industrial Production 1913 - 1922

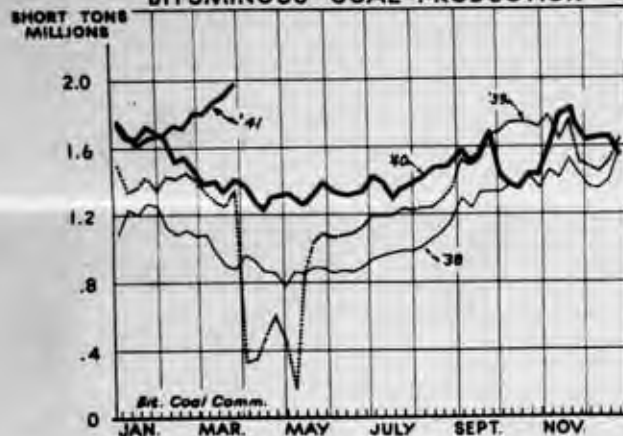


SELECTED BUSINESS INDICES

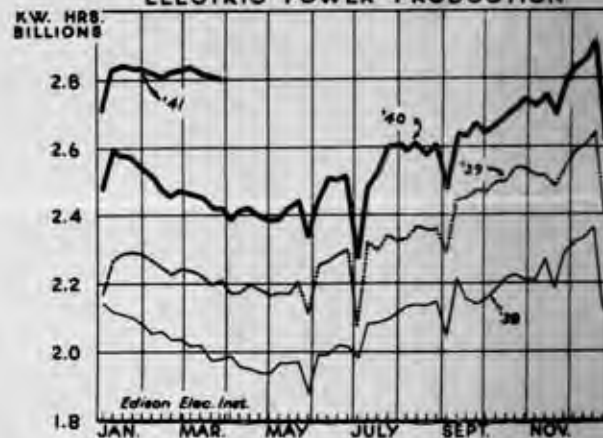
BUSINESS ACTIVITY



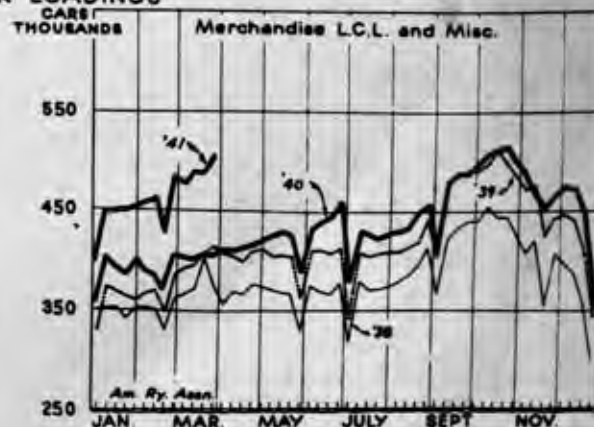
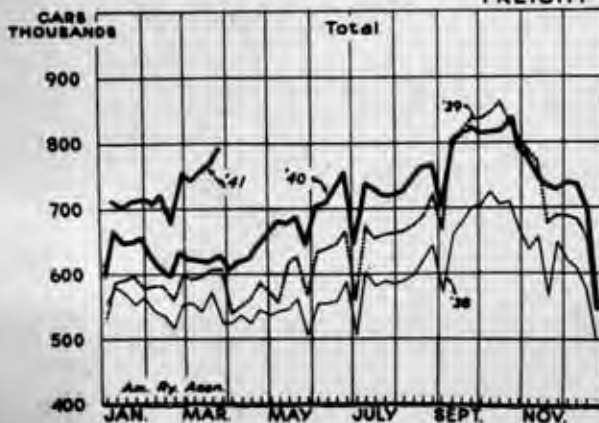
BITUMINOUS COAL PRODUCTION



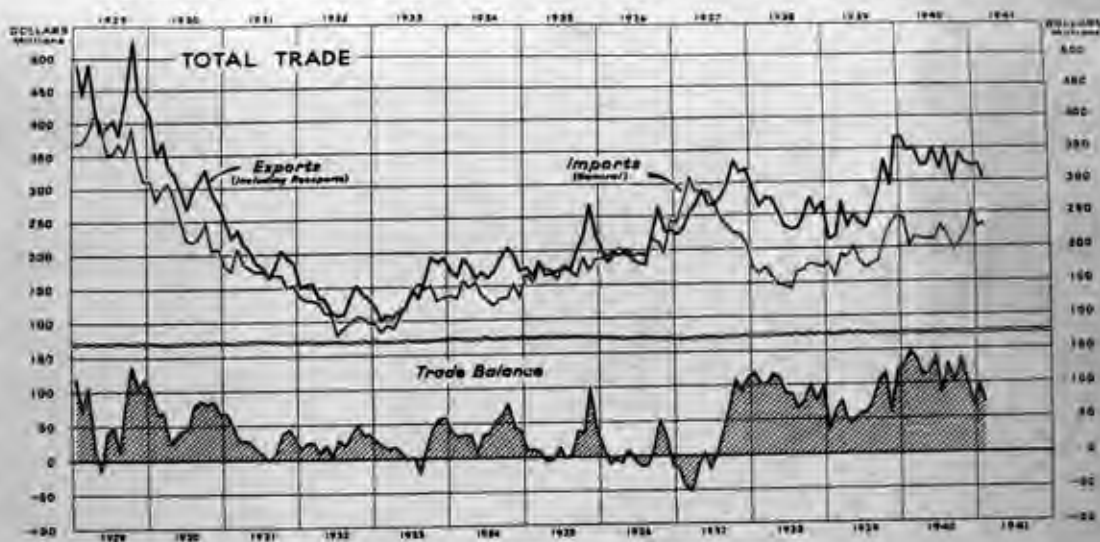
ELECTRIC POWER PRODUCTION



FREIGHT CAR LOADINGS



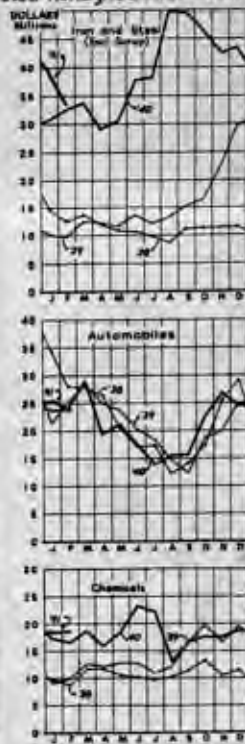
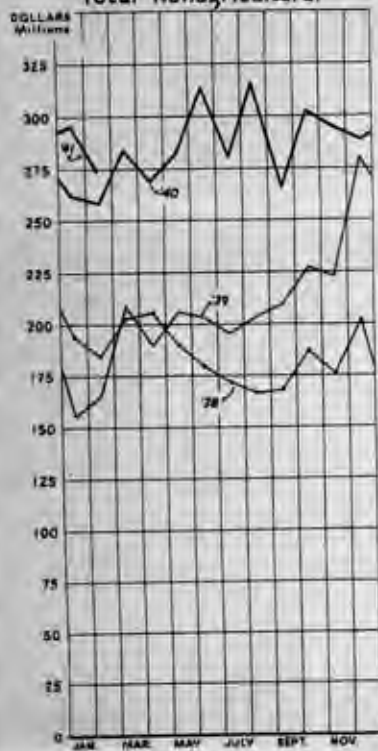
U.S. TOTAL TRADE AND EXPORTS, BY COMMODITIES



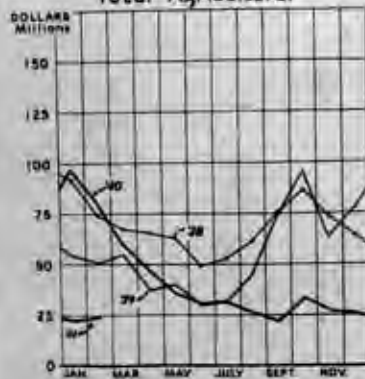
EXPORTS OF U.S. MERCHANDISE

Selected Nonagricultural Commodities

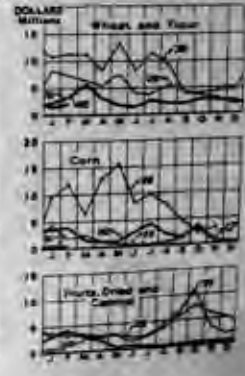
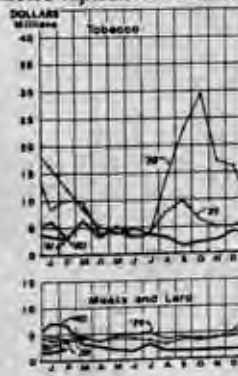
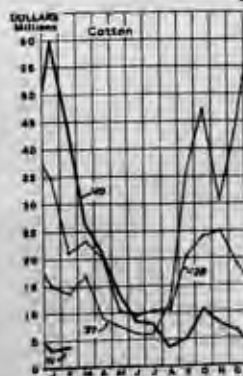
Total Nonagricultural



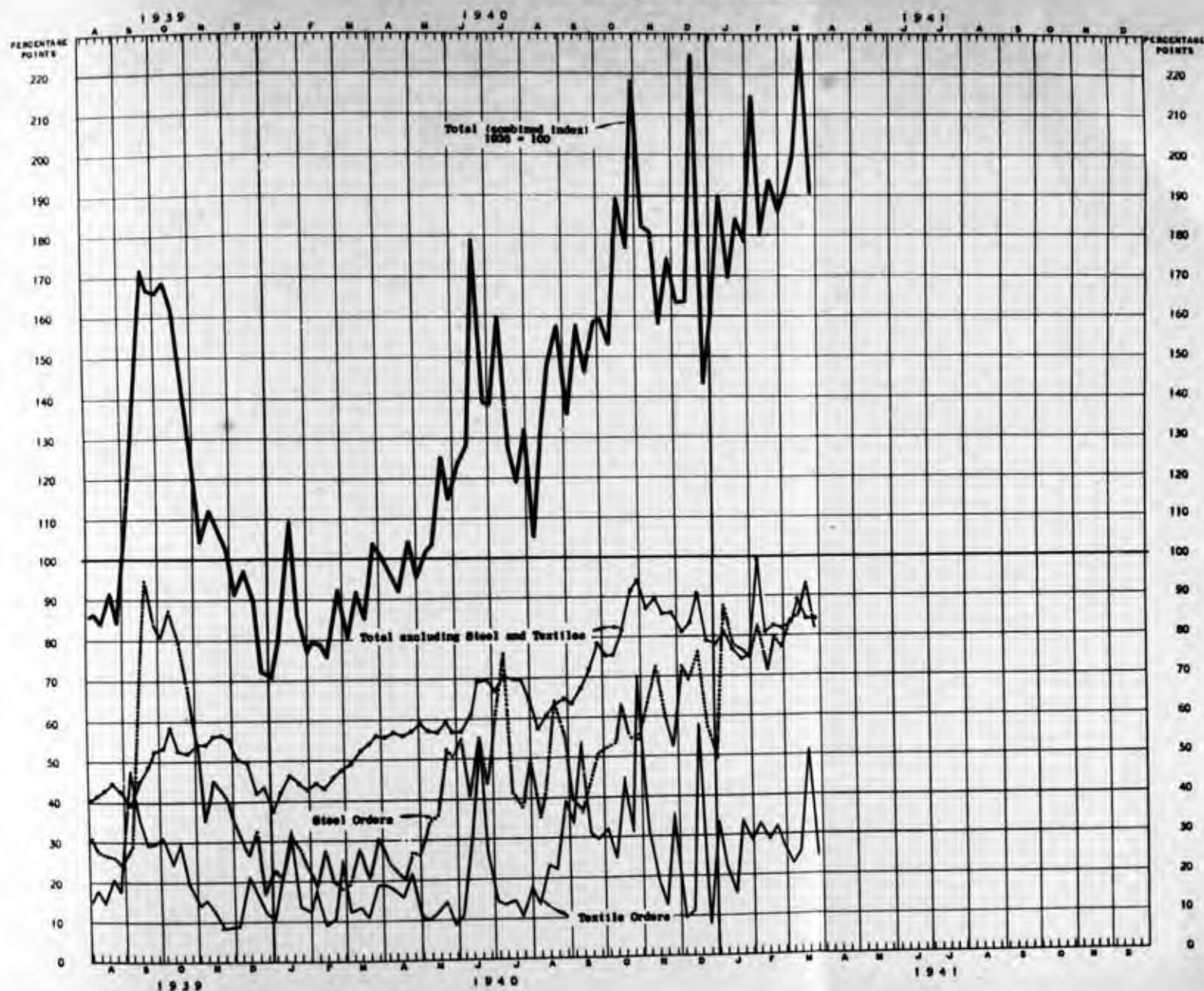
Total Agricultural



Selected Agricultural Commodities

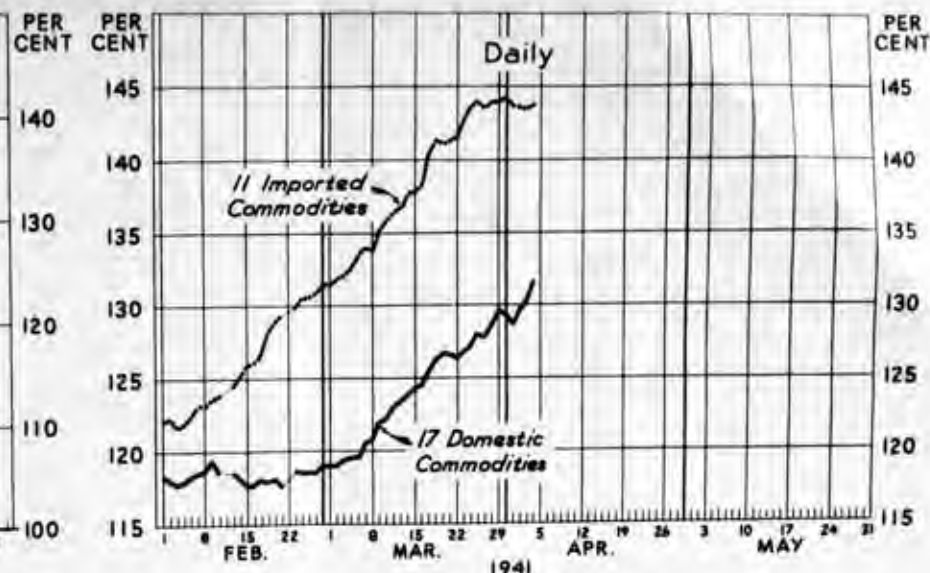
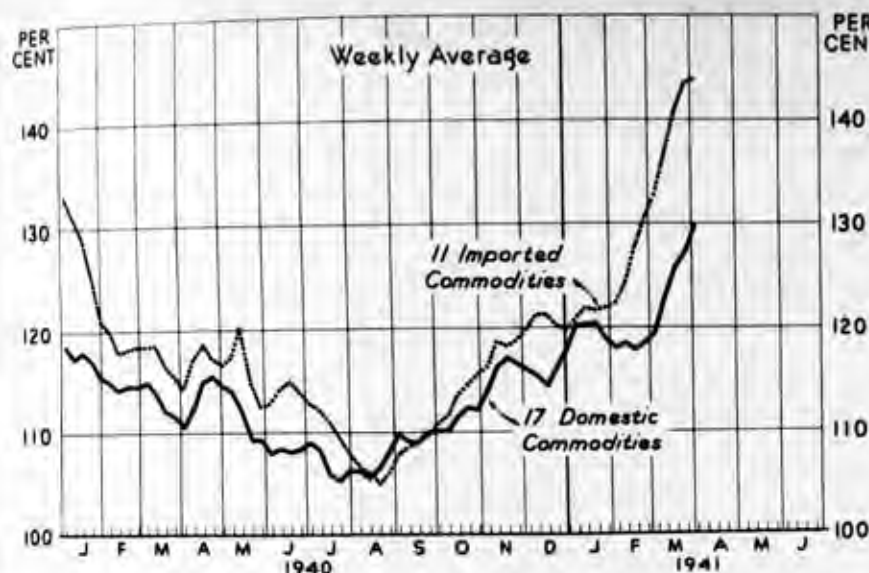


INDEXES OF NEW ORDERS Combined Index of New Orders and Selected Components

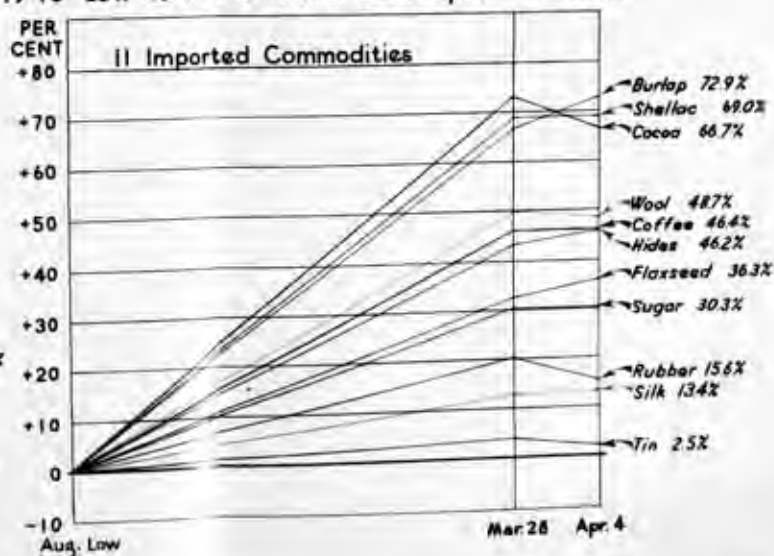
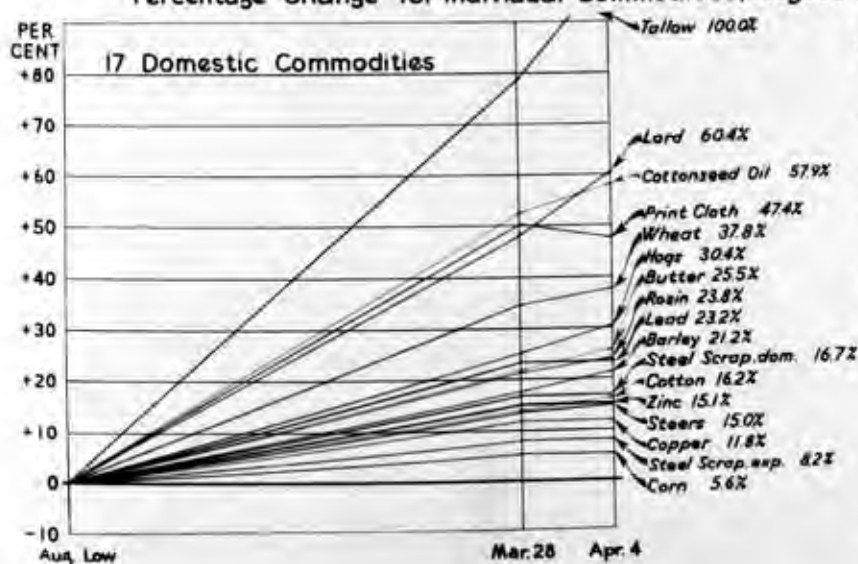


MOVEMENT OF BASIC COMMODITY PRICES Domestic and Imported

AUGUST 1939 = 100



Percentage Change for Individual Commodities, August 1940 Low to March 28 and to April 4, 1941



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 7, 1941

TO Secretary Morgenthau

FROM Mr. Haas 

A decline of 28,000 brought Work Projects Administration employment to 1,708,000 persons during the week ended March 26, 1941. This represents a drop of 159,000 from the number of persons employed at the end of February.

Attachments

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

	Number of Workers (In thousands)
1938	
July	3,053
August	3,171
September	3,228
October	3,346
November	3,287
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,926
June	1,665
July	1,701
August	1,691
September	1,704
October	1,779
November	1,820
December	1,878
1940	
January	1,895
February	1,867
March	1,708

Source: Work Projects Administration

Monthly figures are weekly figures for the latest week of the month.

They include certified and noncertified workers.

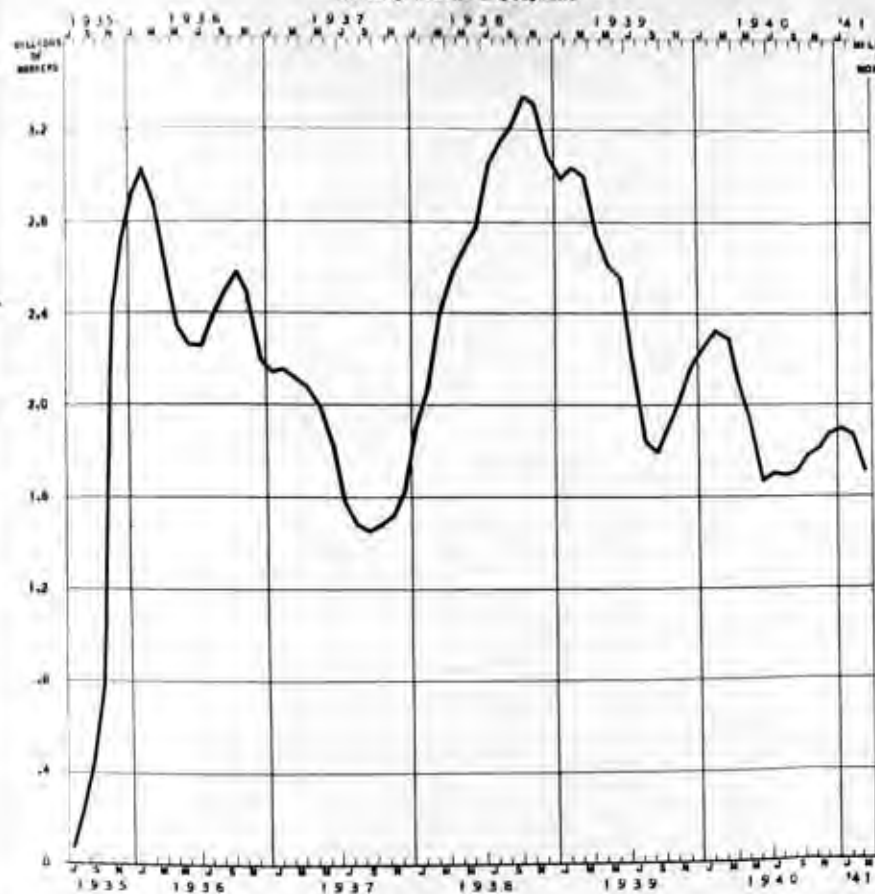
WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

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
March 26	1,708

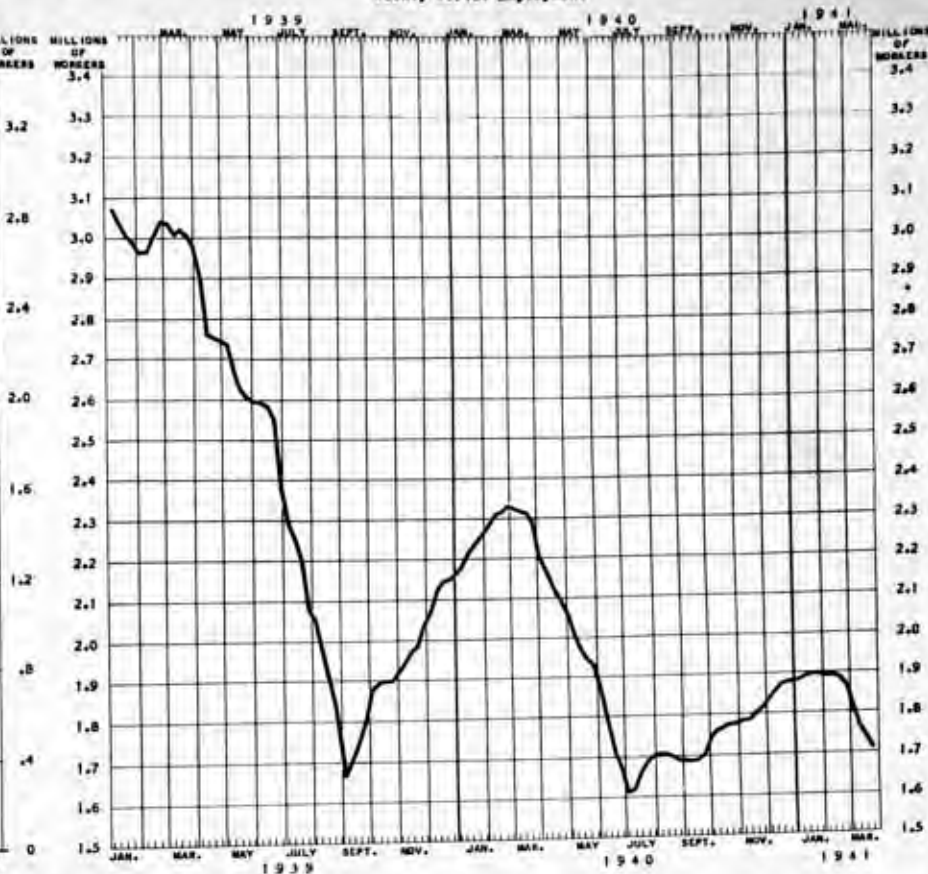
Source: Work Projects Administration

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORK PROJECTS ADMINISTRATION

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 7, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns.....£71,000
Purchased from commercial concerns.....£15,000

The Federal Reserve Bank of New York sold £15,000 in registered sterling to the American Express Company.

Open market sterling opened and closed at 4.03-1/2, and there were no reported transactions.

The Swedish krona, which closed at .2384 on Saturday, moved off to a final quotation of .2383 today.

As against Saturday's discount of 5-3/8%, the Cuban peso improved to 5-1/8% this afternoon.

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

Canadian dollar	12-7/8% discount
Swiss franc (commercial)	.2321-1/2
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2320
Brazilian milreis (free)	.0505
Mexican peso	.2066

In Shanghai, the yuan was quoted at 5-11/32¢, representing a gain of 1/32¢. Sterling was 1-1/2¢ lower at 3.93.

We sold \$1,350,000 in gold to the Central Bank of the Uruguayan Republic which was added to its earmarked account.

The Federal Reserve Bank of New York reported the following new gold engagements, which are for sale to the New York Assay Office:

\$3,505,000 from South Africa, shipped by the South African Reserve Bank to the New York agency of the Banque Belge pour l'Etranger for account of the Banque du Congo Belge.
552,000 from Mexico, shipped by the Bank of Mexico for its own account to the Federal.
\$4,058,000 Total

A price of 23-1/2d was again fixed in London for both spot and forward silver, equivalent to 42.67¢.

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

We made two purchases of silver totaling 150,000 ounces under the Silver Purchase Act, both of which consisted of new production from foreign countries, for forward delivery.

The Federal Reserve Bank's report of April 2, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled \$100,037,000, a decrease of \$12,524,000 since March 26. Most of the change in deposits took place on the books of the Yokohama Specie Bank's New York agency. The latter's principal dollar liabilities to and dollar claims on Japanese banks in Asia stood as follows on April 2:

	April 2	Change from March 26
Liabilities: Deposits for Japan and Manchuria.....	\$51,606,000	- \$14,495,000
Deposits for China.....	39,877,000	+ 1,617,000
: U.S. Treas. Bills, comm. paper, etc.....	23,245,000	+ 1,324,000
Claims : Loans.....	\$57,058,000	- \$11,174,000
: Other - mainly Jap. import bills.....	7,721,000	+ 1,548,000

The last three categories refer principally to Japanese banks in Japan and Manchuria. It will be observed that the \$14,495,000 drop in deposits of such banks was accompanied by a decline of \$11,174,000 in Agency loans, as well as a gain of \$1,324,000 in Treasury bills, etc. held for Japanese account by the Agency.

JMK

CONFIDENTIAL

APR 7 1941

My dear Mr. Chairman:

Thank you very much for your letter of March 22, offering, on behalf of the Board of Governors of the Federal Reserve System, every possible assistance in the successful accomplishment of the defense financing program.

It is of course most gratifying to have this assurance from you, though none was needed, that the Federal Reserve System, through the Reserve Banks and their branches throughout the country, is prepared to render its aid in promoting the sale of the forthcoming defense issues. We shall, as usual, wish to avail ourselves of your facilities and unfailing support.

Your wholehearted approval of the program and assurances of unstinted cooperation are very greatly appreciated.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Hon. M. S. Eccles,
Chairman, Board of Governors
of the Federal Reserve System,
Washington, D. C.

HNG/mff

File to Mr. Thompson



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

March 20, 1941.

My dear Mr. Secretary:

On behalf of the Board of Governors of the Federal Reserve System, I wish to assure you of our wholehearted approval and desire to be of every possible assistance in the successful accomplishment of the program you have just announced for the issuance of United States Savings Bonds and Stamps as an important part of the financing of National Defense.

The Federal Reserve System, through the Reserve Banks and their branches throughout the country, will welcome the opportunity to be of service in all possible ways in forwarding the sale of the new issues which are to be offered to the public on May 1 and thereafter.

All who subscribe to the savings bonds or purchase savings stamps will be participating in a program that, as you have stated, helps to safeguard the country against the evils of inflation and will give all American citizens a sense of taking a direct part in the defense of the country.

Sincerely yours,

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

STRICTLY CONFIDENTIAL

ALLISON SHIPMENTS

	British			Army				GRAND TOTAL
	C	E	Total	C	E	F	Total	
Dec. 29 - Jan. 4	8	-	8	1	3	-	4	12
Jan. 5 - 11	83	-	83	-	2	-	2	85
Jan. 12 - 18	41	-	41	-	2	-	2	43
Jan. 19 - 25	33	-	33	-	-	-	-	33
Jan. 26 - Feb. 1	31	-	31	-	1	-	1	32
Feb. 2 - 8	60	-	60	25	1	-	26	86
Feb. 9 - 15	30	1	31	32	2	1	35	66
Feb. 16 - 22	-	-	-	77	2	1	80	80
Feb. 23 - Mar. 1	-	-	-	88	3	-	91	91
Mar. 2 - 8	6	-	6	69	2	-	71	77
Mar. 9 - 15	6	-	6	72	-	2	74	80
Mar. 16 - 22	36	-	36	14	1	2	17	53
Mar. 23 - 29	87	2	89	10	1	3	14	103
Mar. 30 - Apr. 5	24	-	24	41	1	5	47	71 ✓
TOTAL Dec. 29 - April 5	445	3	448	429	21	14	464	912

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

April 7, 1941.

ALLISON ENGINEERING COMPANY
Shipments of Airplane Engines

	Actual shipments	Estimated shipments on existing orders
<u>1940</u>		
January.....	10	
May 24 - June 22.....	28	
June 23 - July 20.....	43	
July 21 - Aug. 17.....	47	
Aug. 18 - Sept. 14.....	140	
Sept. 15 - Oct. 12.....	263	
Oct. 13 - Nov. 9.....	233	
Nov. 10 - Dec. 7.....	154	
Dec. 8 - Jan. 4.....	228	
<u>1941</u>		
January 5 - 11.....	85	
January 12 - 18.....	43	
January 19 - 25.....	33	
January 26 - February 1.....	32	
February 2 - 8.....	86	
February 9 - 15.....	66	
February 16 - 22.....	80	
February 23 - March 1.....	91	
March 2 - 8.....	77	
March 9 - 15.....	80	
March 16 - 22.....	53	
March 23 - 29.....	103	
March 30 - April 5.....	71	
April 6 - 30.....		235
May.....		260
June.....		310
July.....		330
August.....		320
September.....		370
October.....		400
November.....		500
December.....		600
<u>1942</u>		
January.....		700
February.....		800
March.....		800
April.....		800
May.....		646

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

April 7, 1941.

STRICTLY CONFIDENTIAL

MEMORANDUM

April 7, 1941

TO Secretary Morgenthau
FROM Mr. Sullivan

March 31st Mr. James Roosevelt called at the office to discuss the problem of frozen funds which involved a company in which he was interested.

Through Mr. Pehle an appointment was made for Mr. Roosevelt that afternoon with Mr. Towson of Mr. Pehle's office. I asked Mr. Towson to furnish a memorandum in regard to this visit and to advise me of the eventual action taken. I attach hereto the memorandum left with me by Mr. Roosevelt and the memorandum sent to me by Mr. Pehle. If there is any further development in the matter I will advise you.

TJS

APR 3 1941

MEMORANDUM

To: Assistant Secretary Sullivan
From: Mr. Pehle

Mr. James Roosevelt called Monday afternoon at 3:45 and saw Mr. Towson of my office. Mr. Roosevelt spoke in general terms of the burden placed upon the firm of Gasparcolor, Inc., by reason of the reporting requirements under its license. Mr. Roosevelt did not argue the points covered in the memorandum which he had previously left with you and terminated the conference by saying that he would advise his associates to file application for any licenses needed.



MEMORANDUM RE: PRESIDENTIAL EXECUTIVE ORDER,
NO. 6560 OF JANUARY 15, 1934, AS AMENDED, AND
THE APPLICATION THEREOF TO GASPAR MATTERS.

Under the Presidential Executive Order, No. 6560, of January 15, 1934, as amended, transactions involving nationals of certain specified countries are prohibited except pursuant to license issued by the Secretary of the Treasury. Among the countries designated in said Order are Luxembourg and Rumania. Gasparcolor, Societe Anonyme, as a Luxembourg corporation, and Dr. Bela Gaspar, Mr. Imre Gaspar and Mr. Geza Gaspar, as Rumanian nationals, are therefore subject to the aforesaid Order. As a result, any transactions, particularly those with respect to payments or receipts of funds involving the said corporation and individuals, may be effected only upon securing a license from the Secretary of the Treasury. A number of applications have been made by said corporation and individuals for licenses, and a number of licenses have been issued, among which are licenses to loan sums of money to Gasparcolor, Inc., a Delaware corporation, the stock of which is wholly owned by Gasparcolor, S. A. The applications for which licenses were refused were those in which authorization was sought to permit the payment to Dr. Bela Gaspar, and to Dr. Bela Gaspar, Mr. Imre Gaspar and Mr. Geza Gaspar of sums of money advanced by said parties out of their individuals funds to pay expenses of and for Gasparcolor, S. A.

Because of the refusal of the Secretary of the Treasury to issue a license authorizing the repayment of the aforesaid moneys to Dr. Bela Gaspar, and Dr. Bela Gaspar, Mr. Imre Gaspar and Mr. Geza Gaspar individually, the said parties have been placed in a position where they are unable to have returned to them funds necessary for their own individual living expenses. Accordingly, the said parties have been unable to receive funds to which they are legally entitled and which are absolutely essential for their own existence. Such action on the part of the Treasury Department seems arbitrary and unwarranted since it would be satisfactory to the individuals that any license to repay any moneys to them be made on the usual condition that the moneys be placed in a frozen account and payments therefrom made only subject to further license.

In connection with a loan to Gasparcolor, Inc. from Gasparcolor, S. A., a license provided that the moneys received by Gasparcolor, Inc. be placed in a frozen account to be disbursed pursuant to further license. In view of the fact that the corporation is a domestic one and its officers and directors United States citizens of outstanding reputation and character, it would seem unwarranted that Gasparcolor, Inc. be deemed to come within the provisions of the Executive Order. This is particularly true since the principle underlying such order is the prohibition of transfer of funds abroad to nationals of the designated countries, and all transactions of Gasparcolor, Inc. are effected within the United States. The only basis upon which the attitude of the Treasury Department may be justified is that the stock of Gasparcolor, Inc. is owned by a Luxembourg national, but this seems to be a highly technical stand under the circumstances. Nevertheless, this restriction remains and a recent license issued to Gasparcolor, Inc., as of March 3, 1941, authorizes disbursements in a specified amount for a period of ninety days, but requires that the proceeds of all sales be deposited to a frozen account and paid only pursuant to license, and further requires that semi-monthly reports as to the transactions must be made. These restrictions place tremendous burdens upon the activities of the domestic corporation.

An application for a general license on behalf of all the above named corporations and parties was made as of February 9, 1941, by J. F. T. O'Connor, Esq., but such application was denied. It is desired that general or special licenses be issued authorizing the repayment to Dr. Bela Gaspar, and Dr. Bela Gaspar, Mr. Imre Gaspar and Mr. Geza Gaspar by Gasparcolor, S. A. of any and all moneys advanced by said parties on its behalf, and further, that Gasparcolor, Inc. be deemed as being not within the provisions of the Executive Order, or, in lieu thereof, that reports be required of it only every ninety days, and that there be no freezing of the funds of the corporation.

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- 2 -

GASPARCOLOR, INC.

burdens upon the activities of the domestic corporation.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 7, 1941

to Secretary Morgenthau
FROM H. D. White
Subject: German Exploitation of the Netherlands

The following is a resume of some of the most salient conclusions reached in the attached memorandum on German exploitation of the Netherlands, prepared by Mr. Felsenthal and Mr. Snider of this Division.

1. The Nazis during about 7½ months of occupation (from May 15, 1940 to the end of the year) succeeded in looting the Netherlands of supplies and other assets which may have exceeded in value \$2 billion.

This performance cannot be repeated, since a large part of what the Nazis took consisted of capital rather than current income.

2. The principal methods which the Nazis used to obtain the loot are the following:
 - (a) Confiscation: gold amounting to probably about \$160 million public, private unknown but contents of private vaults have been taken; stocks of grains and raw materials; properties and plants of non-Aryans, declared Nazi enemies, etc.; and the river and canal fleet.
 - (b) Imposition of occupation costs: amount reported to be over \$3 million a day, or some \$740 million for the 7½ months.
 - (c) Creation of Public Debt: the floating debt of the Netherlands was increased by some \$583 million from May to December, but part of this may have been used to pay occupation costs and to that extent would duplicate item (b) above.

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Division of Monetary
Research

(d) Currency and Credit Creation: money in circulation increased by some \$160 million and considerable direct advances were made to Germans from the central bank and private banks; this item overlaps (b) and (c) since currency and credit may have been created both to pay occupation costs and to purchase Government securities.

(e) Forced clearing loans: the Netherlands have been compelled to export goods to Germany in large quantities while receiving little or nothing in return; by December, 1940, Germany owed Holland some \$742 million on clearing account.

3. In addition to confiscating and depleting a large part of the capital of Holland, the Nazis are transforming the Dutch economy from a prosperous mercantile and dairying country into a vassal agricultural supplier of the German war machine.

(a) Before the invasion the Netherlands economy was attuned to world trade and world markets. Having large overseas investments and a valuable merchant marine, she was able to enjoy a large commodity import balance.

Now her economy has been redirected to fit in with the "New Order" in Europe and the bases of her international trade and commerce have been destroyed.

(b) Previous to the invasion Holland had a highly specialized agricultural and livestock industry, but now agriculture is being incorporated in a set-up similar to the German Peasant-estate and production is being diverted into channels best suited to German needs.

(c) With the advent of the Nazis, the Netherlands' recently developed industries came under the direct control of a Board of Industrial Organization, and production was shifted to meet the war needs of the Reich, with plants producing strategic materials working full blast on sub-contracting orders from Germany.

4. As a result of the invasion the standard of living of the some 8.7 million Dutchmen has been dragged down to the level prevailing in the poorer sections of the European continent and the bases of the former high standard have been destroyed.

Prices have risen tremendously, rations are meager, and most important of all, capital has been depleted. Whereas the Dutch formerly had one of the highest standards of living in Europe, today theirs is below that of Germany. And the Germans are determined that this decline shall be permanent, Nazi officials having declared its policy to be the "adjustment" of the Netherlands standard to that of other European countries.

5. Dutch resistance is not a serious menace to Germany.

There is resistance and sabotage in the Netherlands, and the Nazis find it advisable occasionally to shoot a few people. But it would be easy to exaggerate the significance of such resistance in the total perspective of German exploitation. All organs of united resistance have been broken. Deliverance must come from the outside, if it is to come at all.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE March 14, 1941

TO Mr. White
FROM Mr. Felsenthal and Mr. Snider

Subject: German exploitation of the Netherlands

I. The Background: Essential characteristics of the Netherlands economy before the invasion.

A. Importance of international trade and investment position.

The Netherlands economy before the German invasion was peculiarly a part of the world economy in that it was based on international sources of supplies and markets and depended to a considerable extent upon foreign trade, financial and commercial relations.

For centuries, foreign trade, a highly-developed colonial empire and international financial connections were the sources of Holland's wealth. Rotterdam was the most important continental entrepot, and Amsterdam was the outstanding center of financial transactions and market of colonial products.

Holland's merchant marine ranked fifth in tonnage among the European merchant fleets in 1939, surpassed only by Great Britain, Germany, Norway and Italy. Roughly, 22 percent of her gainfully employed were engaged in transportation, trade and finance. Dutch shipping, brokerage services and income from extensive foreign and colonial investments afforded Holland's large population (8.7 million in 1940) an unusually high standard of living even though her area is small and lacking in industrial materials.

In 1939 Holland enjoyed a commodity import balance of not less than 550 million guilders, payment for which was made possible by income from foreign investments and the performance of shipping and financial services.

B. Agriculture and industry.

The Netherlands agriculture was organized for intensive livestock production for export to neighboring markets. During recent years it was the world's second largest exporter of eggs and cheese,

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Division of Monetary
Research

the third largest exporter of bacon and the fourth largest of butter. The Netherlands exported about half of its total production of butter and cheese, two-thirds of its eggs, practically all of its condensed milk and about one-fifth of its total production of pork products. The most important markets for these products have been the United Kingdom, which took about 50 percent, and Germany, which took about 22 percent. In addition, Holland has been an important producer and exporter of bulbs, seeds, vegetables and hothouse products.

Yet, because of its limited resources of land, much of which is unsuitable for crop production, Holland was compelled to rely on imports from overseas to supply a large part of the feed and fertilizer needed to maintain its large, intensive livestock industry. During recent years about 43 percent of the bread grain, 66 percent of the feed grain, and practically all of the raw materials for concentrated feed and fertilizers were imported. In addition, reliance was put entirely upon imports for such products as cotton, tropical fruits and coffee.

By importing necessary feedstuffs, Holland was enabled to develop livestock production--its chief agricultural enterprise--to a high degree of specialization and to build up the volume of agricultural exports to a point where they constituted about 40 percent of the country's total export trade. This technique of importing raw materials and exporting finished products was, therefore, a prime characteristic of the economy and vital to its welfare.

Holland's industries are of fairly recent origins, called in to being mainly by her domestic needs during the last war and by the rising tariff-barriers that disrupted Holland's international trade. In 1939, Dutch industry employed roughly 40% of all gainfully employed workers; the main lines of production were food-products based on colonial imports and metal-working and ship-building industries. Radio and electrical equipment factories, rayon, textile and chemical enterprises constituted the remainder.

C. Mineral Production

European Netherlands has been a fairly sizeable producer of bituminous coal, peat and peat-moss. The coal production approximates that of the Saar basin in quantity (roughly 12-13 million metric

tons a year). The major part of the total production before the invasion was used domestically, leaving only a small export surplus.

Holland is deficient in phosphate and nitrate fertilisers, formerly imported from South America. It is very likely that this mineral shortage will limit agricultural production when supplies are exhausted.

The smelting and manufacturing facilities for metals in the Netherlands are fairly important but are based entirely on imported ores, mainly tin, zinc and iron ore. The East Indies and the Dutch Caribbean possessions have in the past supplied large quantities of tin ores.

II. The pattern of German exploitation of the Netherlands.

A. The stages in the process of obtaining control.

The economic penetration of the Netherlands by Germany falls into three more or less clearly defined stages, both with respect to chronological sequence and with respect to methods employed.

The first stage began with the invasion. Its principal objective was the drainage of available supplies, stores and equipment of the Netherlands by the military forces and the economic detachments of the army.

After the initial stage of outright requisitionings, a more subtle course of further absorption of the economy of the Netherlands was adopted. It consisted in the "buying up" of sections of the Netherlands economic system by pressures of varying degrees of strength. Outright appropriations of firms were few; however, Commissars were freely appointed to various key-positions in industry, banking, mining and commerce. A system of economic controls similar to that imposed upon the German economy was established.

This second phase, extending over roughly half a year, was designed to assimilate and prepare the economy of Holland for the third stage, the more definite coordination and integration of the Dutch with the German economic structure. With the removal of tariff-barriers on January 1, 1941, a dramatic step in this direction was taken. The flow of payments between the Netherlands and

Germany has also become considerably easier. The construction of new roads and canals connecting the Netherlands with Western Germany is a symbol of the new phase of policy.

The process of assimilating the Netherlands to the Greater Reich has not been merely economic. The methodical political infiltration and the ideological preparation for the acceptance of the basic tenets of Nazi philosophy are paving the way for the final stage in the movement toward integration. According to the German conception, this stage probably will not have been achieved until the identity of the Netherlands as a separate cultural, economic and political entity has been lost in the "New Order."

B. Techniques of control and exploitation.

1. Expropriation.

The most direct and obvious method of exploiting a newly-conquered country is confiscation. It has the merit of being quick and effective in obtaining badly needed supplies for the invading armies as well as for home consumption. Furthermore, this method, by its directness, circumvents the loss of perishables and those goods which, if left even for a short-while in the hands of the local population might either be hidden away or destroyed.

The Netherlands Government, in anticipation of a long blockade, had stored up considerable quantities of fodder, feed-grains, feed-concentrates (which are the indispensable basis of the livestock industries), etc., and of gasoline, fuel oil, rubber, tin, tobacco, iron and steel, wool, cotton, fertilizer, etc. The four days of war, however, caused a considerable loss of these stocks, chiefly through fire and bombardment. The large petroleum storage tanks at Amsterdam, e.g., were destroyed by fire the last day before the capitulation.

Nevertheless the loot which the technically-trained economic details of the conquering army took immediately upon occupation was considerable. Grain supplies and dairy products most urgently needed in Germany were removed first. A recent increase in the German cocoa and coffee ration indicates that supplies from the Western countries, particularly from the Netherlands, have been brought in. The German loot in dairy products, particularly cheese and butter, was so considerable that both had to be rationed in Holland which normally exports them in large quantities. At the time of invasion, e.g., Holland had a stock of 20 million chickens, but seven months later only 3 million remained. The bulk of those slaughtered was either used by troops or shipped to Germany.

Likewise, dried fruit stores were confiscated, and after several months of raiding by Germans, many textile goods such as stockings have disappeared from the market. If stocks of wool and cotton had remained in Holland, there would have been sufficient raw materials for the clothing industry for some time. At present, however, men's suitings are being manufactured which contain from 40-60 percent of artificial wool.

During the initial period of military occupation, special economic details of the armed forces were charged with a survey of industrial equipment and capacity. Machines and supplies of value to production in Germany were at once requisitioned and removed. German industry, which had been unable to replace equipment, was thereby furnished with a cheap source of machines and tools. This policy was closely linked to the concentration of production in the more efficient large plants which had previously been instituted as a war measure in Germany. Similarly, the existing fairly large stores of raw and cut diamonds both in Antwerp and Amsterdam were confiscated immediately upon occupation.

Other items in the loot included the considerable river and canal fleet of the Netherlands, with a capacity of about 3.8 million metric tons, which fell into the German hands and will aid the continental river traffic.

The system of expropriation was not confined to capital goods. Fifty-seven thousand Dutch workers were initially herded together and sent to Germany for industrial, agricultural and road work. Their number grew to 90,000 by October, according to reports from Great Britain, and instructions for the recruitment of 30,000 more were reputedly given by Seyss-Inquart. German papers, particularly Der Deutsche Volkswirt, have mentioned plans to send a number of Dutchmen to Northern France for harvest work. Whether or not the men were actually sent is not known.

2. Reorganization of the economy.

The method of outright expropriation has its limitations, the most patent of which is that its continued use would probably lead to such a state of internal disruption and sabotage that the costs and trouble of obtaining goods and services would exceed their value. Hence, from a longer-run point of view, more subtle devices of exploitation will generally prove more useful. The conquered people must be made to feel that they are a part of the "New Order" and not merely "outsiders" serving as tools for the propagation of a

war being fought for purposes which they oppose. In short, hardships must be endured in the spirit of willing "sacrifice", not as a product of coercion.

To instill this attitude in the minds of the Dutch people is primarily a political task. But the economic counterpart of this political task is the re-orientation of the economy in such a manner as to coordinate and integrate it with the economic structure of continental Europe under German domination.

The necessity of re-organizing the structure of the Dutch economy was particularly urgent in view of its previous international orientation (see part I above). Whereas previously trade and investments in overseas countries predominated in the economy of the Netherlands, now the economy must be attuned to that of a European bloc which, in the event of a German victory, will probably operate along autarkic lines, even after the war. Instead of being an important maritime, financial and commercial power, Holland is to become a highly developed agricultural producer within the new Europe.

Agriculture Beyond the measures of wartime administration, outlines of a more permanent organization are emerging. An organizational drive has been started to incorporate the entire Netherlands agriculture in a set-up similar to the German Peasant-Estate. Graf Grote, a German agricultural specialist, has been appointed Peasant-Leader. Analogous to the German Food Estate (Reichsnährstand), various "estates" have been organized, particularly for fat and oil production, the dairy and poultry industry and grain production. Before the war, the Dutch Government had initiated a program of re-orientation of the Netherlands agriculture designed to enlarge the cultivation of certain necessary foodstuffs, principally grains, potatoes, vegetables, oil-seeds, etc. This program has been further extended by the German authorities in the direction of enlarged production of grains, root-crops and hemp in the place of horticultural products, flowers, etc. The sugar-beet area, e.g., has been enlarged by 14 percent.

Moreover, the domestic livestock industry, which in the past was dependent upon imports from overseas of feed grains and feed concentrates, will, on account of the impossibility of continuing such imports, lose its former predominant place in the economy. Likewise, the dependence of the country on foreign foods supplies necessitates a further re-direction of agricultural production.

Domestic production of food must be expanded and it may prove desirable to shift a certain amount of acreage from feed crops to food crops. The Netherlands agricultural cultivation plan for 1941 indicates that such will be the policy of the authorities. More intensive field production of feeds will also possibly be attempted. But since the use of the land for direct production of food crops provides a much larger quantity of food than can be obtained from livestock and feed production based on the same area of land, it is not likely that an expansion will take place in the total feed acreage at the expense of food crops. Rather, larger feed acreage will probably be attained at the expense of grassland.

Trade Part of the process of bringing the Dutch economy into the framework of the German economic system has been the elimination of customs barriers. In a decree of December 16, 1940, all German merchandise intended for importation into the Netherlands except that subject to specific duties in relation to the country's excises, was declared to be duty-free, effective January 1, 1941. But it is obviously impossible for Holland, even in the role of a highly specialized agricultural producer for Continental European markets, to compensate her losses in foreign trade and investments.

In an attempt to salvage at least remnants of the Dutch trade facilities and connections, the German authorities have arranged for a sailing between Leningrad and Rotterdam once a week; a more extensive trade with the Scandinavian countries, particularly Sweden has been encouraged. Sweden, in the recently concluded trade agreement with the Netherlands, is to supply lumber and wood pulp while Holland will send machines, radios, and electrical equipment in place of the colonial materials she has supplied in the past. Similar trade agreements between Holland and Belgium and Holland, Yugoslavia, Rumania and other Danubian countries have recently been signed under German tutelage. Since Holland is really not able to export anything to these countries at the present moment, such agreements have first a propagandistic value, in demonstrating to the Netherlands population that within the continental sphere new trade relations can eventually be established. Secondly, they will, at least to a limited extent, stimulate the Dutch economy in whose functioning the Germans are interested, by supplying some raw materials.

More important for Germany's interest in such trade agreements is the German hope that eventually Dutch capital will be invested in Southeastern Europe where an intensified agricultural and semi-industrial economy is to be built, if the capital resources can be

found. German magazines have already spoken of the obligations of Netherlands capitalists to undertake such investments if they hope to participate in the new economic order of Europe.

Most other economic techniques of exploitation used by the Nazis in one way or another aided in effecting this re-direction of the Dutch economy. Particularly important was the obtaining of control over the organization of industry from this point of view.

Industrial Organization

On October 31, 1940 the Secretary General of the Netherlands Department of Commerce, Industry and Navigation issued a decree calling for a corporate organization of industry in close analogy to the German set-up. Industry thereafter became subject to the jurisdiction of an appointed Board of Industrial Organization, which "will carry on its duties in the interest of the whole economic life." The Board has powers to create new firms and to disband old ones, to discharge and appoint directors and managers, and to give any other orders and instructions with binding force for industrial organizations. In Germany, where a parallel decree is in force, the Board has consistently acted as an autonomous body. But it is not at all certain whether the sweeping powers entrusted to the Board will be used similarly in the case of the occupied territories.

We may assume, however, that the Dutch entrepreneurs will for the present receive a treatment very similar to that of the German entrepreneurs. Their formal title of ownership will remain unchanged, while the actual control over wages, prices, production and the allotment of the scarce raw materials will pass to so-called bureaus of the Board established for every major branch of industry or commerce.

In addition, the Netherlands Department of Commerce, Industry and Navigation, which is directly responsible to Mr. Seyss-Inquart, the Governor General, has announced that special reconstruction subsidies and credits will be arranged for enterprises whose further maintenance is in the public interest. Cooperation of the entrepreneur with the authorities is therefore almost indispensable for continued business operations.

On the whole, the German policy in the Netherlands has been designed not to displace the original management of Netherlands firms to the same extent as in Austria and Czechoslovakia. Expropriations, "aryanizations," and forced sales have, however, been adopted in

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the case of enterprises owned by Jews, foreign interests, etc.

The Germans have more commonly attempted to gain indirect control. A number of concerns were brought under the management of a Commissioner (e.g., the Ford factories, the major coal mines, the aluminum corporation, several export-import firms, shipyards). A number of Dutch industrial enterprises, forecasting correctly the difficulties which they would encounter in operating under their own management, voluntarily requested the German authorities to appoint German trustees into whose hands the affairs of their organizations are placed. Notable among them are Philipps Radio and the Bataafsche Petroleum Mij. For Philipps an arrangement between the German trustees and the American General Electric Company with respect to common patent rights was made. Philipps together with its widespread European affiliations will, according to this arrangement, control patent-rights for the whole of the European territory, while American General Electric will be given all rights elsewhere.

Furthermore, the method of buying up industrial securities by German interests has been used to gain industrial control. The Albert de Bary Bank, which had always been under German influence has now been taken over by the Deutsche Bank; German interests have bought up a large part of the shares of Algemeene Kunstzijde Unie (AKU), the rayon concern, Lever Bros. & Unilever, the chemical firm, and Philipps Radio. So far, control by the purchase of securities has been confined to minority holdings. No open attempt to corner stock with the view to majority representation on the various boards has been made. But it is not impossible that Netherland Nationals in sympathy with the Nazis have also been active in increasing the German grip on the Dutch economy.

The prolongation of the war made an industrial decentralization in Germany desirable. Destructive air raids, unemployment in areas of military importance, and transportation difficulties combined to effect a reversal of industrial planning, which had previously favored concentration of production in a few large plants. The German Government and the German producers found it therefore advisable to give subcontracting orders to Dutch and Belgian plants. A central board for the placement of such orders was established in the capitals of the occupied territories; priority of the orders is determined by the economic staff of the Military Commander in conjunction with the Ministry of Economic Affairs.

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Plants producing strategic materials such as the Royal blast furnaces at IJmuiden, the Fokker airplane plants and others are working full blast on German subcontracting orders. Steps are being taken to tie up through contracts various patent rights in the hands of Dutch concerns.

The efforts to bring the Dutch industry back to operation were limited by the availability of certain imported raw materials, particularly of the colonial type. Tobacco, sugar cane, cotton, wool, cocoa, crude mineral and vegetable oils, fibers and resins are basic materials for a great sector of the industries of the Netherlands. Though an effort was made to reopen operations in the cigarette industry, it is expected that the supplies of cigarette tobacco will soon set a limit to production.

With the occupation of Antwerp and Amsterdam, the Germans have gained a virtual monopoly over the diamond industry. It is estimated that of the total of 26,000 diamond-cutters in the world only about 1,000 live outside Belgium, Holland and Germany. Though the United States has recently attempted to build up a domestic diamond cutting and polishing industry, the lack of skilled men and machines still is a serious obstacle. However, since South Africa and Belgian Congo, the world's chief producers of raw diamonds, remained under the control of the Allies, Germany is cut off from the raw-material source.

A strict prohibition of further trading in diamonds was issued in May, 1940, and only a small number of cutters has recently been put to work again. German sources attach special importance to the industrial uses of diamonds in certain types of grinding, drilling and other machine tools.

Banking German interests have also gained a foothold in the banking structure of the country. Various German banks established branch offices in the Netherlands. One of the larger commercial banks, Albert de Bary, sold the majority ownership of its shares to the Deutsche Bank. It is not possible to determine at present how far-reaching de Bary's interests in the Netherlands business structure are. The International Bank of Luxembourg, a bank with far-flung holdings in the Low Countries, also went into German hands. H. Wohlthat, a well-known financial specialist of the German Government, was appointed Special Commissioner in charge of the Nederlandsche Bank, the central bank of Holland.

Labor Just as important as industry control has been labor control, in which field also the Germans have introduced policies similar to those previously employed in Germany. The Socialist Trade unions (N.V.V.) were placed under the commissarial control of Mr. Woudenberg, a known member of the Netherlands Nazi movement. A labor front after the German model has been created and "Strength through Joy" organizations have been set up locally. The fairly strong Catholic labor unions have not yet been coordinated, but their submersion in the labor front can only be a matter of time.

All decisions on wage problems have been transferred to the specially-appointed price and wage commissar and to the industry bureaus. Factory-committees of workers in the metal industries have been established, but their actual power remains to be seen. They are charged with the supervision of "the moral and material interest of the workers."

In short, social and economic relationships are becoming frozen in Holland in an organizational structure similar to the German pattern. Both industry and agriculture have been organized into "bureaus", charged with price and wage controls, with the allotment of raw materials, supervision of production, proper deliveries of agricultural products, etc. While such measures are to be expected during the period of active warfare, they are, to judge from German experience, not merely transitory phenomena but part of the pattern of the Nazi system of economic controls.

3. Restriction of Consumption.

The immediate task of those charged with the exploitation of the Netherlands is the diversion to Germany of as great amount of goods and services possible. The first method used to accomplish this purpose was, as described above, outright expropriation. The second method, looking a longer time ahead, was the re-organization of the Dutch economy so as to coordinate it with the German economic structure--in other words, the re-channeling of productive forces into those fields which could best serve the Nazi war machine. But once the economic machine was producing the goods most urgently needed by the Germans, there still remained the problem of obtaining physical possession of them. This, in turn, was a question of restricting Dutch purchasing power (and consumption) and of acquiring the goods and services thus released. The devices used for this purpose are now to be discussed.

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Rationing A complete survey of all stores and supplies not outright confiscated and removed was made by the military authorities for the purpose of wartime rationing. Eggs, cheese, cocoa products, condensed milk, canned goods, coffee, sugar, flour, rice and rice flour, cornstarch, rolled oats, macaroni, butter, fats, bread, legumes, fall under the declared and strictly rationed category. Textiles, clothes, fuel are sold on the German point system. A particular registration and rationing system for all motor oil and gasoline supplies is in force.

The actual quantities of goods which can be purchased with rationing cards may differ considerably from the theoretical rations allowed. Ration allowances are maximum quantities which may be bought provided sufficient supplies are available for sale.

Some of the rations prevailing in December, 1940, as reported by the United States Consular officials, are compared in the following table with the average consumption of an adult male in 1935-1936 (as estimated in the International Labor Review, June, 1939).

Rations and Consumption per week, in kilograms		
Item	Ration, December, 1940 *	Average consumption of Adult Male, 1935/36
Bread, cake, etc.	2.03	3.1
Eggs (number)	1	3.2
Butter, margarine and fats	.25	.48
Rice	.06	.69
Sugar	.25	.51
Coffee	.04	.06
Meat	.40	.63

* Rations represent maximum quantities allowed, not quantities actually available for purchase at all times.

Soap consumption has been restricted by 70 per cent, according to a statement appearing in an October, 1940 issue of Telegraaf, the Amsterdam newspaper. For the purchase of textiles, cards of 100 points have been provided for each person and are valid for one-half year. A pair of ladies' artificial hose counts for five points, a woolen dress 36 points, and a man's shirt 14 points.

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Price Policies On May 9, 1940, almost immediately after cessation of hostilities, the German Military Commander in the Netherlands issued a price-and wage-stop decree which on July 11 was incorporated in the Netherlands law. The prohibition of price and wage changes without official permission which this decree has established is applicable to practically the whole economy.

According to a German statement the price-policy in Holland is designed in part, at least, to encourage certain lines of production, particularly agriculture. The prices paid to agricultural producers, e.g., have been allowed to rise. This amounts, in effect, to a subsidy on the production of agricultural commodities the supply of which the Germans are anxious to have increased. The subsidy is at the expense of the consumer on whom the burden of the officially granted price increases falls. By this method, producers and retailers are protected to a certain extent, whereas consumers, and particularly workers, whose wages have been frozen, are made to bear a larger share of the burden of restricted consumption.

That considerable increases in prices have taken place is indicated by the following table:

Percentage Increase in Prices between
May 9, 1940 and December, 1940:

Bread.....	15-65
Butter.....	25
Sugar.....	18
Fat.....	75
Milk.....	45
Cheese.....	75
Eggs.....	100
Margarine.....	16
Soft soap.....	40
Soda.....	100
Salt.....	50
Rice.....	40
Coffee.....	50
Salad oil.....	85
Brown beans.....	80
Matches.....	70

Again, it must be emphasized, then, that ration allowances do not represent quantities actually available for consumption. For, in addition to the fact mentioned in the section on rationing, that the supply of some commodities may be insufficient to meet all demands, there is also the obstacle of high prices. Restrictions on the consumption of

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lower income groups probably stem just as effectively from price increases as from the rationing system.

Taxation Taxation, like rationing and price increases restricts consumption, but, in addition, in the process of restricting consumption, it transfers command over goods and services to the taxing authorities. As can be seen in the table below, the first eleven months of 1940 brought no very large increases in tax receipts, but two points must be kept in mind: (1) the Government services normally rendered to the tax-payer undoubtedly have been reduced, both quantitatively and qualitatively, so that the net burden on the Dutch people represented by the same amount of taxes is probably now very much greater, (2) as shown by the comparative data for November 1939 and November 1940, tax burdens are strongly on the increase.

Tax Receipts

(millions of guilders)

	1939		1940		Per cent change	
	Jan.-Nov.	Nov.	Jan.-Nov.	Nov.	Jan.-Nov.	Nov.
Direct taxes	130.9	3.5	171	20	+ 30%	+ 470%
Indirect taxes	436	39.9	419.6	44.9	- 4%	+ 12%

The increase in direct tax receipts is attributed principally to the surtax on the municipal fund tax and the profits tax, which were non-existent the previous year. The small decline in indirect taxes was probably chiefly due to the decline in customs and dividends and bonus tax receipts. New excise taxes, imposed since the German occupation, could offset the losses only partially. The Reichskommissar for the occupied Netherlands, Dr. Fischbock, has recently stated the necessity of further tax increases in the Netherlands. So far, he said, the Dutch tax-payers are paying only half as much as the German tax-payers. Further tax increases may therefore be expected.

Debt creation. A third method used by the Nazis in obtaining the necessary funds for the purchase of goods and services is the creation of public debt.

By virtue of two decrees the German authorities have obtained full "legal" control over the finances of the Netherlands state. On October 19, 1940, an ordinance of the Reichskommissar became effective which, in fact, gave full legal powers to the German authorities to raise money by borrowing, in amounts and on conditions to be determined by them.

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And, by a decree effective from November 1, 1940, the Reichskommissar was empowered "to fix and modify State Budgets and accounts" and to supervise the execution of the budgets. These powers were particularly needed in order to cope with the rapidly increasing floating debt of the country.

According to a recent Consular Report, the floating debt of the Netherlands Government on May 15, 1940, amounted to Fl. 735 million. Before the end of the year, the total had amounted to approximately Fl. 1.8 billion - an increase of over 140 per cent. The financing of this debt has been greatly facilitated by the fact that banks apparently have large sums in liquid means at their disposal. These liquid funds are deposits of firms and individuals whose investment opportunities have to a large extent disappeared, and whose production opportunities are severely limited by the lack of raw materials.

The principal method of financing the floating debt has been the issue of Treasury bills which have apparently been sold both to the public and to banks, including the central bank. In April, 1940, banks held 164.7 million guilders in Treasury paper; by the next October they held 474.7 million guilders in Treasury paper. According to an article of H. Wohlthat, the Commissioner attached to the Netherlands Bank, appearing in Bank-Archiv of January 1, 1941, the Netherlands central bank held, on May 6, 1940, a few days prior to the invasion, 9.9 million guilders in claims, some unspecified portion of which consisted of Treasury bills. By December 2, 1940, the bank held a total of 232.8 million guilders in claims, 226 million of which consisted of Treasury bills. Hence, it is evident that over half a billion guilders of the increase in floating debt was absorbed by the banks, including the central bank. The resort to the central bank is significant in view of the fact that Treasury bills were sold to it only to the extent that the private market did not absorb the bills.

In addition to the central bank holdings of Treasury bills, on May 20, 1940, a 15-million guilders credit was advanced to the Government by the central bank.

Data on the course of the fixed debt are not as complete as those on the floating debt. At the beginning of 1940, the total fixed debt of the central government amounted to about 3.1 billion guilders. In the first few months of 1940 an additional 600 million guilders were consolidated, bringing the total fixed debt to about 3.7 billion guilders.

This figure does not include, however, a billion guilders share in the Indies debt nor the 2.3 billion guilders of debts owed by other public bodies. In summary, the latest data available indicate that about four months after the invasion, the total fixed public debt, excluding the share in the Indies debt, but including provincial and municipal debts, aggregated around six billion guilders. If there is added to this the floating debt of 1.8 billion guilders (as of December, 1940), it is evident that by the end of the year 1940, the total guilders debt of the Netherlands was 175 per cent or more the pre-invasion national income. The fixed portion of the total debt has apparently not increased since the invasion to the same extent as the floating portion. This may partly be explainable in terms of the unwillingness of the market to invest in anything except short-term, relatively liquid claims.

Currency creation. In all occupied areas, including the Netherlands, the German occupation forces issued a special scrip-currency, the Reichskreditkassenscheine. The scrip-notes were legal tender in the Netherlands but could not be exported to Germany. The central bank was under obligation to redeem them in guilders, and on July 1, 1940, an agreement between the German and the Netherlands authorities was reached according to which further issues of scrip were given directly to the central bank of the Netherlands in exchange for guilders (at the rate of RM 1 = fls. 1.33). The scrip-notes were then withdrawn from circulation.

The extent to which the scrip-notes were circulated in Holland is not easily ascertainable. The American Consul in Amsterdam reported on August 15 that the Germans, according to his information, spent about 6 million guilders per day in scrip. Up to July 1st, such notes were, for the major part, disseminated by the German troops. An ordinary German soldier receives RM 8 a day in addition to the amounts paid to his family. Until July 1st, the payment was made in scrip.

If, as reported by the American Consular Office, more than 400,000 German troops and administrative officers were stationed in Holland by the end of August, and if other army expenses also paid for in scrip are taken into account, the figure of 6 million guilders spent per day by the Germans may not be an overestimate. A consular report of August 23rd has even stated that the Germans spent 3 billion guilders in scrip in the first three months of the occupation. At the other extreme, the British Government estimated (in Parliament, on March 19) that the Netherlands paid only about \$254 million in occupation costs.

Besides the issue of scrip notes, the regular currency circulation of the country was augmented. On May 6, 1940, there were 1.2 billion guilders of currency in circulation, whereas by the end of the year

currency in circulation amounted to 1.5 billion guilders - a 25 per cent increase. To this must be added an increase of silver money in circulation totalling in value 26.8 million guilders.

However, since the scrip-notes were redeemed in guilders, it would be double-counting to add the scrip issue to the increase in currency circulation in order to determine the total increase of currency in circulation.

Exchange measures.

Immediately upon occupation, the German Military Commander for the Netherlands decreed a general blocking of all international payments and gold and capital movements. A strict exchange control was established, followed by the incorporation of the Netherlands in the multilateral European clearing system. Today Holland clears with practically all European countries via Berlin. Offices of the German Konversionskasse act as agents in the clearing system, at the official German exchange rates.

Gold, precious metals, and all foreign means of payments in possession of Netherlands nationals or residents of the country had to be offered for sale to the Netherlands Bank at once. \$160 million worth of gold holdings were seized from the central bank, according to British reports. In addition, a 26 million guilder Government deposit with the Central Bank was entirely exhausted by May 23, 1940.

With certain exceptions, all claims of Netherlands nationals against foreigners, and of foreigners against Netherlands nationals or residents became part of the clearing system. Free currency claims (e.g. dollars) require approval of the Foreign Exchange Institute, and must be offered to the central bank when they are paid out in the form of foreign exchange. Possession of foreign securities must be registered with a special agency.

Exchange manipulation was also involved in the Nazi attempt to "adjust" the Netherlands price level to that of Germany. The price adjustment had as one of its objectives the depreciation of the purchasing power of the guilder in comparison with the Reichsmark to the level of the over-valued official exchange of the mark. Before the invasion, the guilder was a free currency worth about \$0.53. The mark, though officially maintained at \$0.40, was in reality worth around \$0.25. In other words, a "fair" rate of exchange would probably have been around 1 guilder = 2 Reichsmarks. The rate actually imposed at present is 1 guilder = 1.33 RM. However, in view of the wartime disturbances and the disruption of all semblances of a free market, com-

parisons of this sort are of doubtful validity. The most that can be said is that the Reichsmark is undoubtedly over-valued in relation to the guilder—a widely-used Nazi device of exploitation.

That the depreciation of the guilder has facilitated the buying up of Netherlands business and commercial interests is apparent. Recently, large purchases of objects of art, jewels, real estate, etc., by high Nazi officials have also been reported.

A special device being widely used in this connection to exploit Holland is the so-called "free transfer" provisions of a proclamation of October 30, 1940. According to the terms of this proclamation a free transfer of 5,000 RM per month per person from Germany to the Netherlands is permitted. One of the ways in which this is used is as follows: Any German firm or private person desiring to purchase merchandise in Holland either for private use or resale in Germany pays 5,000 RM into the German-Netherlands clearing account with the Reichsbank. The transfer is then made to Holland immediately in equivalent guilders, where it can be used to purchase anything except a few articles named on a special list, which require special permission. Larger amounts may also be transferred on permission and it is especially provided that requests in this regard will be given the most liberal treatment. The possibilities provided by this practice are being taken advantage of to the fullest extent, with the result that the country has been overrun with purchasers who are buying anything and everything possible.

In conjunction with and partly as a result of these methods, the Nazis have imposed, in effect, forced loans. Whereas in 1939, Dutch imports from Germany amounted to 357.6 million guilders and exports to Germany amounted to 136.1 million guilders (an unfavorable Dutch balance of 221.5 million guilders), by the end of 1940, the flow of trade was shifted to such an extent that 1.4 billion guilders in the German-Dutch clearing balance was accumulated in Holland's favor. This balance constitutes, in effect, a "loan" from the Netherlands to Germany.

III. Effects of German Penetration on the Netherlands.

A. Economic.

Structure of Economy.

As we have described above, in the process of revamping the Dutch economic organization to meet Nazi requirements, an entirely new type of economy has been planned. If the Nazis have their way, the past orientation of Netherlands economy toward an international market and its position as a great maritime, financial and commercial power will have given way to a position of an agricultural cog in the Nazi-European economic organization.

Standard of Living.

The most immediate economic effect of the Nazi penetration of Holland has been on the standard of living. Before the invasion, the Dutch people enjoyed one of the highest standards of living in Europe. Today the foundations of that high standard have been destroyed. In a Nazi dominated European system, Holland's sources of wealth will to a large extent have disappeared. Reorientation, in effect, means reduction of her living standards to that of a Central European agricultural province. Repeatedly, the Germans have stated that "adjustment" of the Netherlands standard of living to that of the Central European countries will be the inevitable outcome of the proposed reorientation. For example, neither her interest and dividend income from foreign investments nor her income stemming from the performance of maritime services will any longer be forthcoming, at least not in anything like their former proportions.

Immediately, the effects of the German invasion on the standard of living are most clearly seen in the system of consumption restrictions which has been described above, and in the enormous destruction of houses, bridges, transportation facilities, factories, etc. caused by the few days of war. The destruction of large sections of Rotterdam is the most outstanding example of the war damage.

Fundamentally, of course, the reasons for the drastic curtailment in living standards are to be found in the diversion of productive resources into war industries and of consumption goods into German hands. Of the general industrial supplies and raw materials, commercial goods, construction materials, wool, lumber, minerals and the many other products which Holland may have had on hand at the time of the invasion, only those portions now remain in the country which are being used in German contracts for goods to be utilized by her in war effort and those which are absolutely necessary to domestic economic needs.

The national economy has been drained through the heavy export of goods to Germany against which there are no compensatory imports. As indicated in a previous section, whereas the Netherlands was a heavy net importer from Germany before the invasion, she is now a net exporter to such an extent that in December last she had a clearing balance in her favor of some 1.4 billion guilders.

To these factors there must be added occupational costs that have now been assumed and which exceed by far the former mobilization costs. Estimates place the number of German troops including the air force now in this country at somewhere between 500,000 and 800,000. These figures do not include the police and para-military groups or civilian authorities.

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Two other factors have aggravated the present economic plight of the Netherlands: unemployment and poor crops.

The unemployment problem in the Netherlands had been serious in the three or four years preceding the outbreak of war. The particular dislocations, caused by the shift to outright war economy in the countries neighboring to the Netherlands, brought considerable difficulties of unemployment in Holland. Even the general mobilization, which kept 400,000 men under arms during the winter and spring 1939/1940 did not relieve the unemployment situation effectively. By February 1940, between 275,000 and 300,000 workers of the 8.7 million population were still without jobs. The occupation by the Germans in May, 1940 increased the economic dislocations in the country, and added the number of demobilized soldiers to the army of unemployed.

Mainly because of the urgency of labor shortage in Germany, but also partly for propagandistic reasons, the German authorities initiated a large re-employment program for Holland. Despite the thousands of workers transported elsewhere for war work, American representatives have reported an unemployment figure of 210,000 for October, 1940.

The food situation has been aggravated by the poor crops for 1940, which yielded 30-50 per cent less than those of 1939. Except for apples, the vegetable and fruit production did not reach the 1939 quantities due to adverse weather conditions. It is estimated, however, that unless Germany further depletes the existing grain supplies in the Netherlands, the available quantities may be sufficient until the next harvest season. Though the recently established trade connections with the Northern and Baltic countries may allow a trickle of additional grain imports, no large supplies are to be expected from these sources because of the priority of Germany's needs.

Dutch livestock had to be reduced, partly because of the urgent immediate needs for meat, partly because of the lack of grain and protein foods. Hog and poultry stocks were reduced by more than 50 per cent because of lack of grain feed and feed concentrates. This has created a serious meat shortage in the country.

B. Political

It has been typical for the National-Socialists to wage a total war, in which the political and economic lines of action cannot be separated. A short review of political events in the Netherlands since the occupation is, therefore, indispensable to complete the picture:

In the political sphere, the Germans have so far proceeded with caution. The appointment of Seyss-Inquart and Fischboeck, the Austrian Nazis, as political and economic administrators indicated a moderate course. Seyss-Inquart tried to retain as much of the local civil

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Division of Monetary
Research

administration as possible in order to win the favor of the population. Where replacements were necessary, the Netherlands Nazis were generally preferred. The Socialist party formerly comprising between 1/4 and 2/5 of the Electorate, was placed under Rost van Tonnigen, a well-known leader of the Netherlands Nazi-movement. He was also charged with the safeguarding of the properties of the many Socialist workers' institutions. However, on September 21, the Socialist party was dissolved outright.

On the right wing, an amalgamation of all parties under the leadership of Dr. Colijn, the former premier, took place. While initially ready to cooperate with the Nazis under a program of monarchy with restriction of democratic rights, the group finally broke off relations with Seyss-Inquart because of his excessive demands. The Nederlandsche Unie is a new Catholic movement based on an authoritarian program along the lines of a corporate state. Its influence outside of a circle of Catholic intellectuals is doubtful but cannot be assessed at present. It should be remembered, however, that only about 1/3 of the Dutch population is of Catholic faith.

The Fascist groups are split and seem to be out of popular favor. The largest group, the National-Socialist Movement under Mussert, was cold-shouldered by the Germans at first though it had been in close cooperation with the German Nazis long before the war. On September 16, the Mussert-Guard, a native storm troopers' movement was dissolved and replaced by the German-led Nederlandsche SS, "a sister organization of the German SS." The civil administration of the Netherlands, however, has recently been slowly infiltrated with sympathizers of the Netherlands National-Socialists.

Other small groups with more or less pro-German and pro-Nazi sympathies are at present encouraged by Seyss-Inquart, obviously in the hope of winning the favor of wider circles of the Netherlands population, which at present seems to refuse any sort of active cooperation.

The Nazi Kultur propaganda has been spread actively from the first day of occupation. Libraries were carefully cleansed of all undesirable reading matter; newspapers, radio and lecture-halls have been freely used to influence the Netherlands population in favor of National Socialist principles.

The Nazis have freely used their terroristic methods in Holland. For alleged acts against German nationals in the Netherlands East Indies, a number of hostages were arrested in the Netherlands. Anti-Nazi demonstrations were violently suppressed. Listening to English broadcasts is strictly prohibited and heavily fined.

Yet, as recent occurrences demonstrate, the Nazi propaganda has far

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Research

from succeeded in converting the majority of the Dutch population. For example, on March 1, 1941, the German military authorities fined the city of Amsterdam 15 million guilders, as a penalty for "disorders" against the occupation. Three days later eighteen Hollanders were condemned to death and nineteen others were sentenced to one and a half to seven years' imprisonment by a German court martial. The accused were charged with being leaders of a group who engaged in acts of sabotage and terrorism against the German Army and the army supply service and also did espionage work. Steps have been taken recently to place the cities of Amsterdam, Hilversum, and Zaandam under the guardianship of Government Commissioners who will act in the place of ousted mayors and aldermen.

Measures against the Jews are becoming increasingly stringent. In late February, it is reported that measures taken by the Netherland National Socialist party against the Jewish inhabitants of Amsterdam caused clashes. The Jews, it is said, were defended by Netherlands workers and sympathetic strikes broke out among public employees. On March 1, the police created a Medieval ghetto in Rotterdam and certain resort cities, the Nazi officials have boasted, are "entirely free of Jews."

Recently also the German authorities have decreed compulsory State service for Netherlands and have drafted many citizens to do guard duty over German Army signposts to prevent their defacement by youths. Workers may be prevented from changing jobs by the same decree.

Whether in the German plans for a future Order the Netherlands will become a mere province of Greater Germany or an independent vassal-state within the framework of a New Order cannot be predicted. From the point of view of military and political stability, a semi-independent vassal-state will be most expedient. From the point of view of radical economic exploitation the former may be the more feasible solution. At the present stage, such considerations are purely conjectural.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 7, 1941

TO Mr. White

FROM Mr. Gass

Subject: Economic Situation in Germany

Under date of March 10, 1941, Mr. Donald R. Heath, First Secretary of the U.S. Embassy at Berlin, has written a sharply pointed summary of the present economic position in Germany. Perhaps the most striking statements in his summary are the following:

1. "...there is no indication visible that any vital weakness in any part of the economic machine will develop during this year..."
2. "...military expenditures continue to increase."
3. "...the civilian population, wearing their old clothes, cannot be said as yet to be suffering privation."
4. "...workers' and civilian morale has not yet been a problem."

DEPARTMENT OF STATE
WASHINGTON

March 31, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits a memorandum for Treasury from Mr. Donald R. Heath, First Secretary of the American Embassy at Berlin, dated March 10, 1941, regarding economic conditions in Germany.

Enclosure:

Memorandum,
March 10.

EMBASSY OF THE
UNITED STATES OF AMERICA

Berlin, March 10, 1941.

MEMORANDUM
FOR TREASURY FROM HEATH

The moratorium on economic information in Germany is being drawn closer and closer. I maintain contacts in the Reichsbank, the Economic Ministry and the Economic Section of the Foreign Office but, as might be expected, their comments are progressively fewer. The Reichsbank continues to publish its statements and the Treasury the monthly debt figures and quarterly tax returns. These plainly show that government expenditures, that is to say, military expenditures continue to increase. The figures do not tell the whole story since much of the cost of the maintenance of German arms and a part of the production of military equipment is being borne by the countries under occupation.

The supply of goods available for civilian use is steadily diminishing, but the civilian population, wearing their old clothes, cannot be said as yet to be suffering privation. There has been no recent reduction in rations but I am informed on excellent authority that it is very probable that by the end of next summer, perhaps even by July, the rations of meat and fat will suffer some reduction. There are indications of increased strain in the supply of essential raw materials and in the transportation system, and with the continued expansion of the army the problem of labor supply is steadily intensifying. Nevertheless there is no indication visible that any vital weakness in any part of the economic machine will develop during this year, although signs of future vital weaknesses may well become apparent, despite efforts at concealment, during the next few months. An eventual and possibly vital future weakness is the fat shortage and well informed sources have recently quite plainly intimated that any real solution of the fat problem is impossible. A second weakness is, of course, in the matter of oil and petroleum products. A member of Goering's organization indicated to me that Irak oil production was a subject of study and longing.

One of the most important economic factors is that of the morale of the workers. Apart from a relatively few localities in Germany and from incidents of sabotage in occupied countries, workers' and civilian morale has not yet been a problem. Nevertheless the potential dangers in this field are apparently thoroughly realized by the authorities, as witness the spate of speeches to congregations of workers and the Ley plan for labor and social reform (see my memorandum dated February 24). These plans have not yet been approved by Hitler and are still the subject of opposition by the majority of the Ministries of the Reich. The question of civilian morale is not only important as regards industrial production but as regards the

smooth functioning of the rationing and price control system. If Germany has escaped inflation it is due not merely to the penalties for violation of price and rationing ordinances but also to the innate discipline and morale of the buying public. This discipline and morale, while still good, have visibly deteriorated during the year and a half of war. There is much more illicit trading in foods and other commodities and an evident, if as yet not dangerous, increase of apprehension as to the future buying power of the mark. Recent new price regulations, which will be made the subject of a later memorandum are thought to be not only an attempt to prevent the recurrence of inflation itself but also an effort to reassure the public and prevent an inflationary psychology arising.

(signed) Donald R. Heath,

Donald R. Heath,
First Secretary of Embassy

Approved:

(signed) Leland Morris

Leland Morris
Charge d'Affaires ad interim

DRH:EK

Copy:bj

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 7, 1941

TO Mr. White
FROM Mr. Gass

Subject: Mr. A. Loveday's study of German war finance.

On March 31, 1941, Mr. Pinsent sent Mr. White a copy of a memorandum entitled German War Finance furnished by Mr. A. Loveday, of the League of Nations Economic Section.

Specialists in German economic affairs will not find this memorandum distinguished for any novelty in the facts or profundity in analysis. However, it is an intelligent brief statement of the question, which should be of considerable use to laymen. Certainly it compares very favorably with the treatment of the same question by Dr. Lorwin, which was recently transmitted to the Treasury by President Roosevelt and reviewed in our memorandum of April 3, 1941.

The following are some points which Mr. Loveday's memorandum makes and which are worth re-emphasizing:

1. There is nothing basically novel in German methods of war finance. What are novel in the German war economy are the severity and effectiveness with which non-financial controls are used to restrain civilian consumption and non-military investment.

2. A false idea may be suggested when German war expenditures are compared with the German national income otherwise than for the purpose of indicating the rough order of magnitude involved. Apart from the fact that a large part of German war expenditures are borne by the occupied areas, not all German war expenditures are out of current income. Dr. Schmidt, economist of the Deutsche Bank, estimated that some 12 billion marks of the 1940 war expenditures were covered by the depletion and depreciation of capital.

3. The Germans have attained maximum smoothness in their government borrowing by not having any special flotation dates at all. All Reich securities are continuously available to buyers. The 15 years 3½ percent issue, for the general public, is sold every day by the regular banks. Institutional savers are required to put their reserves regularly into the 27 year 4 percent liquidity loans. Treasury bills are always "on tap" to banks and other firms which wish to hold liquid assets in short-term paper.

BRITISH EMBASSY,
WASHINGTON, D.C.

31st March 1941

Dear Dr. White,

I think you may be interested in the enclosed copy of a memorandum on German war finance which Loveday, of the League of Nations Economic Section, has furnished to Phillips.

Yours sincerely,

St. Vincent

Dr. Harry White,
U. S. Treasury,
Washington, D.C.

GERMAN WAR FINANCE

1.

The quarterly movement of German Government borrowing and tax receipts since the spring of 1939 has been as follows:

	Apr.-June 1939	July-Sept. 1939	Oct.-Dec. 1939	Jan.-Mar. 1940	Apr.-June 1940	July-Sept. 1940	Oct.-Dec. 1940
Reichsmarks (000,000's omitted)							
Medium and long term debt.....	728	745	1,272	2,977	3,738	4,084	
Short term debt.....	3,941	4,498	4,840	3,239	4,343	5,381	
Total internal debt.....	3,669	5,243	6,112	6,216	8,081	9,465	9,500
Tax revenue.....	5,221	6,179	6,335	5,840	6,067	7,350	
Total borrowing and tax revenue.....	8,890	11,422	12,447	12,056	14,148	16,815	

During the twelve months from October 1939 to September 1940 the Government debt has shown the following changes:

	Sept.30, 1939	Sept.30th, 1940	Increase:
Reichsmarks (000,000's)			
Internal debt outstanding:			
Medium and long term debt.....	24,418	36,489	+ 12,071
Short term debt.....	14,083	31,886	+ 17,803
Total.....	38,501	68,375	+ 29,874

The increase in the public debt during the year ending September 30th, 1940 was thus 29,874 million marks. Tax revenue in the same period amounted to 25,592 million marks. To this should be added a contribution imposed at the beginning of the war on all local government administrations (provinces, municipalities, communes.). This was at first estimated to yield 5,000 million marks a year; but the estimate was subsequently changed to 3,000 million marks for the fiscal year 1940/41 (ending March 31st) and 4,000 million marks for 1941/42.

(1) Needless to say, these figures refer to the disclosed debt; the undisclosed debt will be mentioned later. The figures here given include certain minor items, such as "tax certificates", which are not included in the official debt return, but which are not essentially different from what is public debt in the legal sense.

If the estimate of 3,000 is accepted for the year ending September 30th, 1940, the Government's total receipts during this period add up as follows:

	Reichsmarks (000,000's)
Tax revenue:	25,592
Contribution from local governments:	3,000
Increase in public debt:	29,874
Total	58,466

The increase in tax receipts which is apparent from the quarterly figures is due mainly to the "war surtaxes" imposed on September 4th, 1939, including the 50% addition to the income tax. All forms of tax revenue have contributed to the increase, except the yield of customs and excise, which has declined.

The contribution of local governments was to come out of a 50% economy in the cost of local administration, and was not to be passed on to the public through higher rates or charges.

No public loan of the normal type, issued in a given amount for public subscription, has been floated since January 1939. The medium and long-term borrowing takes place chiefly in two forms. In the first place, securities known as "interest-bearing Treasury certificates" are available continuously to the banks and can be bought by the public through the banks. Until the end of 1940, these certificates carried an interest rate of 4% and their currency was gradually extended up to twenty years. In January 1941 their interest rate was reduced to 3½% and their currency period to fifteen years.

Secondly, large amounts of Government obligations carrying at present 4% and redeemable in twenty-seven years are issued from time to time direct by the Treasury to the savings banks and insurance companies. These are the so-called "liquidity-loans" (Li-Anleihen). Their outstanding feature is that they are not marketable. The various institutions which have to invest their liquid funds in these securities are obliged to hold them till maturity.

Short-term borrowing takes place principally by means of Treasury bills and "non-interest-bearing Treasury certificates". These are issued at discount rates ranging from about 2% to 3% according to the maturity, which varies mostly from three to eighteen months. They are issued "on tap", being continuously available to the banks and the money market.

There is, in addition, the undisclosed debt. Before the war, it amounted to some 13,000 million marks, and it consisted of "special bills" issued for the financing of rearmament prior to 1938. It does not seem probable that the secret debt has increased since the beginning of the war. The conditions which in 1935 or 1936 made it expedient for the Government to disclose its floating indebtedness no longer obtain. On the contrary, there is now a tendency to advertise the size of the borrowing as an indication of the tremendous scale of the German war effort.

It is possible, indeed, that the actual net amount of war-time borrowing has been less than the published figures suggest. There may have been a reduction in the old undisclosed debt. The "special bills" issued before 1938 are known to have been renewable up to a maximum of five years. Thus, the bills issued in 1935 - and few were issued before that date - fell due for repayment in 1940. Observers acquainted with the methods and the mentality of the German financial administration believe that such repayment, amounting to no more than replacement by ordinary Treasury bills, may have taken place. This is merely a hypothesis, and there is no reliable evidence to confirm it. But if it is correct, then the figures for the increase in the public debt in 1940 may have to be reduced by, say, 3,000 million marks to obtain the true net amount of borrowing.

11.

Taking the figures published, the Government's total receipts, and therefore presumably also its total expenditure, during the twelve months from October 1939 to September 1940 amounted to about 58,500 million marks. ⁽¹⁾ What proportion does this bear to the national income?

Germany's national income in 1938 has been officially estimated at 88,000 million marks (including Austria and the Sudeten territories). According to a private estimate ⁽²⁾ the national income at the beginning

(1) This does not include private contributions to official organisations such as the Labour Front and the Winter Help Fund, estimated at about 500 and 400 million respectively in 1939.

(2) Made by the economic department of the Deutsche Bank.

of 1941 was at a rate of 100,000 million marks a year. The increase is not surprising if account is taken of the following factors.

Prices, as shown by the official indices, were on the average about 5% higher in 1940 than before the war. The lengthening of working hours and the employment of women and young persons tended to keep up aggregate payrolls. The population was increased not only by the annexation of territory (Western Poland, Alsace, Lorraine, Luxemburg) but also by the repatriation of over 500,000 persons of German origin from Italy, the Baltic States, Russia and Roumania, and further by the organized immigration of over 1,000,000 workers from Poland, Italy, Norway, the Netherlands and other countries. Finally, it should be remembered that the mobilisation did not affect the money income of the civilian population, as the Government undertook to pay the families of the mobilised men the same income as they had enjoyed previously.

If, then, the national income at the beginning of 1941 was at the rate of 100,000 million marks, it may perhaps be placed at approximately 97,000 million for the calendar year 1940 and at some 95,000 million marks for the year ending September 1940. Comparing the latter figure with the aggregate of Government receipts in the same period, it would seem that the share of Government expenditure in the national income was 61.5%.

(1)

(1) An estimate of 72%, published by the U.S. Department of Commerce in Foreign Commerce Weekly, March 8th, 1941, received some prominence in the press recently. But this estimate is based on a tax revenue of 10,000 million marks anticipated for 1941/42 and on a local government contribution of 4,000 million expected for that fiscal year, combined with an annual volume of borrowing at the rate of 38,000 million, i.e. the rate observed not during a whole year but only in the second half of 1940. The figure of 72% is thus constructed on the basis of estimates referring to different periods of time. This is clear from the sentence in which this figure first occurs: "If borrowings continue at this rate of 38,000,000,000 annually, the total amount available from Reich source for wartime expenditures will reach 72,000,000,000 reichsmarks in the coming year, or about 72 per cent of Germany's current national income" (Op. cit., page 387.) It is quite possible, however, that the percentage share of Government expenditure in the national income is higher at present (March 1941) than it was in the period October 1939-Sept. 1940

This percentage seems high; but there are circumstances to be taken into account which somewhat restrict its significance. In the first place, it does not necessarily mean that only 38% of what the German people currently produce remains for their own consumption, while 62% is taken by the Government. For, to some extent, Germany's war effort - and its financial counterpart, the Government's expenditure - is not met out of current production and current income, but out of capital, being covered by the depletion of commodity stocks and by the failure to make good the current wear and tear of the national capital equipment. A part of the war effort is now covered also by various forms of "capital import" from occupied countries. ⁽¹⁾

Moreover, the proportion of Government expenditure to the national income is naturally determined by the degree of "collectivisation", - by the degree to which a country's general economic system is operated on State account. This degree was relatively high in Germany already before the war. In Russia, the share of State expenditure in the national income probably is, or should be, 100%.

III.

The German system of war finance as established in the autumn of 1939 seems, on the whole, to have proved adequate. At any rate, it has undergone no substantial changes since then. Before the war, it may be recalled, there was a great

(1) It is doubtful to what extent the acquisition of control by German interests in various concerns in occupied countries represents a movement of capital in the opposite direction. In any case, the issue of Reichskreditkassenscheine, the accumulation of clearing arrears, etc., would seem to create, on balance, a substantial import of capital into Germany.

deal of financial experimentation. New devices were tried; all of them failed. There was the regime of "Sonderwechsel", to which Schacht put an end early in 1938. There was the method of "delivery bills" from April 1938 to May 1939; and there was the "New Financial Plan" from May to October 1939. The apparent success and stability which, in contrast to this period of uneasy experimentation, have marked the Government's financial policy since the outbreak of the war call for explanation. To say that borrowing is easy when financed by inflation is, of course, a simple explanation. But it cannot be the ultimate explanation in an economy where rationing is practically universal and price control severe and effective, and where, consequently, there is no room for the peculiar kind of "forced saving" arising from inflation through the rise in the general price-level. There has been a great deal of forced saving in Germany; but it has come about in a different way.

The curtailment of private consumption which has been necessary to "make room" for State requirements has been effected largely by direct and quantitative restrictions on consumers' purchases. By a Decree of August 24th 1939, and by certain additional ordinances issued in the succeeding weeks, a rigorous scheme of rationing was imposed on practically all foodstuffs and on a number of other articles of popular consumption such as soap. Clothing, footwear, bicycles and other such articles were made subject to a system of "buying permits" issued on certain stringent conditions in each individual case. For articles of clothing this system was replaced by one of ration cards in November 1939. As for the inessential durable goods not subject to restrictions, many of them simply disappeared from the market as their production was stopped and as existing stocks were sold out.

This state of things has had important consequences on the financial side. In all probability, these consequences were not deliberately intended or foreseen by the managers of German war finance; but they soon became quite clear. Briefly, people's money incomes tended to remain idle in part, because there was nothing on which to spend them. In this way there developed an indirect but nevertheless effective compulsion to save, which naturally simplified the Government's problem of borrowing.⁽¹⁾

It has been estimated that the amount saved by consumers in 1940 as a direct result of the quantitative restrictions on consumption was between 13,000 and 14,000 million marks. Out of this total, about 5,000 million marks is accounted for by the rationing of clothing alone.⁽²⁾

(1) In the winter of 1939/40 there was still some public discussion concerning the necessity of some form of compulsory saving on lines similar to the scheme suggested by J.M. Keynes in England. It was proposed, for instance, that part of workers' wages should be paid in savings certificates. In January 1940, Funk stated in a speech in Vienna that a scheme of "war saving" was under consideration. This shows that it was not at first realised that the necessary saving becomes inevitable when the supply of goods is suitably curtailed. When the monetary effects of rationing became more and more apparent, these discussions gradually ceased. The curtailment of consumption, it was realised, can be effected either through the supply of goods or through the reduction of spendable money income. If curtailment through the commodity supply is sufficient, it is a wasteful duplication to attempt it through money income as well.

(2) Dr. Schmidt, the economist of the Deutsche Bank is responsible for these estimates. They were made public in February 1941.

But this is not all. Severe restriction of civilian commodity supplies obtains also in the industrial sphere. Stocks are reduced or sold out, and cannot be replaced. Industrial depreciation funds cannot be reinvested for the renewal of equipment, because new equipment is unobtainable except for purposes essential for the war effort. Capital is set free in its monetary form; and as the money cannot be used for anything else, it becomes automatically available for Government finance either directly, by being invested in Government paper, or indirectly, by being left on deposit at the banks. The amount released in 1940 through the depletion of stocks and the accumulation of unusable amortisation funds has been estimated at 12,000 million marks.⁽¹⁾

Taking the amounts thus "saved" by consumers and producers together, the total obtained is about 25,000 million marks. Net borrowing by the Reich in 1940 amounted to 33,000 million marks.⁽²⁾ The margin of 8,000 million was covered - and probably more than covered, as the decline in interest rates would seem to indicate - by funds which were saved in normal ways.

There is a certain analogy between the German system of war finance, and the scheme of compulsory saving or deferred consumption put forward by Mr. Keynes. Under the former, the blocking of purchasing power is not direct but indirect. The effect is the same. In the theory of German war finance, as in the scheme of Mr. Keynes, the "blocked" or "sterilised" money income, whatever form it may take (savings deposits, current accounts, Government obligations), represents a claim which will be met after the war, when the economy is turned back to peace time production. People receive, in effect, claims on future consumption in exchange for the present

(1) This, again, is Dr. Schmidt's estimate.

(2) Excluding the possibility of repayment of "special bills".

services they contribute to the war economy. Similarly, entrepreneurs receive claims on future investment goods in exchange for the stocks and equipment which they are now allowing to run down.

Considered from this point of view, it is a secondary though not unimportant - question how much of the Government's borrowing is taken up by the banks and how much directly by the public; whether, that is to say, the titles to future goods which people now receive are in the form of bank deposits or Government securities. If the public agreed to take these titles wholly in the form of Government securities, there would be no inflation of bank deposits; yet the method of financing would not be fundamentally different. In fact, the German public has shown a marked preference for bank deposits as against direct investment in Government paper. Aggregate deposits with German savings banks are officially estimated to have increased in 1940 by about 8,000 million marks, or by 30%.⁽¹⁾

The monthly banking statistics are no longer published; but from the annual reports for 1940 which are now (March 1941) beginning to appear, it is clear that a very considerable expansion of commercial bank deposits has taken place.⁽²⁾ It goes without saying that Government securities - mainly short-term Treasury bills and certificates - are the principal assets which have formed the counterpart of this expansion. To the extent that direct investment in Government securities has taken place at all, it has been confined mainly to industrialists and business men who appear to have shown a preference for certain medium-term securities ("interest-bearing Treasury certificates") as an outlet for

(1) Frankfurter Zeitung, January 22nd, 1941.

(2) The combined deposits of three big banks (Commerzbank, Berliner Handelsgesellschaft, Deutsche Arbeitsbank) rose from 2,315 million marks at the end of 1939 to 3,723 million at the end of 1940, or by 60%.

idle funds.

Compared with Mr. Keynes' scheme, the German method has one serious disadvantage. The indirect blocking of deposits is not water tight. There is no doubt that the accumulation of unusable funds, reflected largely in the increase in bank deposits ⁽¹⁾, has increased in various way the pressure on commodity markets. Attempts to circumvent the market controls are probably common. Prosecutions for infringement of the price regulations are frequently reported in the press. But the thoroughness and severity of the German price control should not be underestimated. The powers of the police and the other authorities concerned are very drastic. Whether the police will be strong enough to stem back the pressure of idle purchasing power from the commodity markets will depend only partly on economic factors. It is partly also a political question.

(1) There is one form in which the public is not allowed to take out its titles to future consumption, and that is legal tender currency. The hoarding of notes or coin is prohibited under the Decree of September 4th 1939. The increase in the note circulation from 11,798 million marks at the end of 1939 to 14,033 million at the end of 1940, or by not quite 20%, can probably be accounted for by military and territorial expansion.

JT

PLAIN

LONDON

Dated April 7, 1941

Rec'd 12:55 p.m.

Secretary of State,
Washington.

1365, seventh
FOR TREASURY.

British Treasury has issued an amendment to Regulation 5B (effecting payments for exports) which seeks to ensure that United Kingdom exports shall not be held abroad by the seller as a means of evading the provision of foreign exchange for the British Treasury and also to prevent evasion by fictitious sale. Proceedings will not be taken for six months and exemptions covering previous permissions and delays in sale not caused by the exporter will safeguard the normal flow of business.

WINANT

HPD

JT

PLAIN

LONDON

Dated April 7, 1941

Rec'd 4:25 p.m.

Secretary of State,
Washington.

1374, seventh.

FOR TREASURY.

Sir Kingsley Wood presented his second budget to the House of Commons this afternoon in a speech dealing rather more briefly than is customary with the details of the past year's expenditure but covering at some length the general problem of control of inflation from various angles, of which the budgetary angle was only one. The hand of Keynes was evident but though a degree of forced saving is to be grafted onto the income tax no reference to this term was made or to the similarity of the measure to any scheme previously proposed.

The Chancellor of the Exchequer opened his speech by stating that Britain had kept her financial front sound and instanced the rate of interest at which the Government is able to borrow and intends to continue to borrow, and intends to continue to borrow, comparing it with

-2- 1374, April 7, from London

with rates paid in the last war. For example in July 1916 the rate for even Treasury bills reached 6 percent while the short-term rate of interest today is $1\frac{1}{8}$ per cent or lower and the gross or average cost of borrowing is but $2\frac{1}{2}$ percent or lower and the gross or average cost of borrowing is but $2\frac{1}{2}$ percent "and we have no intention of borrowing on worse terms".

In reviewing the total expenditure for the past year of £3,884 million, (including £17 million to sinking funds) Sir Kingsley Wood pointed out that this figure included purchases abroad which were not inflationary in effect and included not only purchases in the United States but also those made in the Dominions against which sterling balances had accumulated. He therefore gave a figure for "domestic expenditure" which he stated should be the figure taken in any consideration of the so-called inflationary gap. This figure for the first year of the war he gave as £2,055 million and for the first half of the second year of war at the annual rate of £3,190 million

As in his previous budget speech he delivered a lucid exposition of the function of the budget in holding down consumption as well as in collecting revenue and pointed out that there can be no single approach to total war economy. Beginning by stating that he did not see any evidence

up

DES

-3- 1374, April 7, 1941, from London

up to the present of an unhealthy inflationary price rise he enumerated the Government's various measures to control consumption spending, namely, price control, raw material control, the limitation of supplies of consumption goods, the concentration of production and the Exchequer subsidies paid to stabilize food prices which are now costing the Exchequer at the rate of £100 million a year. He announced that he is allowing for a margin of expenditure so that this principle of subsidies for the stabilization of prices can be extended to essential products other than foods, to fuels, to shipping costs and probably also to rail fares and charges, the object being to keep the cost of living index figure, except for seasonal variations, close to its present rate of 125 to 130 percent of the pre-war level. He regarded this decision as an important development of policy, the purpose of which is to endeavor to hold the wages situation where it is.

In presenting his budget estimates for total expenditure he stated that his total figure would exclude the value of products becoming available under the Lend-Lease Act as well as payments to the United States under existing orders so that the total is not comparable with the total figures of the year just ended which were given in the Embassy's no. 1262 of April 1. Though he gave no estimate of the value

DES

-4- 1374, April 7, 1941, from London

value of the products thus falling outside the budget he stated that if added to his budget figures the total would run to far beyond the £5,000 million which had been suggested as the total expenditure figure for the year in various published forecasts. His estimated figure for total expenditure apart from those items was £4,207 million which included £272 million for interest and management of the national debt and other consolidated fund services, £435 million for civil votes and £3,500 million for the votes of credit which go to meet strictly war expenditure. Of this he put his figure for "domestic expenditure" at £3,700 million.

Taking this figure of domestic expenditure as the significant figure which must be covered if inflation is to be avoided, he estimated that to meet it revenue on the present basis of taxation would yield £1,636 million. Savings which brought in £1,335 million (from which perhaps should be deducted £210 million of Government loans repaid during the year) had shown a remarkable increase from a weekly average of £21.6 million in the first 52 weeks of the savings campaign to £30.4 million per week in the subsequent 19 weeks. He expects an increase in the present fiscal year of between £200 and £300 million over the present rate of savings which is running at about £1600 million.

This

DES

-5- 1374, April 7, 1941, from London

This leaves a gap to be met from increased taxation of something like £250 million a year, if the budget is to fulfill its function of preventing the flood of purchasing power from breaking through the dam of price and other controls.

His tax changes are few in number. He proposes to repeal a duty established in an act of 1802 on certain medicines from which he will lose £640,000 in the first year and £840,000 in the full year. This was the only change in customs and excise duties though increases in tobacco and other duties had been widely expected.

Certain changes are to be made

1. The treatment of borrowed capital and profits arising from wasting assets and other matters in the excess profits tax. These are modifications to eliminate injustice which he pointed out became particularly important when the rate of excess profits duty is 100 percent. In spite of much agitation for a reduction in the rate of excess profits duty the ground that a rate of 100 percent removes the stimulus to enterprise and discourages efforts to keep down costs, the Chancellor of the Exchequer stated he could not reduce the excess profits duty. However he proposed to treat 20 percent of the net amount of excess profits duty paid by every concern (after deducting any repayment on account of

deficiencies

-6- 1374, April 7, 1941 from London

deficiencies) as a credit to be refunded to the taxpayer after the war. This concession obviously very largely meets both the arguments for a reduction in the rate. It may be as well to point out however that by this means the Chancellor of the Exchequer is treating as revenue the total yield from excess profits duty whereas 20 percent of this revenue will constitute a post-war liability. The mood of the House was indicated by the laughter that greeted his warning that income tax would be payable on these repayments since they would be regarded as trading receipts

None of the above changes in taxes is calculated to produce increased revenue. To find the increased funds needed he proposes two major changes in income tax. Firstly the increase from 8s. 6d. in the pound to 10s. in the pound of the standard rate of income tax, while also increasing by 1s. 6d. from 5s. to 6s. 6d. in the pound the tax payable on the first £165 of an individual's taxable income. Secondly he proposes to reduce the relief for earned income from one sixth of such income (with a maximum allowance of £250) to one tenth of such income (with a maximum allowance of £150). The personal allowance of married persons is to be reduced from £170 to £140 and for single persons from £100 to £80 and the exemption limit is reduced from £120 to £110.

The device of "forced savings" (though this term was not mentioned) is introduced by the treatment of the taxation which is added by the reductions in allowances earned)

-7- 1374, April 7, 1941 from London

(earned income and personal) as a credit to be made available to each taxpayer after the war in such manner as Parliament ^{may} determine.

The reductions in personal allowances and earned income allowances he stated would bring two million new taxpayers into the income tax class and would increase the tax especially of those in the lower income tax groups. The amount of additional revenue estimated to come from these reductions in allowances in the coming year is £54 million and in a full year £125 million. This figure however cannot be taken as the measure of the amount of forced savings because there is to be a limit of £65 which may be treated as a credit to be paid at the end of the war to any one taxpayer. The forced savings measure is therefore on a scale very much smaller than that contained in Keynes' published proposals. It is however a wedge which may well be driven further in the future. The Chancellor of the Exchequer stated he did not expect this increased income tax to result in a reduction in voluntary saving. Indeed he pointed out that perhaps by being given a nest egg in the form of this credit the taxpayer might be encouraged to save still further to make a fund on which to fall back in the difficult times that will follow the termination of hostilities.

From

-8- 1374, April 7, 1941 from London

From the increase in the standard rate and earned rate of income tax he expected £96 million this year and £125 million in the full year. The total revenue from income tax is estimated at £756 million. This as in the case of excess profits tax includes a certain amount which will constitute a post-war liability.

With a total from revenue of £1,786 million balanced against £4,207 million of total expenditure, the excess of expenditure over revenue in the final balance sheet is £2,420 million to be met by borrowing.

This budget speech like its predecessor of last July sets out clearly the economic function of war-time fiscal policy, but this time the recognition of the need to combat inflation boldly is coupled with action to that end. Forced saving, denounced in principle by Simon in April 1940, and ignored by Kingsley Wood in July, is now introduced, though not by name.

WINANT

HPD

BRITISH EMBASSY,
WASHINGTON, D.C.

PERSONAL
AND SECRET

April 7th, 1941.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

TELEGRAM FROM LONDON DATED APRIL 4TH, 1941.

NAVAL.

Total of nine ships were torpedoed in convoy which WORCESTERSHIRE was escorting.

Naval forces on 3rd April delivered reinforcement of aircraft to Malta.

2. British submarine in central Mediterranean attacked south-bound convoy on March 23rd. Two torpedoes into 12,000 ton ship and one into 6,000 ton ship.

3. Naval aircraft sighted four Italian destroyers dawn on 3rd 19 miles east of Port Sudan. One bombed and sunk at 06.15, a Swordfish scored two bomb hits on another which caught fire and was abandoned at 14.00 KINGSTON found remaining two destroyers close in short south of Jedda. These subsequently anchored and were abandoned 15 miles south of Jedda. Only 3 of the original 9 Italian Red Sea destroyers remain unaccounted for.

4. MILITARY. LIBYA.

On April 2nd enemy tanks threatened the flank of our support group and drove it out of AGEDABIA to area 35 miles to the northeast. Later our armoured forces were ordered to withdraw by the coast route and to impose the maximum delay on any attempted advance on Benghazi. April 3rd, in face of determined advance by strong Italian and German forces our light covering detachments were withdrawn to selected concentration areas, evacuating Benghazi. In their withdrawal our troops inflicted considerable casualties on the enemy in personnel and in tanks.

5. BRITAIN.

Entry into Asmara early April 1st was unopposed. A small column has already occupied Mevasit 10 miles from Asmara on the road to Massawa; we are operating towards Adi Ugri (25 miles east of Arressa) Adowa and Adigrat.

6. ITALY.

Italian garrison Yugoslav frontier reported reinforced by three regiments of infantry and elements of medium artillery regiment. Fiume reported being evacuated on considerable scale.

7. ALBANIA.

Considerable Italian activity has been observed behind their front. Northern sector Italians appeared to be moving troops into position opposite Yugo-Slavia at northern end of Lake Ochrida.

8. ROYAL AIR FORCE.

Night of April 3rd - April 4th 117 aircraft despatched to Brest (90) Rotterdam Ostend and mine-laying. Weather conditions at Brest bad. The ships were not seen but about 60 aircraft bombed target area. Five bombers missing.

9. GREECE April 2nd.

Six Blenheims bombed TEFLENE, two Hurricanes shot down three out of four Italian bombers attacking VOLOS and damaged fourth.

10. German Air Force.

April 3rd. Enemy activity principally against shipping, only eleven aircraft crossing coast. Night of April 3rd - April 4th; About 100 enemy aircraft

operated/

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operated of which 80 in Bristol area, most of remainder suspected to be mining off east coast. Our fighters destroyed two enemy bombers by day and one by night. Only important damage was at National Smelting Company where plant will be out of action for some time. Casualties so far reported light.

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G-2/2657-220
No. 359

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

SITUATION REPORT

I. Western Theater of War.

Air: No important activity.

II. Balkan Theater of War.

Ground: Hostilities between Germany and Italy on the one hand and Greece and Yugoslavia on the other opened at 5:20 A.M., April 6, 1941.

Bulgaria and Hungary are, as yet, not participating in the military operations.

Turkish sources state that a German advance from Petrich at the extreme southwestern tip of Bulgaria westward toward the Vardar Valley of Macedonia is in progress.

Another German column has crossed the Greek frontier in and on both sides of the Struma Valley. The Athens communique of April 7, 1941, states that one of its forts in this region has fallen to the Germans.

Another German column is reported by British sources to be advancing from southern Bulgaria toward the Aegean Sea, apparently for the purpose of separating Greece from Turkey. The head of this column is stated to have reached a point the evening of April 6, 1941, to the north of Xanthe.

There are no reports of German land operations in any part of Yugoslavia other than in Macedonia.

Albania. Patrol and artillery action reported.

Air: Axis. Close support of the Macedonian operations. Belgrade, Split, Mostar, Ljubljana and Cattaro were also bombed.

Allies. Budapest reports a raid over Hungarian territory.

III. Mediterranean and African Theaters of War.

Ground: Eritrea. The main road block on the Asmara—Massawa Road having been cleared, the British advance on Massawa has been resumed.

Abyssinia (Ethiopia). British advance elements reached Addis Ababa April 5, 1941. Italian forces are reported to have fled to the north. British troops moving south are now beyond Adowa. The isolated Italian forces in East Africa are no longer believed capable of any strong resistance.

Libya. British forces in Libya have again fallen

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back before strong German and Italian attacks. It is believed that a battle bordering on major proportions has taken place in the area east of Benghazi, and a further British withdrawal, possibly as far as the Egyptian border, is to be expected.

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 Cablegram
Received at the War Department
10:06, April 7, 1941.

London, filed 15:26, April 7, 1941.

1. British Air Activity Over Continent.

a. Daylight April 6. An Axis convoy off the Breton coast was attacked by the Coastal Command, and a direct hit was scored on a destroyer near Cherbourg. Another destroyer of the same type was sunk by torpedo near Morlaix. More of the same type were bombed in the vicinity of Ushant, with what result is not known. Pursuit planes operating in low flying pairs attacked with machine guns a trawler and a power barge off the coast of France as well as artillery positions, air fields, troops, and motor transport. Manufacturing installations at IJmuiden and Sandvoort were successfully attacked by medium bombers.

b. Night, April 6-8. Adverse atmospheric conditions grounded both British and German planes.

a. Night April 4-6. The strength of bombing flights was as follows: Dunkirk, 1; Brest, 54; Rotterdam, 4; Cologne, 11.

2. German Air Activities over Britain.

a. Night of April 6-7. Liverpool Bay was mined from the air and minor raids were made on Barrow in Furness, Newcastle and Aberdeen.

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b. Dawnlight April 6. Operations were limited to scouting flights over the Bristol and Thames estuaries with Worthing bombed by a single plane.

c. Night of April 4-5. Ninety German planes operated over the Bristol-Avonmouth area.

3. Air Losses. British Theatre.

a. British. Night of April 4-5. One bomber failed to return.

b. German. Night of April 6-7. One German bomber was damaged by a night fighter.

Dawnlight, April 6. Three planes were damaged and one shot down.

4. British Air Activity. Middle East Theatre.

a. Night of April 6-7. (Libya). A direct hit was scored on the electric generating plant in Tripoli in the course of a bombing raid.

b. Night of April 6-7. (East Africa). An airfield at Addis Ababa and troops in the town were targets for R.A.F. bombing, which also attacked Dessie.

5. The arrival in the Balkan theatre of six units operating 330 Junkers 52s used as troop transport was reported.

6. As a result of attack by British planes one Italian destroyer was sunk by its crew and a second was severely damaged in the vicinity of Massua. The names of the destroyers sunk in the

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Red Sea April 3 were as follows; NAHARIO SAURO and DANIEL MANIN (1082 tons) and PANTERA and TIGHE (1026 tons).

7. The sister battleships (36000 tons) GNEISENAU and SCHARNHORST are thought to be making ready to leave Brest.

8. Identifications. (Libya). It is estimated that the following German troops are in Libya:

1 Armored Division (Colonial)

1 Armored Division in course of transport

Advance units of two Infantry divisions

(Bulgaria). At the beginning of the attack on Greece April 6 the following was the disposition of German troops:

South Austria 10 to 12

In Roumanian Raxat about 9

In Bulgaria 25 (6 opposite Greece, 12 opposite Yugoslavia)

South West Hungary 3

(Hungary). British Military Intelligence reports that all units stationed within 5 miles of Yugoslav border have been brought to war strength and that reservists have been mobilized to activate 3 army corps, 3 Jaeger brigades, and 1 motorized brigade, all stationed near Yugoslav border.

SCANLON

Distribution:

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

Office of Naval Intelligence
Air Corps
G-3

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Paraphrase of Code Radiogram
Received at the War Department
at 10:51, April 7, 1941

Rome, filed April 6, 1941.

For the time being the Yugoslavs do not consider themselves in a state of war with the Italians. In spite of that, they are entirely ready to force matters and assert that they will make an attack on the Italians just as the Germans did without troubling about a declaration of war. There is now further evidence confirming the idea that there is a large movement of German troops into Albania. The Italians very much fear the worst and are taking a highly conciliatory attitude toward Yugoslavia.

FISKE

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