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TREASURY DEPARTMENT
WashingtonFOR RELEASE, MORNING NEWSPAPERS,
Tuesday, April 15, 1941.
4/14/41Press Service
No. 24-57

The Secretary of the Treasury announced last evening that the tenders for \$100,000,000, or thereabouts, of 91-day Treasury bills, to be dated April 16 and to mature July 16, 1941, which were offered on April 11, were opened at the Federal Reserve Banks on April 14.

The details of this issue are as follows:

Total applied for - \$252,594,000
Total accepted - 100,439,000

Range of accepted bids:

High	- 99.990	Equivalent rate approximately	0.040 percent
Low	- 99.975	" "	0.099 percent
Average			
Price	- 99.976	" "	0.093 percent

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

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April 15, 1941
9:30 a.m.

GROUP MEETING

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

H.M.Jr: Herbert, in my conversation - would you make notes on this please - with the President yesterday, I took over the memorandum.

(Mr. Bell and Mr. Graves entered the conference.)

H.M.Jr: I took over with me the memorandum from Frank Knox. I talked to Frank Knox and Frank Knox said that this Navy fellow that wanted to take the Coast Guard over in toto - but they had just taken seven big cutters now and they would wait until war was declared, and then they would take the thing over entirely.

Foley: Automatically. There is nothing we can do about it, unfortunately.

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H.M.Jr: Now wait a minute. There is nothing we can do about it except what I did. So I told this to the President.

(Mrs. Klotz entered the conference.)

H.M.Jr: I told the President and gave him the memorandum, which he read very carefully, and he said, "This is what I want."

"Stark is crazy, and I don't want all those functions of the Coast Guard in the Navy," and he said, "You tell that to Frank Knox, that this is what I want."

So we were walking down, Dan and I, this morning, and Frank Knox got out of his car and walked with us, and I told him this and he said he had told Stark, "You have got the same disease that everybody else in Washington has got. You want everything."

So now I said, "Frank, it is back in your lap, and the next move is yours."

I spoke to the President about ice breaking cutters and about the additional things and what we could do in view of this talk about the Navy. He said, "Well, Coast Guard knows more about ice breaking than any other organization, and I said, "You know, I think we ought to have at least one or maybe two of these very big ones like the Russians have got."

He said, "I agree with you. I would like you to go ahead and prepare the design." But he said, "I would like to make a suggestion that you have part of this ice breaker as a runway."

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Gaston: For planes?

H.M.Jr: He said so that either a helicopter or one of these little planes - the Army has developed a plane that takes off with a very short run.

Gaston: A short runway like a carrier, yes.

H.M.Jr: I take it it would be the same length that these converted merchant ships are being done for the Army now. I mean, the Navy is converting, I think, two commercial ships into ships that they - the Army has got something that takes off in a very, very short distance, but it would be the same length of deck.

Gaston: Yes.

H.M.Jr: And he would like two of those and five of the other kind, the two hundred fifty footers.

Gaston: And the five two hundred fifty with the ice breaking bow?

H.M.Jr: That is right.

Then he said, "Couldn't the Coast Guard invent something like a shoe which would fit over the bow of an ordinary steamer and run back thirty or forty feet so that this could be fitted on so that a commercial vessel could be used as an ice breaker, some kind of a shoe that would just be fitted on like a glove over your hand."

Gaston: Well, they can take an ordinary vessel and reinforce the bow and put a shoe over it, but it is not very efficient for the reason that to get good ice breaking qualities,

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they need a sloping bow to slide up over the ice, and the newly designed bow they have is a sloping cutter bow. It is built a good deal like the stern of a vessel. So the upper part rides on the ice and the lower part cuts and stops the vessel from docking herself on the ice.

H.M.Jr: Well, just as soon as you can give me - if you could go ahead - I think we had better wait until we - ask for the seven at the same time, the five and the two, don't you think so?

Gaston: Don't you think what we want to ask for is ten two hundred fifty foot cutters as we planned, and then add to that the two heavy cutters which are more expensive and which would be an additional proposition.

H.M.Jr: I only said five and two because you know what one of those will cost?

Gaston: Oh, those big fellows will cost money. They will cost not less than five million dollars.

H.M.Jr: Well, I got the idea they would even cost more than that.

Gaston: Well, they might.

H.M.Jr: You know, Waesche has one designed and he has the designs of the one the Russians used.

Gaston: Yes, I expect you are right. I expect it would cost more than five.

H.M.Jr: I may be wrong, but I think they cost twenty-five million dollars.

Gaston: Oh, I don't think so. You are getting into

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cruiser costs there. But maybe so.

H.M.Jr: I understand that Coast Guard has one designed, and I understand they have got the design of this big Russian one or know how it is - you had better find out what they cost.

Gaston: Yes. But anyway, we will give them a little memorandum on the practicability of conversion.

H.M.Jr: That is right.

Gaston: They have done this thing of putting a boat in dock, and putting some reinforcing plates, shoes, you might call them, on the bow and strengthening the bow, but you don't have a very efficient ice breaker, because it needs to ride the ice and to smash it.

H.M.Jr: The President's attitude was, which is really the most important, "Well, this is something that Coast Guard is going to do when the war is over anyway," and he very definitely has it in mind that the Coast Guard organization should be a separate one and he very definitely has it in mind that he doesn't want all of these inshore duties to go to the Navy.

Now, if it is a matter of law, we had better get going.

Gaston: If the President as Commander Chief can transfer any unit or units of the Coast Guard to the Navy in time of peace, I don't see why in time of war it can't transfer back from the Navy to the Coast Guard its functions and equipment.

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H.M.Jr: I am sure that my General Counsel can find that the highway is two-way.

Foley: Well, it is a one-way statute, I am afraid. Do you want to change the statute?

H.M.Jr: What have I got a General Counsel for?

Foley: To draft legislation. (Laughter)

H.M.Jr: Well anyway, work on it, will you? O.K., Herbert? I think that is pretty good news.

Gaston: That is fine, but the thing is the President's plan goes and not the seven cutter plan.

H.M.Jr: Pardon?

Gaston: In other words, Knox' idea of the seven cutters going over to the Navy and our keeping the rest of it, that is out.

H.M.Jr: The President's plan is just the way the memorandum was written. He didn't want to evidently order the Navy, but I told the whole thing - you (Bell) were with me this morning. Am I reporting fairly accurately?

Bell: Yes, sir.

H.M.Jr: And it is now back in Knox' lap, and Knox has got to make up his mind, and he is going to tell the admirals where to head in. Whether he can do that or not, I don't know; but in the meantime he has got nothing.

Gaston: Well, he will have a vote of thanks.

H.M.Jr: Well, you had better save the vote until - but it is amusing anyway.

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Gaston: It is corrupt. It has been reaffirmed once. It ought to stick, I should think.

H.M.Jr: It is amusing. The President has been all right. He has been fine on it. Everything else is all right?

Gaston: You asked for something about this draft of an executive order for the President, enabling us to call reserve officers and men of the Coast Guard into active service now. They do plan to call about sixteen or seventeen hundred men into service immediately. One hundred of them would be officers for distribution on the cutters, and for service in the reserve; and the remainder would be crews for two hundred seventy boats fifty feet and up, and the boats themselves which they would call in to - to work to assist the captains of the ports in harbor patrol.

H.M.Jr: If you don't mind my saying so, Herbert, to me it doesn't make sense. You have got the officers and crews off ten cutters. That is number one. So what are you going to do with those?

Gaston: Boats are the main thing.

H.M.Jr: And then if we did this thing, the Navy would say, "Aha, they are trying to force our hand." I think it would be bad from a political standpoint pending the final decision on this thing.

Gaston: All right. Although Stark has approved this idea.

H.M.Jr: Well, I am getting to know Stark more and more, and he is a pretty devious worker and so I think that it might just play into his

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hands and he might run to the President.
I would hold it.

Gaston: We will hold it.

H.M.Jr: Anything else?

Gaston: That is all.

H.M.Jr: Foley?

Foley: Here is a memorandum on that Yugoslavian transaction which you asked for. (Memorandum dated April 15, 1941)

H.M.Jr: When did I ask for that?

Foley: Friday afternoon.

H.M.Jr: Oh. That is dead turkey, isn't it?

Foley: You said you wanted the files to show you did it on my recommendation.

H.M.Jr: Oh, that is something different. Oh sure, that is all right. Where did you say, "I recommend"?

Foley: Right here.

H.M.Jr: Very cleancut and forthright. I thank you.
What else?

Foley: Nothing.

H.M.Jr: I don't know whether you are editor in chief, but at least you are managing editor of my statement before the Committee. If you will just come here.

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Mrs. Morgenthau read it, and her reaction is the same as Bill Douglas'. She was most enthusiastic about it. She just raised one point.

"A former domination, which to my mind in some respects is undemocratic --"

Foley: We are rewriting that.

H.M.Jr: She thinks that puts me too much in the hands of the enemy. They would say, "Even Morgenthau admits that under Roosevelt we have a totalitarian form of government in the banking department."

It is a good point. They say, "For eight years you have permitted a totalitarian form of banking to exist and you haven't done anything about it."

Foley: Yes, sure. That was questioned when we went over it at first.

H.M.Jr: O.K., all right.

Foley: And it is being rewritten now to take that out.

H.M.Jr: Since I created a slogan yesterday, I feel very expansive. "Buy a share in America" is our slogan. It is for the defense bonds. We will see how that works out.

Sullivan: When is the world premiere?

H.M.Jr: World premiere is on the night of April 30.

Sullivan: Not until then?

H.M.Jr: No.

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Sullivan: Trans-Lux?

H.M.Jr: Oh, I thought you meant when was the baby going to be launched.

Sullivan: No, I meant the movie.

H.M.Jr: Oh, I don't know.

Kuhn: Friday, I think.

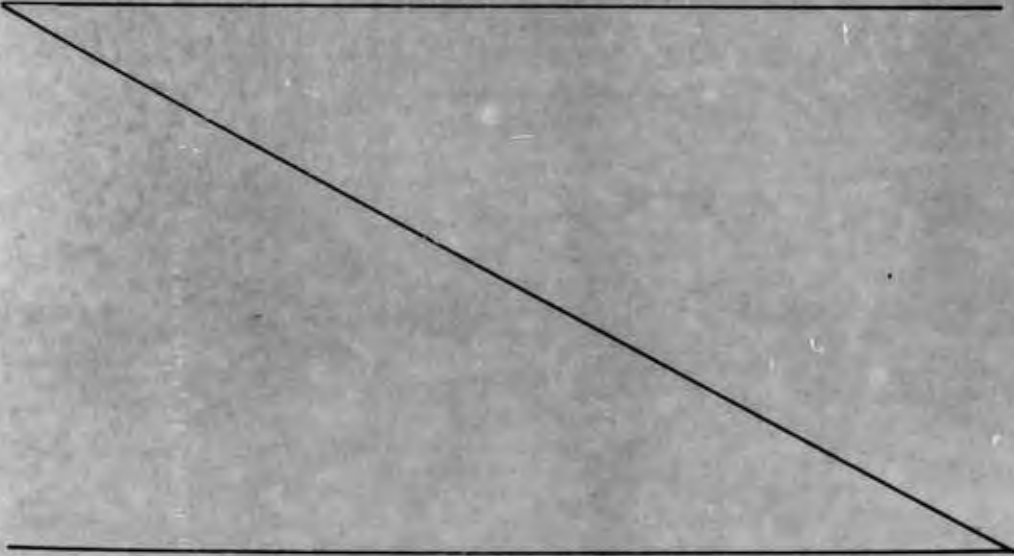
Schwarz: Yes, Friday at the Trans-Lux.

H.M.Jr: Well, you won't miss anything, because I always look terrible in movies.

Schwarz: But listen to the talk, anyway.

H.M.Jr: Anything else?

John?



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Sullivan: The National Conference of Real Estate Taxpayers have been writing and writing and writing. They now ask for amplification of your statement on the Federal Commission, on over-lapping taxes. I still think that that is a bad place to do anything, and I had in mind writing them that, because you expected to make a statement to Congress soon after that date, you wouldn't feel free to do it at that time.

I had a wire this morning from Senator Brown, who was coming back today. His little boy six years old is being operated on tomorrow, and I wired for you and me wishing him a speedy recovery.

H.M. Jr: Happy operation.

Sullivan: Connally will not be back until Friday, and Cullen probably will not be here, so it will be just a three-man conference.

H.M. Jr: Well now, I met Harry Byrd up at the Skyline Drive. He was spending a night up there with his son. He said, "You know, Pat Harrison left and asked three of us to look after things for him." He said George and himself and somebody else.

Foley: Connally, probably.

H.M. Jr: So I said, "Well, did you?"

He said, "Well, not exactly formally, but he asked the three of us to look after it."

Sullivan: I think Pat was confused, because he said, "George, Connally and Brown."

H.M. Jr: Oh, yes, he said Brown, George and himself.

Sullivan: Well, I am wondering, with the other two senators

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not being here, George would be leaving around this noon to come back from Georgia, I wondered whether you wanted to put it off until Friday.

H.M.Jr: No.

Sullivan: Dr. Gulick is very anxious to see you.

H.M.Jr: Well, I had a cancellation at eleven o'clock today.

Sullivan: He is in New York. We might get him down here for this afternoon or tomorrow.

H.M.Jr: No. Aubrey Williams at three. I could see him at three-thirty tomorrow.

Sullivan: All right, I will see if I can get him. You recall that after the last conference on the Hill in Speaker Rayburn's you asked me to talk with Mr. Kuhn about going up to talk on economizing, soil conservation, and CCC and these other things and what could be done to the budget.

H.M.Jr: Yes.

Sullivan: That was prepared some time ago. Whenever you want to see it, it is ready.

H.M.Jr: Well, Bell asked the Budget to do some field investigation over a month ago, and I am waiting to hear from them.

Bell: I did ask them, but I haven't followed them up on it.

H.M.Jr: Would you? You will see them today. You might - why not ask them to bring what they have along with them, Dan?

Bell: All right.

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H.M.Jr: All right, John?

Sullivan: Yes, sir.

The Collector out at Honolulu got a raise in salary and wrote me and wanted to be sure that I thanked you for him.

H.M.Jr: Good.

Sullivan: While you were away, there was an Algernon Schaefer, who used to know you and was in here. He is over sixty. He was in brokerage business in New York, and he was anxious for a position, but he also was trying to get into the War Department.

H.M.Jr: How old is he?

Sullivan: He is about sixty.

H.M.Jr: Trying to escape the draft, is he?

Sullivan: Yes.

(Laughter.)

I told him I would bring his letter to your attention.

H.M.Jr: All right, what else?

Sullivan: That is all, sir. Anytime you want a report on my conference with those three men yesterday, I will be glad to do it. I think you might want it before tomorrow morning. I am quite sure you will.

H.M.Jr: I don't know when Sir Frederick leaves, but whenever he does - let's say definitely eleven o'clock.

Sullivan: All right, sir.

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Cochran: I had this letter from Sir Edward Peacock giving certain points we touched upon in the meeting the other day. I don't know whether you wish to look at it before Sir Frederick comes.

H.M.Jr: I won't have time, but he will be here at ten-fifteen, and I would like you and White to be here. I will look at the letter afterward. Anything else?

Cochran: That is all.

H.M.Jr: I will give this to Harold.

George, have you got those plane things?

Haas: I hope to have them at ten.

H.M.Jr: Do you want to step out a minute?

Haas: All right. You wanted to see me sometime about those tables which Meigs was making.

H.M.Jr: Yes.

Haas: I have them any time that you want to see me.

H.M.Jr: Ten-fifteen, George? Eleven-fifteen.

Haas: O.K. I will step out and see if those plane things are ready.

H.M.Jr: Schwarz?

Schwarz: The Herald-Tribune's "Money to Paris" is O.K. Any chance on the New York Times?

H.M.Jr: Oh, God, if you can get Mrs. Klotz to get me to do it - I will turn them both over to her. She knows them. One portrait - two portraits - you

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know what I go through to have my picture taken.

Schwarz: They haven't had one for some time.

H.M.Jr: Is this a legitimate thing, or is it somebody who wants to take the picture and sell it to the New York Times?

Schwarz: This is the head of their studio. It is for their library, magazine section. He is not a salesman.

Kuhn: They want to do a piece about you, Mr. Secretary, and also Collier's Magazine wants to do one, and in each case I guess it would mean seeing the men who do the piece, if you would like them to do it.

H.M.Jr: I would. I would like to see them.

Schwarz: This would go along with them, but they are making a new set of their entire cabinet, the Times studio.

Klotz: He (Kuhn) means a story.

H.M.Jr: Yes, I know. How many days is the Times man going to be here?

Schwarz: He was here yesterday, and he wants to get away by tomorrow, but we will hold him.

H.M.Jr: Tell him I can do it tomorrow morning at nine o'clock.

Schwarz: Thank you. I will confirm it.

H.M.Jr: You (Kuhn) will arrange about those articles?

Kuhn: Good. I think it is a good idea to have them now,

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if you have the time. The Collier's one - the Collier's people specified that they would like a piece if it were a friendly piece, because the editor of Collier's said that he would want to do that kind of article.

H.M.Jr: I know him. You know, he used to be editor of the Rocky Mountain Times, and in his youth was a silver enthusiast. Did you know that?

Gaston: Was it the Rocky Mountain News?

H.M.Jr: It might have been.

Gaston: The old Scripps-Howard paper out there. It was absorbed. Then he was on the Chicago Record.

H.M.Jr: His daughter was in Bob's class, I think.

Schwarz: Speaking of Westerners, the Navy has brought down a Chicagoan to handle their public relations.

H.M.Jr: Do you call that the West?

Schwarz: From here you do, anything over the Alleghanies.

H.M.Jr: Harry?

White: Nothing, sir.

H.M.Jr: Not feeling well?

(Laughter.)

White: Feeling all right.

H.M.Jr: Sometime - Dan, you are going up on the Hill this morning, aren't you?

Bell: Yes.

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H.M.Jr: I have got to have a talk with some of you. Mrs. Klotz, this ought to be really Number 1, about who is going to be my alternate. I want it when Bell is here. It is on this Leon Henderson committee.

Harold, Mrs. Morgenthau cut this clipping out of Clapper's column last night. It seems there is quite an unusual mural in the War Department on this whole question of war and democracy and everything else. She thought that possibly we might want to use a reproduction of it in our campaign. It sounds just too good to be true. You might get a copy of it and bring it in and let's take a look at it.

Graves: I imagine Brooks wrote it.

H.M.Jr: He would have charge of it. Anything else?

Graves: Nothing.

Gaston: That mural? He had that on exhibition last week. It is quite interesting.

H.M.Jr: Do you think it would be useful at all?

Gaston: I think you might be able to do something with it. Of course it is a long mural, and it is in the form of a long strip, and it has the armed services at the ends of the strip and then airplanes and so on overhead and then a picture in between. It is the idea of defense standing guard over liberty. I think it might be possible somewhere to use it.

H.M.Jr: He had a small sketch, didn't he?

Gaston: This is a water color sketch with one sketch in detail. Of course, it hasn't been worked out.

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H.M.Jr: Well, get it in here and let's see it.

Gaston: It would interest you.

Graves: How big is it, Herbert?

Gaston: I should say about six feet long, the full sketch. Of course, that is just a small sketch. It goes across the whole wall of the entrance to the building.

Graves: I am thinking of the preliminary sketch. I wondered if it would be practical to get it over here.

Gaston: Oh, yes, it could be brought over.

H.M.Jr: Talking of something long, yesterday Knudsen said to me - I showed him this poster - and he said, "Well, you have got to use billboards." I don't like billboards. I used to be conservation commissioner. He said, "Well, forget you were conservation commissioner and use billboards." He says, "It is the best thing we used in advertising. We tried quarter and half, and then we had to use full coverage."

I said, "What do you mean?" I took it what he meant was that you can use, say, every other billboard, every fourth, and finally they decided they would take full coverage; and he said, "There is nothing like it to sell."

I am not so crazy about it, but I am passing it along to you.

Graves: Of course, our policy so far is not to pay anything.

H.M.Jr: He said, "The billboard people would give you the space."

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Graves: I don't think we could ask the billboard people to give us space unless we are ready to ask the magazines and newspapers to give us space.

H.M.Jr: Well, I am just passing it along as a Knudsenian suggestion.

Schwarz: In their slack season they will give space for prestige.

H.M.Jr: I am not recommending it. I don't like billboards. I would hate to do anything to build them up. I like to tear them down. I think my family would disown me if I ever used billboards. Bell?

Bell: I told you this morning Mr. Bruere has accepted the liaison job between the Treasury and the savings banks. He will be here at four forty-five.

H.M.Jr: All right, I will wait.

Bell: You won't have to do more than say "hello" and turn him over to Harold and his gang.

Graves: May I ask whether it is intended that he will work under Mr. B.M. Edwards?

Bell: I didn't understand that that was the program. I understood he would work with him.

H.M.Jr: He will be - of the same relation to Edwards as Mr. Knudsen - Knudsen and what is his name?

Cochran: Hillman?

Schwarz: Hillman.

H.M.Jr: Hillman.

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Graves: Mr. B.M. Edwards is appointed as Assistant to the Secretary, and I doubt if there are any more such vacancies, are there Norman?

Thompson: Not unless we create more.

H.M.Jr: Well, I am looking at the three of you. Who am I to solve a problem like that?

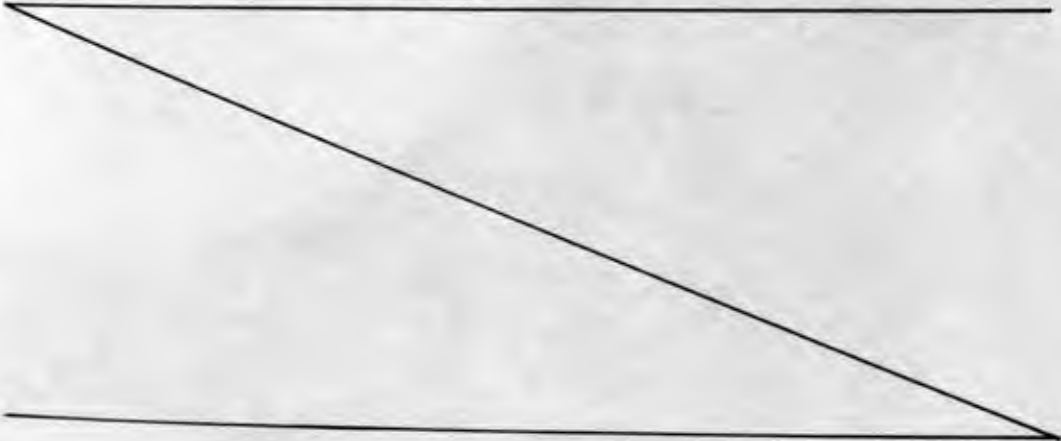
Bell: Would there be any objections to creating a position of Assistant to the Secretary unless it carries a salary?

Thompson: No.

H.M.Jr: Is that settled, gentlemen?

Bell: We will work it out some way. I should think that he ought to be in somewhat the same position as Edwards. Edwards is liaison with the National Bank Association, and Bruere would be liaison with the savings banks.

H.M.Jr: When my three Civil Service men can't solve the problem, it will be too bad. Notice how they huddle together?



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Thompson: We will all be Civil Service when the President issues his order.

H.M.Jr: All right. Are you satisfied, Harold?

Graves: Well, we keep piling up these independent workers around here and it creates a very bad administrative situation, that is all.

H.M.Jr: Well, this is a democracy, Harold.

Graves: Yes. It is getting a little tough to run it. (Laughter)

Bell: It is supposed to run by itself.

Graves: That is the trouble.

H.M.Jr: What did Dan say?

Bell: I said a democracy was supposed to run by itself, and he said that is the trouble. It is running by itself.

Graves: We will work this out.

H.M.Jr: Say, you wait until I give you an Eddie Flynn appointment, and then you have got something to kick about. Until I give you one of Eddie Flynn's Bronx leaders--

Graves: This fellow Edward is doing a perfectly marvelous job.

H.M.Jr: I say, wait until you get one of the boys from the Bronx.

Bell: We are pretty well along on our printing program with the bonds. We had more than enough to supply the post offices, and they are well on their way.

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H.M.Jr: My God, Harold, I haven't handed you anything yet.

Klotz: He is spoiled.

H.M.Jr: That is the trouble. Excuse me, Dan.

Bell: That is all right.

H.M.Jr: Go ahead.

Bell: The Series F and G bonds will - we will start shipment on those to the Federal Reserve Banks on Thursday or Friday.

This is a memorandum of the conference last Saturday. (Memorandum dated April 7 relative to White House conference held April 5 at 3:30 p.m.)

I talked to Mr. Fox--

H.M.Jr: He is so efficient.

Oh, yes, well on this, I wish you would all say a little prayer. Dan and I are marching up on the Hill at one o'clock for an off-the-record luncheon with Sam Rayburn. We are taking the Director of the Budget and the Secretary of Agriculture with us. I arranged it at home last night at six. We will try to kill the 450 million dollar additional appropriation on the agricultural bill. I don't know, but we are going to charge the windmills and see what happens.

Bell: Maybe we will get a lunch out of it anyhow.

H.M.Jr: He said only a sandwich.

Bell: I talked to Mr. Fox of the Tariff Commission

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about going to China.

H.M.Jr: Yes.

Bell: He is very much interested and is supposed to see Mr. Stevens over the weekend and thought he would be able to let us know.

Mr. Delano just called me and says that his statement is ready whenever you want to see it.

H.M.Jr: Will you see that it gets into my hands?

Bell: When do you want it?

H.M.Jr: Anytime, just get it in here.

Anything else?

Bell: No.

Graves: Excuse me. You told me the other day you wanted to see Mr. Dietz.

H.M.Jr: Yes.

Graves: He will be here this afternoon.

H.M.Jr: Oh, I would like to see him.

Graves: He will be here about once a week, Mr. Secretary, so if it shouldn't be convenient today--

H.M.Jr: No, I would enjoy seeing him. Three forty-five. I would enjoy seeing him. What is his position in MGM?

Graves: He is their public relations man.

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Schwarz: I believe he is a vice president, Mr. Secretary, in charge of exploitation.

H.M.Jr: Well, now, where would, for instance, the publicity people work out of Hollywood, would they--

Schwarz: They are under him.

H.M.Jr: They would be under him?

Foley: Did you want Harry and me to bring up that question about Jones and the loan on the British American--

H.M.Jr: Yes, you had better shoot - wait one second, will you? Yes. One second.

Go ahead.

Bell: I am through.

H.M.Jr: Are you through, Dan?

Bell: Yes, sir.

Thompson: The Bureau of the Budget hasn't given us an allotment on the Lend-Lease administrative expenses yet, but I have found some funds in our defense allotment which we can use.

H.M.Jr: All right.

Thompson: I don't know whether we are going to get our Lend-Lease or not. There is some talk in the Budget of giving it to the Office of Emergency Management.

H.M.Jr: We are not going to get reimbursed?

Thompson: If they give it to that office, then we will

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transfer our people to them.

H.M.Jr: What happened over the weekend, anyway?

Thompson: Mr. Young moved down to Federal Reserve.

H.M.Jr: Well, I mean--

Thompson: He is installed down there now.

H.M.Jr: Who gave the word?

Thompson: He asked for it.

H.M.Jr: He is completely out?

Thompson: Yes.

H.M.Jr: Would you just have a little chart on your desk, and I will see you sometime today, just put a blue pencil on the rooms he occupied, unless somebody has already moved in.

Thompson: Somebody has got two of them.

H.M.Jr: Who?

Thompson: Harold Graves. They are in the basement.

H.M.Jr: Just hold everything until I get a look at it.

Graves: You are not referring to these basement rooms they gave me?

H.M.Jr: I know when I am licked. (Laughter)

Thompson: Mr. White has two very bright young men in his organization. They have had short service. One of them is only four months and one is six months. It is a case of deferment.

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I don't know whether you will grant deferments on such short service.

H.M.Jr: I like to do these things thoroughly so -
I can't do - I will see you at 11:30.

Thompson: I have several other matters here.

H.M.Jr: Eleven thirty.

Who sits in with me on that?

You do, Herbert, don't you? Don't you sit in with me on those deferments?

Gaston: Yes.

H.M.Jr: Can you be here at 11:30?

Gaston: Yes.

H.M.Jr: Now, Ed.

Foley: This British American Tobacco thing of Jesse's. Well, it is a straight loan to England. We haven't - they pay the loan on it and the common stock goes back, and we don't get the control of the company.

H.M.Jr: You know, I asked the President about this particular case.

Foley: Yes.

H.M.Jr: And he was satisfied. Did you see any reason why we shouldn't do it?

Foley: Well, only that it is inconsistent with the position we have taken so far about buying back control of these American companies. Other than that, I don't see any objection.

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H.M.Jr: What did I say? How did I put it?

Foley: You told Jones that you wanted--

H.M.Jr: Excuse me, Congress.

Foley: I don't remember.

H.M.Jr: Well, I think it is very important to look up, what did I say about how they would raise the money to pay for these.

White: They would be sold. But we will give you the exact words.

H.M.Jr: Will you do that?

White: Yes. I don't think that that ought to be final unless you feel it should be because I think that you can raise more money this way and it appears to me that your responsibility is settled when the money is raised to meet their commitments. Whether control of these British companies passes into American hands should be a consideration, it appears to me it is not a matter that is wholly your responsibility. It is a question of high policy for Congress if they want to pass that kind of legislation. But your responsibility is that they raise the money to pay for it, and I think they are apt to raise more money, from the way they are talking, if you permit them to borrow on this than they would be if they had to sell everything.

H.M.Jr: I am in a very weak position. If, through this method, through going to the RFC, they can borrow and pay us more money than if they sold it in the market, I mean - you know, if I said they couldn't go to the RFC.

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White: If they were able to raise less money by borrowing than by paying, you are in a weak position.

H.M.Jr: Say that again.

White: If they are able to raise less money by borrowing from the RFC than by paying - than by selling, then it seems to me you ought to insist on a sale. In other words, you ought to insist on that method of handling it which raises enough money.

Foley: You said the same thing in reverse.

H.M.Jr: He just said it in the Whitesque manner. (Laughter)

White: Said it inversely?

H.M.Jr: You have been associating with Chinese too long, Harry.

White: One of us has been. (Laughter)

H.M.Jr: He either isn't feeling well or he is getting polite.

White: You mean I am beginning to talk too simply?

H.M.Jr: No. (Laughter)

White: I see. I don't think it is a question on this issue unless you want to raise it every time they want to make a loan, as to which way they will have more money.

H.M.Jr: I am not going to give an answer until I have thought about it more. You will be here anyway. I have got to stop now.

April 15, 1941.

Memorandum for the Files

Subject: Coast Guard - Navy

At the 9:30 conference this morning the Secretary asked me to take notes on the following developments:

He had a chance to talk with the President at his lunch with him yesterday on the subject of transfer of part of the Coast Guard to the Navy. He had previously had a chance to talk to Knox, after showing him the memorandum containing our outline of the President's previous proposal. Knox had shown the memorandum to Stark, who opposed it vigorously. Stark said he wanted the entire Coast Guard transferred bodily to the Navy now, but if that could not be done, he would be satisfied just to take the seven big cutters and let the complete transfer occur only in case of war.

The Secretary gave the President our memorandum at lunch and the President read it through with great interest. After he had finished reading it he said: "This is what I want." The Secretary then told him what Knox had said. The President replied: "Stark is crazy. I don't want all the functions of the Coast Guard to go to the Navy. You tell Knox that this is what I want." The President added that Stark was just like a lot of other people around town; he wanted to grab everything in sight. He said he didn't think all of the Coast Guard ought to go to the Navy even in time of war; that we ought to save out some of the strictly civil functions, including ice breaking.

When the Secretary repeated this observation in the 9:30 meeting Foley interposed that it couldn't be done; that the transfer of the entire Coast Guard was mandatory. I said that if it was legal to transfer

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only a part of the Coast Guard to the Navy in peacetime, I thought it ought to be possible to transfer back to the Treasury part of the Coast Guard functions in time of war. The Secretary said he couldn't see why the thing wouldn't work both ways. Foley said he thought it would require legislation and the Secretary asked him to look into it.

This morning the Secretary encountered Knox and told him what the President had said and that the matter was now up to him.

The Secretary said he also spoke to the President yesterday about ice breaking cutters. The Secretary thought we ought to have one or two big ones, such as the Russians have, for Arctic work. The President agreed with him and asked that the Coast Guard go into the matter of design and cost. The President suggested that in designing these big ice breakers we look into the possibility of building them with a short runway on deck so that we could use them as carriers for a helicopter or one of the new types of plane with a very short take-off. The Navy is putting such runways on some of the converted merchant ships and the President thought the same thing ought to be feasible on a big ice breaker. The Secretary suggested that instead of getting 10 250 ft. cutters as replacements, we might get two of these big ice breakers and five 250 footers equipped as ice breakers. The President also asked if it would not be possible to convert an ordinary cutter into an ice breaker by fitting a removable ice shoe. I said an ordinary ship could be given improved ice breaking qualities by reinforcing the bow and adding an exterior plate or shoe, but such an arrangement would not give you a really satisfactory ice breaker, since for good ice breaking qualities it was necessary to have a specially designed sloping bow to slide up over the ice floes, a shoe to cut the ice and prevent the ship from "docking" itself on the floe. The Secretary repeated that it was now up to Knox to make the next move.

MS

April 15, 1941
10:14 a.m.

H.M.Jr: Hello.

Robert Lovett: Good morning, Mr. Secretary.

H.M.Jr: How are you, Lovett?

L: Fine, thank you, sir.

H.M.Jr: Lovett, I wondered if you were free at 10:30 tomorrow morning? Hello?

L: Just a second, sir. (Pause). Yes, I'm O.K.

H.M.Jr: Now, I tell you what I'm going to do at that time, at 10:30 tomorrow. I'm going to show you some figures on production of airplanes and the delay in the airframe situation - the figures that we have.

L: Yes.

H.M.Jr: You may have these figures.

L: I've got some dreadful ones.

H.M.Jr: Well, I've got some dreadful ones, and I want to talk to you about what the hell this Government is going to do about it.

L: All right, sir, fine.

H.M.Jr: Because I just can't sit still and see the way the deliveries are falling off.

L: Yes. Well, we're in the middle of the - we're beginning to get into - not in the middle yet - of the shortage period now in components that we've been dreading all along and that was predicted last fall.

H.M.Jr: Yeah, but I don't - I mean, I see the terrific drag but I'm not conscious that anybody is doing anything about it, and I want to be told what is being done to correct it.

L: Yes.

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H.M.Jr: If you don't mind coming over, and then

L: Well, I'd love to do it. I need a bit of friendly counsel on that. I'm very much disturbed about it and from our point of view and from the Army's point of view, we've got an impossible priorities situation.

H.M.Jr: Well, if you'll come over I'd like very much to listen and then - I mean, I know how much delay there is in the English; I don't know how much delay there is for the Army in the airframes. We've got engines; we've got lots of engines.

L: Well, the Army is short of liquid-cooled engines, and we have really a grave problem in a couple of designs. For example, the B-26. They need baffle plates and the cross-ship members because the first three ships buckled in the air, popped rivets and that sort of thing. That was the one that was bought right off the boards. On our P-40-B's, for example, the C-type Allison, we get reasonable deliveries on, but we've got practically 200 airframes now waiting for engines because the Allison B-type isn't out - extension drive. They're late on their deliveries on it. They claim machine tool priorities.

H.M.Jr: Well, of course, when I had them down here a year ago and asked them could I help them with machine tools, they high-hatted me and said they needed no assistance.

L: I know. I think that's one of the most tragic episodes in this whole air production business - the failure of the Allison.

H.M.Jr: And the Pratt-Whitney and Curtiss-Wright said, "For God's sake, help me," and I did, but Allison said - Sloan told me himself, "Oh, we don't need any help."

L: Yeah. Well, they need so much help now that they're the worst performers in the whole aircraft engine field. They're almost 1,000 engines behind.

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H.M.Jr: Well, of course I used to talk to Sloan two or three times a week when I was handling that thing and up to the time that I got after Sloan, I don't think he had ever been out to the Allison factory and I don't think that Knudsen had ever been there until I got after them.

L: Well, Mr. Knudsen has had a meeting on this last week. We wrote rather a disagreeable letter to him about it and we've called in Kroeger, the president of the company, and O. E. Hunt of the Chevrolet Company

H.M.Jr: Well, that's the chief engineer.

L: Yes, we called in

H.M.Jr: But there's another man who runs the show out there whose name you haven't given me. Not Kroeger and not Hunt.

L: Kruser.

H.M.Jr: No.

L: Well, Kroeger is now head of the company; they moved the other chap out.

H.M.Jr: Evans. What about Evans?

L: Haven't heard of him.

H.M.Jr: Oh, he's the works. He used to be vice-president in charge of production in Germany, the Offel Works. Evans is the fellow that's running the show or was up until a month or so ago.

L: Well, I think they changed the personnel out there, Mr. Secretary. O.E. Hunt is the General Motors

H.M.Jr: Engineer.

L: Engineer put in charge of the general production and Kroeger is the man who is supposed to be their production boss.

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H.M.Jr: Ask about Evans.

L: I will, sir.

H.M.Jr: Because up until very recently he was supposed to be the boss there.

L: I will. I'll be sure to do that.

H.M.Jr: How much of this does the President know?

L: I don't know, sir. We're in continual argument with the O.P.M. about priorities on it, and they fail to realize that some of these companies are babies and have to be spoon-fed, and they always say, well, why didn't they put in an order last July. Well, the fact of the matter is they just didn't have sense enough to.

H.M.Jr: Well, of course it just burns me up because Allison came in here - "We don't need any help; we don't need any assistance on tools; we can take care of ourselves.

L: You perhaps remember the memorandums of December 30th that I spoke to you about in a review of the War Department's air program then in which I pointed out that we were going to have these desperate shortages and that we needed considerable increase in priorities and all that has happened is that we've gone steadily down.

H.M.Jr: Well, I've got the charts before me of the production and I notice - it isn't my business, but I can't keep out of it.

L: Well, it's your business as long as I'm here, sir.

H.M.Jr: Thank you.

L: And I welcome it and I'm awfully anxious to get some outside help on this because we're pretty well stymied here what between the O.P.M. and this 1221 Navy ships that are supposed to have priority and every time they give up anything to the British, they re-assert another priority on it.

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H.M.Jr: Well, if you'll let me help, the little energy I've got left is yours.

L: Well, I'd just love to have it and I'll be there at 10:30.

H.M.Jr: Right-o.

L: Thanks ever so much.

April 15, 1941
10:33 a.m.

H.M.Jr: Hello.

Operator: Mr. Mack.

Clifton
Mack:

Good morning, sir. We're in pretty good shape on the lend-lease buying. As a matter of fact we have very few requisitions.

H.M.Jr: I see.

M: Some for chemicals, about \$100,000, are going through today and be completed, and that will complete everything that we have clearances on. There are some with O.P.M. that we have not yet received clearances on but we'll probably have those tomorrow or the next day, and the B.P.C. liaison man told me this morning that he has quite a number of requisitions that they haven't yet cleared through, so those will be coming shortly.

H.M.Jr: O.K.

M: By the way, you may be interested to know that the Red Cross has been sending through some fairly good-sized orders that have to do with Greece and Yugoslavia. We have a requisition now for 10 field hospitals. That's all the equipment from the surgeons' needles right on up to the tent and the flag and everything there is.

H.M.Jr: Wonderful.

M: That would be a hospital of 50 men each. They'll take care of 50 men each.

H.M.Jr: You're going to have lots of fun, aren't you?

M: It looks that way. On textiles, we've been getting some pretty big orders.

H.M.Jr: For whom?

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M: That's for Red Cross, about 14 million yards, and knitting yarn, about 850,000 pounds; and for W.P.A. about 14 million yards, and we're now working on that with O.P.M., to decide which of these materials we'll have to be careful on and watch our step on before we place any orders.

H.M.Jr: Right.

M: And that's about the substance - nothing further on the Greek and Yugoslavian lists because we're still waiting on the funds.

H.M.Jr: Well, now, I thought you'd like to know that that letter that you sent me Friday showing what you did on the first order, I personally gave that to the President.

M: Yes, sir.

H.M.Jr: He was very much pleased, and the part about the fire hose he expects to use that in his press conference himself.

M: Well, that makes me very happy.

H.M.Jr: And I told him how you were able to get the 600 rolls of mosquito netting down to the ship in time where the English had been unable to do it themselves.

M: Splendid.

H.M.Jr: I didn't tell him about the Monel Metal because I wasn't quite sure about it myself. That was for screening?

M: Screening for West Africa.

H.M.Jr: I see. Have you found out yet why they wanted Monel?

M: Evidently the best reason they had is that that seemed to be their first thought.

H.M.Jr: I see. Have you educated them?

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M: We're working with them pretty closely. They seem to have a tendency to go out in the market and try to buy before they send a requisition through, which is not good.

H.M.Jr: You'd better teach them.

M: Well, you see that ups the price on us when we go out to buy, so we're correcting that through Young's office, of course.

H.M.Jr: Good. O.K.

M: Yes, sir.

H.M.Jr: Thank you.

April 15, 1941
10:45 a.m.

RE AID TO BRITAIN

Present: Mr. Phillips
Mr. Playfair
Mr. Cochran
Mr. White

H.M.Jr: I have been working on the amount of planes you get. You have been getting less on all the planes. This is naturally something I don't want to advertise, but instead of producing more planes each week we are producing less, and I am trying to find out why. As we produce less, you get less, and we ought to be producing more. We have got engines sitting around all over the place, but the planes aren't coming out. Everybody seems to be afraid to tell it to the President. I am going to tell it to him. That is what I have been fussing about. So it isn't time lost. It is the most outrageous thing. Instead of expecting that we would get more this spring, the production keeps falling off. It is the most - as I say, as Secretary of the Treasury, I am not supposed to know anything about it.

(Mr. White entered the conference.)

H.M.Jr: There are over two thousand engines at the factories waiting for airplanes in this

- 2 -

country. The estimated requirement that - we are supposed to have two months' supply on hand - is one thousand six hundred. There are 759 excess engines sitting around waiting for airframes.

It is just materials. We haven't got a man like Lord Beaverbrook who will just crack down on everybody and steal this and that for airframes and get the results. I just wanted to explain what I have been doing for the last half hour. I got excited about it. Somebody has got to get excited. That is that. I hope to get some results, get some more planes.

I am at your service.

Phillips: Did you ask about Brown-Williamson.

H.M.Jr: Yes, I did.

Phillips: We will have that in the course of the day. Your point was whether they could get more?

H.M.Jr: Yes.

Phillips: Well, I hope to have that later in the day.

H.M.Jr: Because Jesse Jones has got a figure of what he can lend them.

Phillips: Thirty-five, wasn't it, minus 15?

H.M.Jr: It was 20, wasn't it?

Phillips: Yes.

White: He mentioned 20 and he mentioned 25.

H.M.Jr: And he might stretch it to 25.

- 3 -

Phillips: That will--

White: Well, 20 to 25 net, so that it would be 35 or 40 in your terms.

H.M.Jr: Net to you.

Phillips: That is right.

H.M.Jr: Twenty to 25. He said 20, and he might stretch it to 25. You are right. It is the amount less 15 for the guaranteed trust.

Phillips: That is right. I follow it, sir.

H.M.Jr: That is the point.

Phillips: I hope to let you know on the other thing tonight or tomorrow.

H.M.Jr: And I will telephone Jones and tell him that I am going to ask him to wait another 24 hours.

Phillips: Well now, sir, on the seventh of March, I think it was, we put in to you the best guesses we could make as to our future balance sheets for the next four months or six months and many things have happened. Most of our estimates are either - most of our estimates, of course, show some variations from what they were before; but, broadly speaking, they don't alter the main picture; and it, therefore, does still look to us that we shall have a deficit at the end of June.

You know what we put before you. We thought it necessary to build up fairly rapidly a small working balance of the order of a hundred and fifty to two hundred million dollars with the hope of working up to something higher at the end of the war. Well,

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we still think we are short of that possibility. Therefore, we come back to the question, how are we to round that figure out. When I was here last you did tell us, in connection with Mr. Smith's statement before the Congressional Committee, that you were agreeable to the War Office and the Reconstruction Finance Corporation taking over some of our contracts, that is to say, the War Department taking the amount appropriate to them and the Reconstruction Finance Corporation looking out for the capital facilities, but as far as we can see the sum total of all they have done so far or are willing to do works out to the sum of about 73 million dollars, which is - I think the figure you mentioned of contracts involved was three or four hundred, and I must say, on the present basis, I see no chance of getting more until June.

H.M.Jr: Well--

Phillips: I am not talking about Canada at the moment. Canada is a separate problem.

H.M.Jr: What I would like to do, Phillips, is, I would like to sit down sometime when I have got an hour or two hours and just soak this up. But before doing it, I would like to have you go over it with these two gentlemen here.

Phillips: I would be very glad to.

H.M.Jr: What I would like to do would be this, if this is agreeable to you. If you would sit down with these two gentlemen and go over the whole thing once more with them. Then after you have done that, so that whenever you do it - they always ask for a lot more figures. They are never satisfied. (Facetiously)

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But when you agree as to the picture or come to as near an agreement as possible, then I would like to say, "We will start in in the morning at 9:30." And I will save the whole morning or as long as is necessary to go through the whole thing. We haven't done this in sometime, have we?

White: In fact, Mr. Playfair was going to come and see me within the past couple of weeks, but I guess he was too busy.

Phillips: There is a Lend-Lease Bill being started.

Cochran: They promised their latest figures for tomorrow.

H.M.Jr: Well, then, I take it that the move is up to you, and we, so to speak, have been waiting, and if you people will get together with these two gentlemen and then when you see eye to eye, within 24 hours I will be available. How is that?

Phillips: That is very good, sir. We will have the Canadians a little later. That is why I came along this morning.

White: They have given us just recently, as you probably know - they have been working on a very excellent--

H.M.Jr: Who?

White: The Canadians, So we have their entire situation, and then if you are able to do something as close to it as your figures make possible, then we can very quickly get the picture before us.

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H.M.Jr: Well, then, the next move is up to you.

Phillips: All right, very good.

April 15, 1941
11:02 a.m.

H.M.Jr: Hello.
Operator: Secretary Stimson is over at the Senate
at a hearing.
H.M.Jr: Well, let me talk to somebody in his office.
Operator: Right.

11:03 a.m.

H.M.Jr: Mrs. Meary?

Miss
Meary: Yes, sir.

H.M.Jr: This is Mr. Morgenthau. I just wanted to
get word to Secretary Stimson that at this
12:15 meeting at the White House today,
I'm going to talk about airplane production
in this country and the amount of the
deliveries to the English, and I just wanted
to put Mr. Stimson on notice that I'm going
to bring it up.

M: I see. I'll do that. You know, of course,
that he's up testifying today before the
Truman committee.

H.M.Jr: You know, also, that there is a meeting at
12:15 at the White House.

M: Yes, sir.

H.M.Jr: Well, I didn't know he was up there but I
didn't want to bring the matter up without
putting him on notice.

M: Well, I'll see that he gets this word.

H.M.Jr: Thank you.

April 15, 1941
11:34 a.m.

H.M.Jr: Hello.

Operator: Senator Glass.

Senator Glass: All right.

H.M.Jr: Henry Morgenthau, Jr.

G: Yes, Mr. Secretary.

H.M.Jr: How are you?

G: I'm fairly well, thank you.

H.M.Jr: Senator, I spoke to your secretary last week and told him that at your convenience we were ready now to start on this bank holding legislation.

G: Yes. Well, he notified me of that over the telephone. As soon as I can make it convenient, I'll have a hearing on it.

H.M.Jr: Good. Well, Preston Delano, Leo Crowley and I are all ready.

G: Very well. I'll notify you as soon as I possibly can.

H.M.Jr: Thank you.

G: And have the hearing as soon as I possibly can.

H.M.Jr: Thank you.

G: But I've got so much other work to do it's impossible to state just exactly when I can have the hearing.

H.M.Jr: Well, we'll hold ourselves in readiness.

G: All right.

H.M.Jr: Thank you.

April 15, 1941
11:36 a.m.

H.M.Jr: Hello.

Operator: Secretary Jones.

Jesse
Jones: Hello.

H.M.Jr: Jesse, Henry.

J: Yeah.

H.M.Jr: Sir Frederick Phillips was in this morning on this Brown-Williamson. He wants another twenty-four hours. In other words, he had not yet got the figure that they think they can sell it at, so I said just as soon as he had the figure to let me know.

J: Yeah.

H.M.Jr: He knew about your figure. So the minute I hear from him, I'll call you.

J: O.K.

H.M.Jr: Thank you.

J: Thank you.

April 15, 1941
11:43 a.m.

H.M.Jr: Haas, I want you to talk to me and be thinking about this. I want to do a similar job as you've done on airplanes and engines on tanks, machine guns and ammunition.

George Haas: Yes, sir.

H.M.Jr: Now, I don't know just what we'll have to do. We'll have to get some cooperation from the Army.

H: That's right.

H.M.Jr: Think about it.

H: All right.

H.M.Jr: I think if we got the different-sized tanks, whatever they're producing, and machine guns and ammunition of different kinds, I think if we got that much of a start it would be something.

H: Yes.

H.M.Jr: And the different kinds of machine guns - 30 caliber, 50 caliber and so forth. We'd have to get what they do at private plants and what they do at Government arsenals.

H: Fine. If the information isn't around town to make up a chart like that it is also too bad.

H.M.Jr: What's that?

H: I say if the information isn't around town somewhere it is also too bad.

H.M.Jr: Well, think about it, and I may have to put you in touch with - I think the man - well, I tell you now Major Smith, who takes care of me for General Marshall, I think would be the man to go to.

H: Major Smith.

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H.M.Jr: Yeah. The operator knows his number.

H: Fine.

H.M.Jr: Major Smith.

H: Fine.

H.M.Jr: But if he wants any higher authority,
why you can tell him I'll get it from the
President if necessary.

H: Fine. Do you want me to move on it right
away?

H.M.Jr: You might as well start.

H: Fine. Say, Mr. Secretary, I think that
we may not be able to color that line
before

H.M.Jr: Well, get it in my hands before 12:15.

H: Fine.

H.M.Jr: See that I get it.

H: O.K., Mr. Secretary.



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

April 15, 1941

MEMORANDUM FOR THE FILES:

Conference at the White House, 12 o'clock noon today

Those present besides the President were: The Chinese Ambassador, Dr. Soong, Secretary Morgenthau, Mr. Currie, and Mr. Bell.

I was a little late in arriving so did not hear the first part of the conference. I walked in as they were discussing the effect of the signing of the pact between Russia and Japan. The President asked if Russia is continuing to sell supplies to China. Dr. Soong replied that he had not received word yet as to whether Russia would continue to sell supplies in view of the pact. The President said that if Russia continues to furnish supplies as in the past, there is a definite indication that the pact will not mean very much. Mr. Currie said he had received word this morning through the State Department that Japan was continuing to send in to China a supply of large guns. Dr. Soong said he did not think that meant very much in this situation - first, because he thought the cable the State Department received contained information regarding a situation prior to the signing of the pact; and second, he thought it might take as long as three weeks to stop the shipment of these weapons to China if the Japanese thought it advisable in view of the pact.

The question then turned to the facilities of China for getting supplies in through the few ports that are open. Dr. Soong said that the Burma Road was still operating but there were many places where the traffic was jammed, particularly over the narrow mountain roads. The President made the suggestion that in view of the fact that China has plenty of man power, possibly small carts could be constructed which would carry not less than 100 pounds and possibly more, and these could be either operated by peddle or even pulled by the Chinese coolie. He thought that they might be able to move a great quantity of supplies in this way. Dr. Soong said he thought this might be a good suggestion and worth considering.

Dr. Soong then asked if there had been any consideration given as to what China might get under the Lend-Lease Act. Mr. Currie replied that there had been a great deal of consideration given to this matter and there were a number of things which were listed which might be sent over there. Dr. Soong thought it might be very helpful if the President

- 2 -

would announce that China was to receive aid under the Lend-Lease Act. It would be a definite encouragement to his people and, better still, if some percentage, such as ten per cent of the total amount made available under the Appropriation Bill, could be publicly announced as being available for China, he thought it would be very helpful. The President said he did not know whether he could go that far or not, but asked Mr. Currie if he could let him have something before his Press conference this afternoon on just what could be done and what could be said to help out in this situation.

Just as we were about to leave, Dr. Soong asked me if I had mentioned to the Secretary his conference with me yesterday, during which he stated that he had received a cablegram from General Chiang Kai-shek requesting him to take up with the President the matter of receiving \$50,000,000 under the Stabilization Fund arrangement in full rather than by monthly installments as contemplated in the agreement. I told him that I had discussed it with the Secretary and he had the same feeling that I had yesterday, that if Dr. Soong wanted to take this up with the President, he had his approval. Dr. Soong went over to the President and did talk with him regarding this. The President told him that that was a matter he knew nothing about and he would have to talk with the Secretary of the Treasury about it. That was where the matter was left.

subB

April 15, 1941

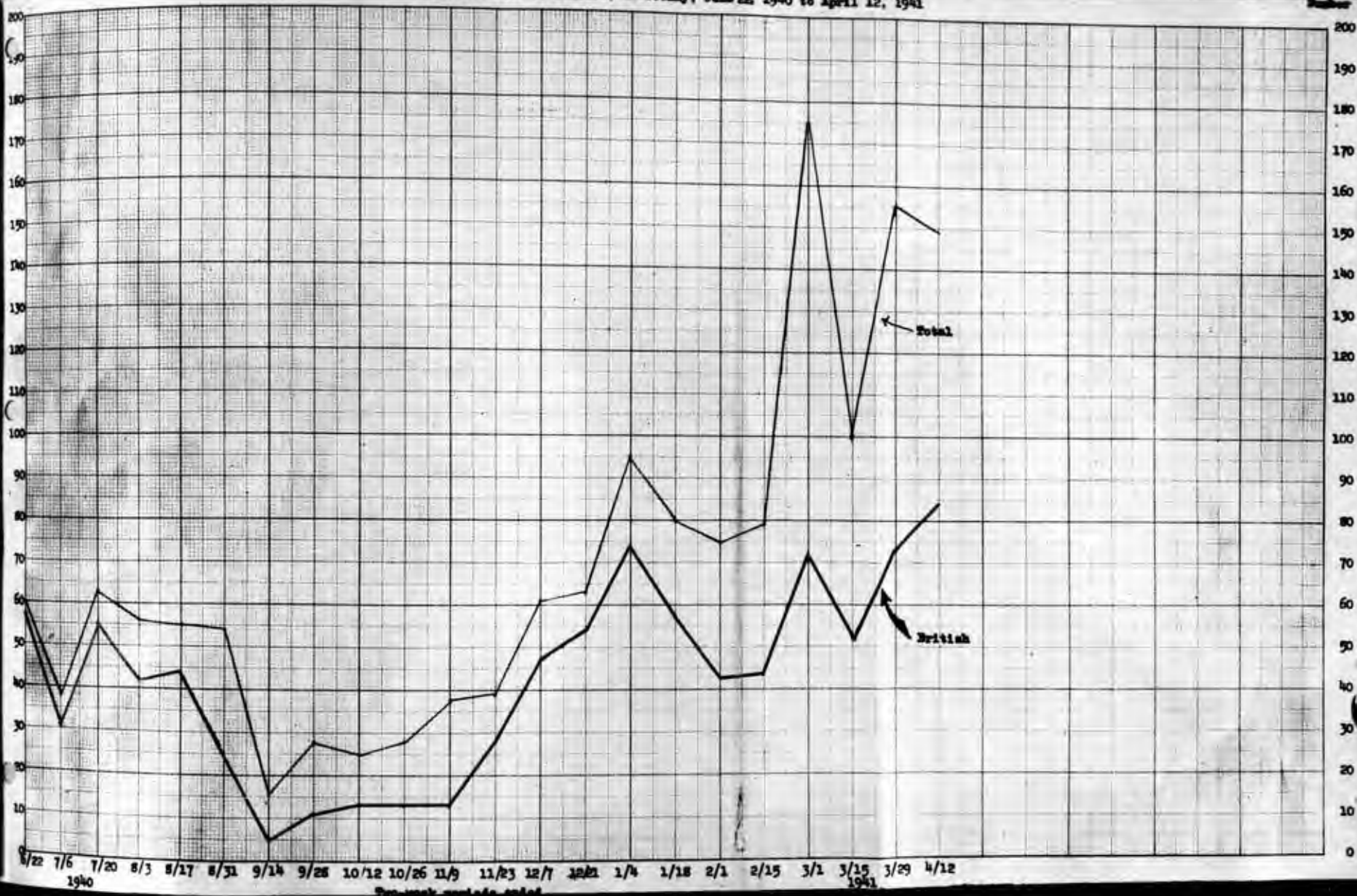
53

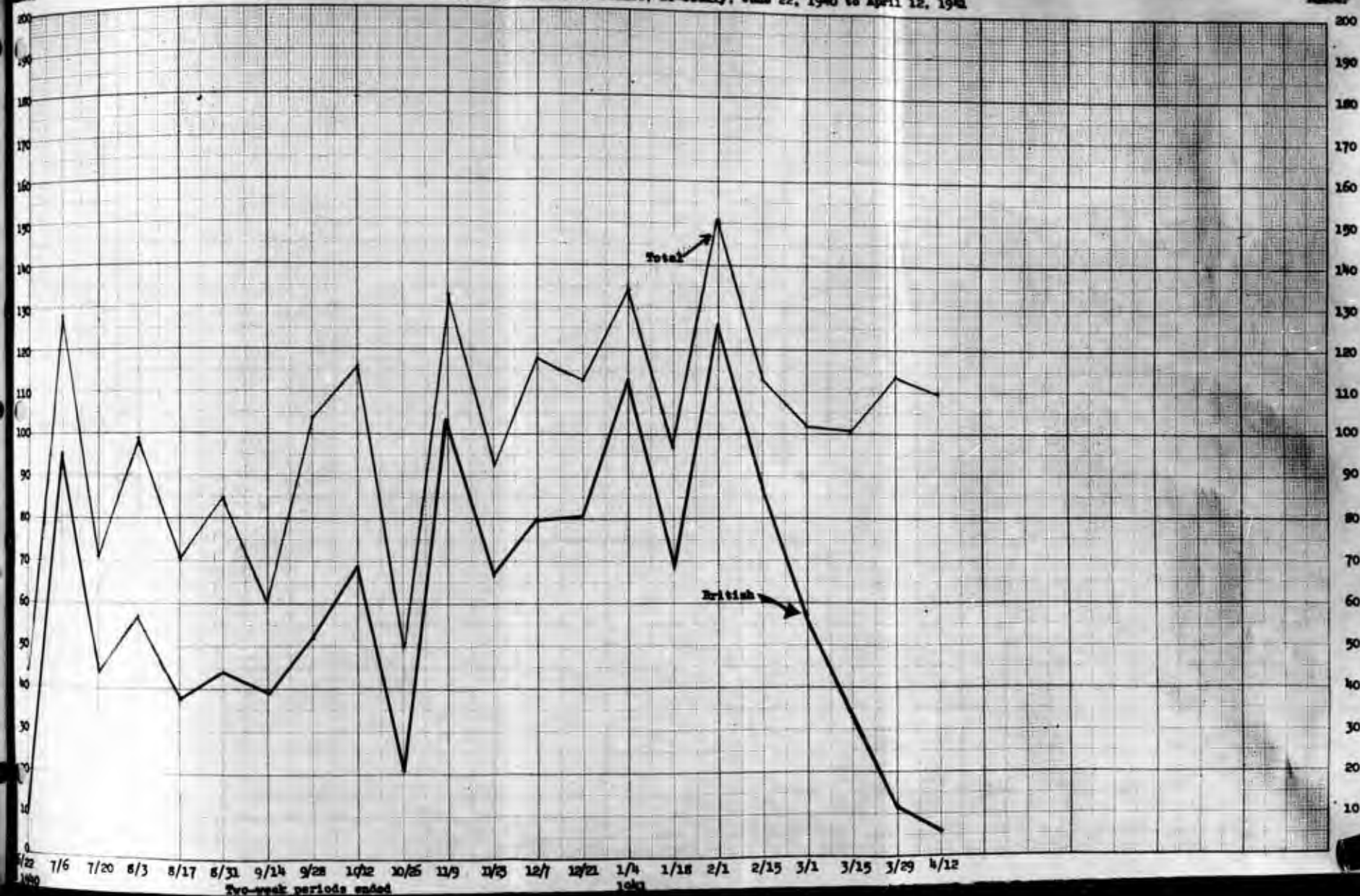
The Secretary gave one copy of this to
each of the following today:

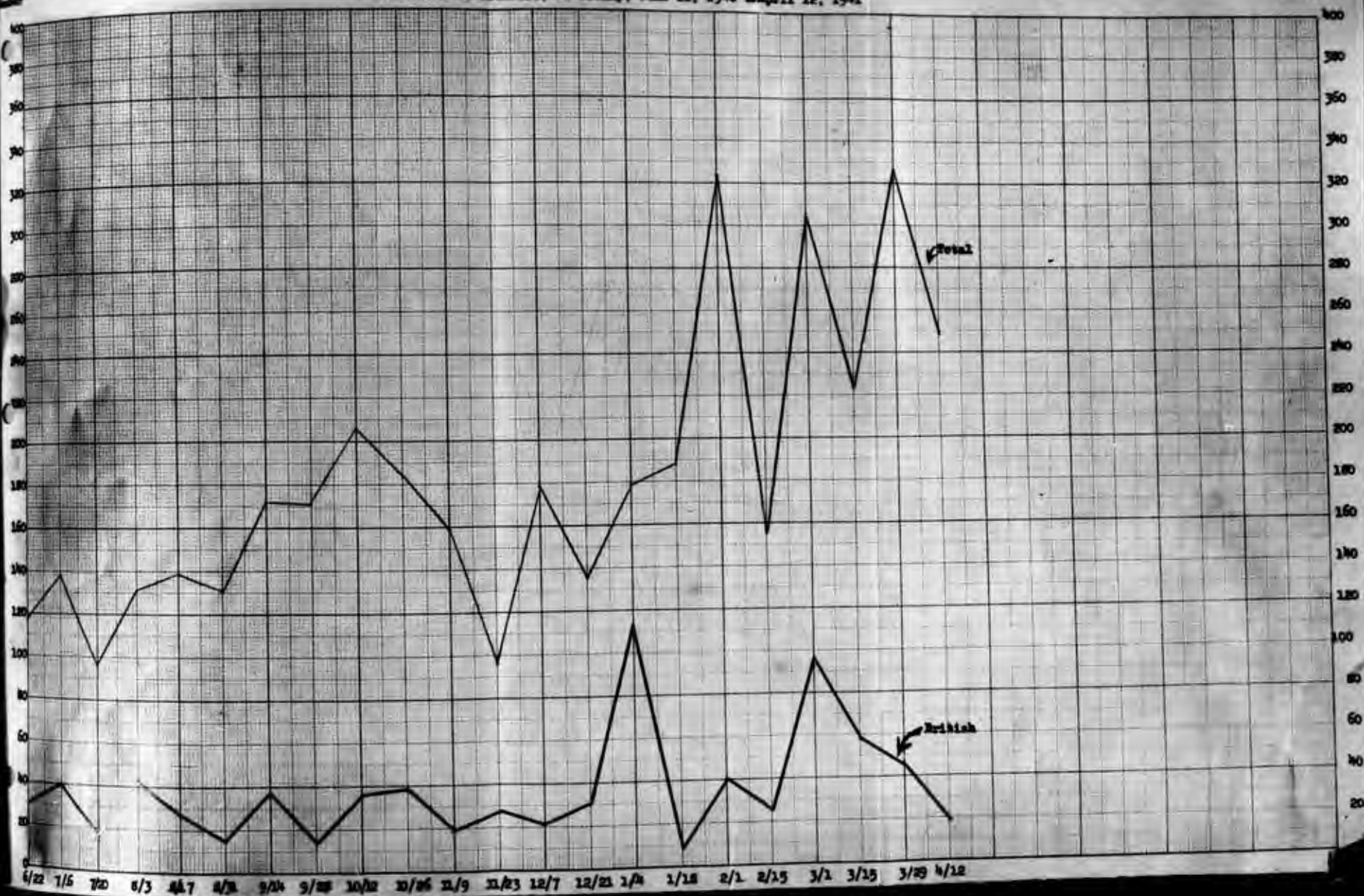
The President
Secretary Stimson
Secretary Knox
General Marshall
Admiral Stark
Harry Hopkins

54 Deliveries of Bombers, Bi-weekly, June 22, 1940 to April 12, 1941

Number







Deliveries of Airplane Engines over 1,000 H.P., bi-weekly, June 22, 1940 to April 12, 1941



The following exchange of letters between the President and the Secretary of the Treasury is given to the Press for its information:

"March 12, 1941

"My dear Mr. President:

"As I indicated to you in my letter of March 8, it is my opinion that, with the signing of the Lend-Lease Bill, there will no longer be any need for the Liaison Committee which you established on December 8, 1939, to coordinate foreign military purchases with our domestic program.

"The Committee has handled approximately 2000 requests between July, 1940, and March, 1941. Of these, over 1000 were British, and some 700 Dutch, with the balance representing the American Republics and a few other countries, such as Russia, Portugal and Iran.

"It is my understanding that purchasing operations by all countries in the war zone will come under the Lend-Lease procedure, although in certain instances, such as the Dutch East Indies, the country itself may continue to buy for cash. The purchasing operations of foreign countries not included in this Lend-Lease area depend basically on questions of foreign policy rather than upon questions of production. This is specifically true in the case of Russia, and it is also true with respect to all the American Republics.

"Because of this situation it is my recommendation that the Liaison Committee be disbanded and that all foreign countries outside the Lend-Lease area desiring to purchase military supplies in this country be advised to submit their needs to the Secretary of State.

"I believe I can be most useful as a member of your new advisory committee and the members of my office experienced in handling British purchasing operations can be of the greatest assistance if they are instructed to devote their full energies to assisting Harry Hopkins in the detailed problems involved in the Lend-Lease administration. They already have instructions to assist him in any way and to the full extent he desires.

"I would appreciate it if you would notify the Secretary of War and the Secretary of the Navy that the original Liaison Committee has been dissolved and that all foreign purchasing operations outside of the Lend-Lease area will henceforth be the responsibility of the Secretary of State.

"Faithfully,

"HENRY MORGENTHAU, JR."

The President's letter follows:

"April 14, 1941

"Dear Mr. Secretary:

"Thank you for your letter of March 12th concerning the operations of the Liaison Committee for the coordination of foreign and domestic military purchases.

- 2 -

"I would like to thank this committee for the work which it has done in the past year, and may I express my appreciation to you for your sincere and continuous efforts to make war materials available to those countries defending themselves against aggressor nations.

"The work of the Liaison Committee as a coordinating body for foreign and domestic military purchases is no longer useful since the signing of the Lend-Lease Act and will be dissolved. Purchasing operations by all countries in the Lend-Lease area will be supervised by Harry Hopkins, and such operations by all other countries which must necessarily involve consideration of foreign policy will be processed by the Department of State.

"Sincerely yours,

"FRANKLIN D. ROOSEVELT"

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 15, 1941

TO Secretary Morgenthau

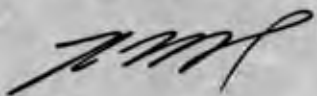
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

I telephoned Mr. Playfair of the British Treasury Mission at 9:30 this morning. I reminded him that in the case of the last shipment of South African gold to the United States the British Treasury had given us the number of Rand bars of gold in the shipment. In the message which Mr. Pinsent had provided me with respect to the current shipment, the number of boxes and the number of ounces of fine gold content had been specified, but the gold bars had not been enumerated. Playfair promised to see if the Embassy files contained the figures in question.

When Mr. Playfair called on me at 10:15, accompanied by Sir Frederick Phillips, he told me that the data were missing. He telephoned the British Embassy from my office and dictated a cablegram requesting the British to provide the desired figures at once.

At 12:40 today I spoke with Mr. Knoke by telephone. He said that Mr. Cameron of his staff was making all arrangements for the discharge of the gold shipment tomorrow, in accordance with our plans. I told Mr. Knoke that a letter was going forward this afternoon giving all of the data which the British had provided with respect to the gold cargo. I stated that a cable had been sent to London today requesting the number of bars. I promised to telephone this information to Mr. Knoke as soon as it may be received.



APR 15 1941

STRICTLY CONFIDENTIAL

Gentlemen:

Attention: Mr. E. W. Knapp

Reference is made to the Acting Secretary's telegram of April 4, 1941, advising that under arrangements made with the British Government the Treasury has purchased approximately three million seven hundred seventy seven thousand two hundred sixty three point two eight 3,777,263.20 fine ounces of gold.

It is expected that the gold will arrive at Brooklyn on or about April 16. The Treasury has been informed that the Bank of England is mailing directly to the Federal Reserve Bank of New York the relative weight lists covering this shipment. The Treasury has a preliminary report that the gold is packed in 4,696 boxes as follows:

4,690 boxes containing 3,774,964.70 fine ounces of gold bullion.

6 boxes containing 413,953 in sovereigns and 4909-10-0 in half sovereigns. Calculated weight 2,696.30 fine ounces.

You are authorized and directed, as Fiscal Agent of the United States, to accept delivery of this gold at the Brooklyn Navy Yard and have it transferred to the United States Assay Office at New York for refining into United States Assay Office gold bars. It will not be necessary to record the value of this shipment under the "Government Losses in Shipment Act".

The gold should be deposited with the United States Assay Office in New York, subject to the order of the "Federal Reserve Bank of New York as Fiscal Agent of the United States, Secretary's Special Account".

This gold has been purchased by the Treasury at \$35.00 less 1/4 of 1% per troy ounce of fine gold less the usual mint charges.

All charges incurred by you in connection with this shipment of gold are for the account of "His Britannic Majesty's Government".

- 2 -

Upon completion of the refining of the gold and when the amount of the final payment is determined, you are further authorized and directed to charge the account on your books designated "Secretary of the Treasury, Special Account" with the amount so determined and to credit a like amount to "His Britannic Majesty's Government Current Account C" on your books.

Very truly yours,

(Signed) D. W. BELL

Acting Secretary of the Treasury

Federal Reserve Bank of New York,
33 Liberty Street,
New York, New York.

MEMORANDUM

April 15, 1941.

TO: The Secretary
FROM: Mr. Sullivan

In accordance with your instructions of Friday, April 11th, I talked with Mr. Lauchlin Currie yesterday morning, April 14th. I gave him a rough outline of what we intended to do, including the gross amount of additional revenue to be raised and the manner in which we arrived at that amount. I told him that out of the \$3.5 billion, \$1.5 billion was to come from increased surtax rates of individual income; about \$900 million from corporations of which about \$500 million was to result from the 6 percent corporate surtax and the rest from excess profits tax increases. I further stated that we were to get about \$350 million from changes in estate and gift taxes and that the balance of about \$1 billion was to come from selected excise taxes. Mr. Currie stated that he thought this was a good program and that his only criticism would be as to the excises and he was inclined to agree with me that these should be retained because it would be a good antidote for the drive for a general sales tax.

About noon Mr. Currie phoned me and said he had heard from you on the phone and he thought he had better go into this matter more seriously. He asked me if I would furnish him copies of all schedules at once. I told him that I might not be in during the afternoon but I would see him sometime before dinner. Accordingly, I drove him to his home last night and we further discussed this problem. Of the schedules he requested I had only that schedule showing the increase in individual income taxes. This schedule shocked him and he thought it was altogether too severe. In discussing the necessity for such a schedule he stated that he thought \$3.5 billion was too high and that \$3 billion would be enough. He then stated that he thought \$2.5 billion would be enough. He also felt that we could take a great deal more from corporations in the form of excess profits and he expressed the doubt that with seven million people still out of work we were not yet at the point where we could impose extra taxes which would reduce consumption. He wanted to know when he was going to get the schedules and I told him a meeting with Congressional leaders was to be held in the very near future and I thought I could discuss the schedules with him more fully after having the benefit of Congressional views. We agreed that we would meet after the Congressional conference.

- 2 -

At noon on Monday April 14th, I gave to Mr. Leon Henderson and his legal adviser, Mr. David Ginsburg the same outline I gave to Mr. Currie in the morning. Mr. Henderson was very much pleased with the entire program. He evidenced some desire to have his men contact our staff to learn more about excess profits. Apparently he was entirely in accord with our program.

At luncheon on Monday April 14th I gave a similar outline to Mr. Eccles. He had with him a commentary upon Mr. Currie's memorandum to the President which he allowed me to read but which he took back. In this memorandum he expressed the belief that excess profits should be revised and more revenue should be obtained from it than we believe is possible.

He stressed his desire to be helpful and suggested that he would be in a very good position to testify as to the necessity of curbing inflationary trends by taxation. Both he and Mr. Currie were very enthusiastic over insisting upon all married persons filing joint returns, stating that this would yield an additional \$250 million a year. I told him that we had not yet favored this change but that we were studying it and would be glad to consider this in conjunction with our technical amendment bill.

All three men, Currie, Henderson and Eccles favored the President's suggested alternative of substituting undistributed profits tax for the excess profits tax. Mr. Tarleau, Mr. Blough and I feel that such a change would vastly improve the tax structure from the point of view of fairness and equity but could not raise as much money as may be raised from excess profits taxes. They are now making a study to determine how much additional revenue can be raised through an undistributed profits tax and we will send this information to you as soon as possible.

JLS



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

April 15, 1941

MEMORANDUM FOR THE FILES:

Luncheon in Speaker Rayburn's office today

Those present besides the Speaker were: The Secretary of the Treasury, the Secretary of Agriculture, House Majority Leader McCormack, Congressman Woodrum of the Appropriations Committee, Director Smith of the Budget, and Mr. Bell.

The Secretary stated that we had had a conference last Saturday with the President regarding the increases by the Senate over the Budget in the Agricultural Appropriation Bill. The President suggested that we have a conference with the House group for the purpose of determining what could be done to keep this bill within the Budget limits. The Secretary said that that was what we were there for today and he was authorized to say that if the President could get support in the House, he would veto the Agricultural Bill.

There was a great deal of discussion about the matter and Secretary Wickard again brought into the picture the other matters pertaining to the agricultural program pending in various bills in Congress. One in particular is the House bill which authorizes loans up to 75 per cent of parity and the Senate bill which authorizes loans up to 100 per cent of parity. He said that he was more worried about these bills than the Appropriation Bill. If the 100 per cent loan bill goes through, there need not be a parity payment and agricultural products will remain at parity. Secretary Morgenthau said he agreed with this, but there was now before us the Agricultural Appropriation Bill which exceeded the Budget by some \$368,000,000 and he thought that was the first item to be taken care of and we could then handle the others.

Congressman Woodrum said there was going to be a fight on the floor to hold the Appropriation Bill down to the Budget. Mr. Cannon, who is Chairman of the Subcommittee, will be much in favor of the Senate bill and the only way that he believes that the situation can be handled is for the President to call the Democratic members of the Appropriation Committee down to his office and tell them exactly what he wants. If he does this, Mr. Woodrum thinks that Mr. Cannon will go along with the President's program. If this is done, Mr. Woodrum believes that he and Mr. McCormack can then carry the fight and probably win. There will, however, be a lot of grumbling and charges that agriculture is suffering

at the hands of the Administration, whereas, labor seems to be getting about all it wants.

Secretary Wickard then brought up the political situation, suggesting that it might be necessary to compromise the whole situation because the Republicans are just waiting for something like this, and that certainly the Western Congressmen and Senators will go out and say that the Administration is letting agriculture down. Speaker Rayburn said that he thought this was exactly correct, and injected another matter into the conference which seemed to concern warehousing. Secretary Wickard stated that if this warehousing bill goes through, it will cost the Treasury several additional million dollars a year. The Speaker did not seem to mind this but thought that there was a great deal of merit in the bill and that it had a lot of strong backing, and he hoped the Secretary of Agriculture and the Director of the Budget would both recommend that the President approve this bill. Secretary Wickard said that the Speaker need not talk to him about it, but should talk with Mr. Smith, he was the one who was really disturbed.

He then got back on the subject of the Appropriation Bill. Mr. Smith said he thought the Secretary of Agriculture was right, that there was a great deal more to this situation than keeping the Agricultural Appropriation Bill within the Budget. There were other bills pending in Congress which, if passed, would materially increase prices and add to the inflationary trend. It was highly important from the National viewpoint that this agricultural program be taken into consideration and then discussed with the President, and he agreed with the Secretary of Agriculture that the most important phase of the present situation is these bills pending in Congress which seem to have a fairly good chance of passing unless the President brings pressure to bear against them.

The Secretary of the Treasury again said that he appreciated this position, but the Agricultural Appropriation Bill has been passed by both houses and it seemed to him something should be done about it and it should be done right away. The Congressional leaders seemed to agree that the only way to stem the tide was for the President to take a hand. Speaker Rayburn then asked the Secretary if he was going to discuss it with the President and the Secretary said that he hoped that the Speaker would call the President personally and lay the matter before him. He said that he could relay to the Speaker what the President has said and he could tell him about any further conference he might have and report back, but he thought it would be much better if the Speaker got his information first-hand from the President. The Speaker said he would do this right away to see whether or not the President could have the conference before he left. It was ascertained that Mr. Cannon had not yet returned to town but might be back tomorrow morning. It was hoped that the conference might be arranged before the President leaves tomorrow night.

and

April 15, 1941
3:15 p.m.

Edward
Flynn:

Hello, Henry. How are you?

H.M.Jr:

Fine.

F:

Henry, I heard some gossip around that there is some likelihood of appointments of some men in the different states in connection with this bond issue. Will there be anything like that?

H.M.Jr:

It's going to be for the honorary committees.

F:

Will there be any paid positions there?

H.M.Jr:

So far I don't know of any, but if there are, you want to be kept in mind?

F:

Yeah, I wish you would.

H.M.Jr:

Fair enough.

F:

And I tell you, even in some honorary places in some of these states that we have some good men, if you'll let me know about it, it will help a lot.

H.M.Jr:

I'll pass it along.

F:

All right. Swell.

H.M.Jr:

Thanks for calling me.

F:

Fine, Henry.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 15, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 12:15 yesterday noon the Secretary asked me to ascertain from Sir Frederick Phillips what the British thought they could obtain for Brown and Williamson if they sold this concern outright, that is, not going through the R. F. C. I telephoned this request to Phillips at 12:25. He replied that he did not think the British had any definite offer of a clean purchase of this concern. He recalled, also, that it had been Sir Edward Peacock's opinion when he visited us the other day that there would be little difference in the amount that might be realized on this concern whether an R. F. C. loan or a direct sale was involved, the latter alternative assuming that a sale could be made. Phillips added that he would talk with Peacock again by telephone, and give me a further report.

When Sir Frederick Phillips was received by the Secretary this morning, he referred to this matter and stated that Peacock would give his opinion in the premises within twenty-four hours. At 4 o'clock this afternoon Sir Frederick telephoned me that he had just received a call from Sir Edward. The latter had consulted with Mr. Clarence Dillon who gave his private and confidential opinion that an outright sale at present would be a difficult market proposition. It was pointed out that this concern makes cheap cigarettes, which is a highly competitive business. Furthermore, the firm is known to be short of working capital. This is not a handicap as long as banking facilities are available. Dillon thought that the lower limit for a market sale would be \$20,000,000 net. \$25,000,000 net would be a good price. \$30,000,000 would be the absolute maximum. The opinion was reiterated, however, that there is at present a bad market and that it would take three or four weeks to prepare for a sale. If conditions should still be unfavorable by that time the transaction might either be impossible or the proceeds less than anticipated. Phillips gave as the opinion of both Dillon and Peacock that the possibility of a loan should not be turned down, on the above outlined chance for a sale to be consummated. The British intimated that Mr. Dillon would be pleased to give his opinion personally to the Secretary if the latter desired to discuss the matter with him. The British hoped, however, that the foregoing remarks would not come to the attention of Mr. Jones.



April 15, 1941
4:25 p.m.

H.M.Jr: Hello.

Operator: Secretary Jones.

Jesse Jones: Hello, Henry.

H.M.Jr: Hello, Jesse. On this question of Brown and Williamson, I got word from the English that anything that they could do with the bankers would take about a month. So if you want to go ahead, they hope - this is the British Treasury I'm quoting - that you can make it 25.

J: Twenty-five.

H.M.Jr: Yeah, net to them.

J: That will square with you, will it?

H.M.Jr: Yes, and I asked the President how he felt about our not - well, I mean the control staying with the English, and I explained this to him. He said as far as he was concerned he thought each case on its merits, and as far as this case was concerned, this was agreeable to him.

J: O.K.

H.M.Jr: So in working with you on this, I'd like to continue

J: Just individual cases.

H.M.Jr: If you please.

J: O.K., and I'll proceed accordingly, Henry.

H.M.Jr: Thank you, Jesse.

J: O.K.

April 15, 1941
4:50 p.m.

Ronald
Ransom:

Hello. How are you today?

H.M.Jr:

Hello, Ronald.

R:

I'm starting out, I hope, on a round of the Federal Reserve Banks on which I expect to be able to get in at least nine of them, perhaps more, before I get back. I'm going to Philadelphia this week and then on the 30th start out on a trip that'll take me all the way from Boston to San Francisco and back.

H.M.Jr:

Yes.

R:

Now I wondered whether in the process of going to these Federal Reserve Banks, where I'll see the local staffs and also see a good many of the local bankers, if there are any particular ideas or lines of information that you'd like me to try to develop which might be in any way helpful to you.

H.M.Jr:

Well, there's no question in connection with this Defense Savings Bond but that we would, and I don't know just how they are handling that. I think if you'd ask Bell to talk to you about that

R:

Yes. I'll see Bell at dinner tomorrow evening. I'm going to his house and I'll tell him about the same thing. I have in mind to try to encourage them in every way I can to make an all-out effort on the thing and I just wanted to be sure that

H.M.Jr:

Well, that would be really the principal thing.

R:

Yes, I should think so. I'm going to try to get something of the sentiment of these local communities. You can't very well get it in Washington.

H.M.Jr:

I know that, but when you get back I'd like very much to see you.

- 2 -

R: I will, and I will make a detailed memorandum as I go along and develop sentiment. I want to know something of the sentiment toward the war effort. I'm afraid in some sections of the country it is a little lethargic and God knows I think it's getting serious enough to speed it along if we can, so I'll see you when I get back. In the meantime I'll talk to Dan and see if there are some specific lines of information they want developed.

H.M.Jr: Good. Thank you.

R: O.K.

TO:

72

MISS CHAUNCEY:

O

Mr. Foley read the content of this
memo to the Secretary on the telephone
at 3/15 p.m. - 4/15/41.

4-18-41

MR. FOLEY

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 15, 1941.

TO Secretary Morgenthau
FROM Mr. Foley

Alternative Proposals Considered
re Anglo-Palestine Bank.

- (1) RFC or Export-Import Bank to lend \$8,000,000 to American branch of Palestine Fund to be secured by future donations to Palestine Fund and by additional stock in Anglo-Palestine Bank and by securities of Palestine enterprises owned by Anglo-Palestine Bank.

The dollars will be turned over to the British Treasury and the sterling will be divided between the Anglo-Palestine Bank and the Palestine Fund.

- (2) Export-Import Bank to finance exports to Palestine, the Palestine importer to pay for the imports by paying sterling to the Anglo-Palestine Bank. No dollars will be made available to the British Treasury. The Anglo-Palestine Bank and the American branch of the Palestine Fund would be obligated to repay the dollars to the Export-Import Bank.

Although there may be legal authority in the Export-Import Bank or the RFC to do either of the foregoing, I believe that the Treasury should not recommend that this Government enter into such transactions. I also believe that there is nothing substantial to be gained by referring Istoric to the Export-Import Bank for consideration of his proposals.

- (3) Moneys to be made available by private banking facilities in this country.

Although the information which we have obtained relative to the Anglo-Palestine Bank shows it to be the most important bank in Palestine and to have had a good earning record, I believe that in view of current

- 2 -

circumstances, there is no possibility whatever of any private bank in this country being interested in making the loan. Istorik concurs in this view.

- (4) Moneys to be obtained from a group of wealthy American Jews.

Istorik feels that it would hurt the Bank for him to attempt to go from person to person and make an appeal for funds. If a group of wealthy persons can be gotten together and were to subscribe money, that would be very helpful. Little hope is entertained for this possibility.

- (5) The Secretary to write a letter to Montague Norman thanking Norman for his interest in the matter and indicating that the extension of credit to the Anglo-Palestine Bank is a matter for the British Government and not the American Government.

Since Norman has not communicated directly with the Secretary on the proposal, there would seem to be no reason for the Secretary taking the initiative in writing to Norman about the matter. The Treasury has already advised the British Embassy of its unwillingness to approve the transaction.

- (6) The Secretary to write a letter to Istorik saying that the matter of extending credit to the Anglo-Palestine Bank has been given careful consideration; that this Government is not in a position to engage in any such transaction and that the problem presented by the Anglo-Palestine Bank appears to call for solution by obtaining sterling credits within the area of the British Empire.

Istorik would find such a letter very useful in going back to the British authorities and obtaining from them sterling credits to tide the Bank over in any difficult period.

(COPY)

April 15, 1941.

Secretary Morgenthau

Mr. Foley

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Re Anglo-Palestine Bank.

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BB:meu
4/15/41

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE APR 15 1941

TO Secretary Morgenthau

FROM Mr. Foley

As soon as Bernstein was advised by Pehle of the State Department's request to arrange for the transfer of \$100,000 from the account of the Central Bank of Yugoslavia to the Yugoslavian Legation, the Legal Division drafted all of the papers necessary to consummate the transaction. These papers included a letter from the Secretary of the Treasury to the Secretary of State and a Treasury License authorizing the transaction; a form of certificate for the signature of the Yugoslavian Minister and addressed to the Secretary of State and a form of letter from the Secretary of State to the Federal Reserve Bank of New York certifying to the authority of the Minister to draw the funds. Bernstein immediately called Logan at the Federal Reserve Bank and advised him of the matter and of the procedure to be followed, and asked the Federal for an expression of their views. Within an hour the Federal phoned back and said that the procedure was agreeable to them and at our request they also furnished us with a copy of the letter from Potitch to the Federal instructing that payment be made.

At 1:45 Bernstein, after being unable to get either Berle or Acheson, phoned Donald Hiss, who is the assistant to Acheson, and advised him of the matter and of the State Department's interest therein and that the Treasury had papers prepared enabling the transaction to be carried through under the recently enacted statute. (Public Law No. 31, 77th Congress, approved April 7, 1941). Hiss stated he would discuss the matter with Acheson and phone us back. Before three o'clock Acheson phoned back and said that he was prepared to go over the matter with us.

I discussed the problem in its entirety with Bernstein and carefully considered the provisions of the statute. I am satisfied that the Treasury Department's responsibility under the statute is limited to the question of issuing or denying a license under the freezing control order and that the issuance of such a license by the Treasury under the circumstances, the State Department having specifically requested it, was entirely legal and proper and will result in no liability to the Treasury or any officer thereof.

- 2 -

Under the statute, it is the sole responsibility of the State Department to determine whether to accept and recognize the authority of the person designated by the duly accredited representative as having authority to draw on the account. It is also for the State Department to determine what, if any, evidence or information it wants on which to base this determination.

I discussed the matter with Mr. Bell who raised the question as to whether the certification by the State Department should indicate the inability of the Minister or the State Department to communicate with the Yugoslavian Government in Yugoslavia. I pointed out how that was entirely a matter for the State Department to decide and that furthermore the presence of that information would not in any way strengthen the legal validity of the certification by the State Department, but might make it embarrassing for the Secretary of State to sign the certificate.

In view of this talk between Mr. Bell and myself we felt it desirable to present the matter to the Secretary. At a conference in the Secretary's office attended by the Secretary, Mrs. Klotz, Mr. Bell and myself I raised the problem. After considering the matter, the Secretary stated that he would be willing to proceed along the lines indicated if his General Counsel recommended that he take such action and have the record clearly show such recommendation. This confirms my recommendation to the Secretary that the matter be handled along the lines discussed in this memorandum.

Bernstein and Pehle then went to the State Department and discussed the matter with Acheson and Feis. Bernstein pointed out to them that the Treasury was prepared to issue the license which Mr. Bell had already signed, together with the letter to the State Department, but that it was the sole responsibility of the State Department to decide whether under the statute it would issue the certificate. Bernstein also pointed out to them that they might want to consider what additional evidence they would ask Fotitch to submit as to his authority and also whether or not they would want to indicate the difficulty of communications with Yugoslavia. Acheson and Feis stated that the papers as had been drafted by the Treasury were entirely satisfactory to them. Thereupon, Acheson and Feis went in to see Under Secretary Welles and twenty minutes thereafter returned and stated to Bernstein and Pehle that the matter was satisfactory, that Under Secretary Welles approved the procedure and that the State Department was prepared to sign the certificate.

- 3 -

Thereupon, Donald Hiss of the State Department went up to see the Yugoslavian Minister about the matter.

During the rest of the afternoon, the Minister submitted to the State Department a certificate signed by him as to his authority. The Treasury delivered to the State Department the letter signed by Acting Secretary Bell and a copy of the license; Secretary Hull signed and forwarded the certificate to the Federal Reserve Bank and also sent to the Treasury a letter confirming his recommendation that the license be issued and the procedure under the statute be followed. The Yugoslavian Minister also sent instructions to the Federal Reserve Bank covering the transfer of the money.

4-12
On Saturday morning, we were advised by the Federal Reserve Bank that it had received all the papers in order and that the Federal Reserve Bank was putting through the transaction.

Copies of the aforementioned papers are attached hereto.

S. J. F. H.

Attach.



DEPARTMENT OF STATE
WASHINGTON

April 11, 1941

My dear Mr. Secretary:

I beg leave to transmit herewith a note received from the Minister of Yugoslavia requesting that \$100,000 be placed at the disposal of the Yugoslav Legation in Washington for stated purposes. I urgently recommend that you issue an appropriate license authorizing the payment of such amount to the Yugoslav Legation out of the account of the Banque Nationale du Royaume de Yougoslavie at the Federal Reserve Bank of New York.

Upon receipt of a notification from you that you are issuing such a license and after receipt of appropriate certificate of authority from the Yugoslav Minister, I will certify to such Federal Reserve Bank of New York that I accept and recognize the authority of the Minister of Yugoslavia to act with respect to such money.

I also

Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

-2-

I also recommend that you issue a license authorizing the paying out of the \$100,000 from the account of the Yugoslav Legation in the Hamilton National Bank, Washington, D. C.

Sincerely yours,

Cordell Hull

Enclosure:

Royal Yugoslav Legation,
April 11, 1941.

ROYAL YUGOSLAV LEGATION
WASHINGTON, D. C.



April 11, 1941.

Mr. Secretary:

I would like to ask you to release from the Yugoslav Government funds an amount of One Hundred Thousand (\$100,000.00) Dollars, and place this amount at the disposal of the Royal Yugoslav Legation in Washington.

This amount is necessary to provide funds for payment of the Yugoslav diplomatic and consular missions in the United States (Legation in Washington, Consulates General in Chicago and New York), Consulate General in Montreal, Royal Yugoslav Legations in Buenos Aires, Rio de Janeiro and Santiago, as well as for the members of the Yugoslav diplomatic and consular missions from Germany and Italy who are now in Switzerland.

If such Government credits are not available at the United States banks, I hope you will agree to issue instructions to the Federal Reserve Bank in New York to release the amount from the credits of the Yugoslav National Bank.

Believe me, Mr. Secretary,

Yours very truly,

Minister of Yugoslavia.

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

DEPARTMENT OF STATE
ADVISER ON
INTERNATIONAL ECONOMIC AFFAIRS

April 11, 1941

Mr. Pehle:

Enclosed herewith is a copy of a note received from the Minister of Yugoslavia for which your urgent attention has been requested.

Formal transmission of this note will immediately follow.

Herbert Feis

EA:HF:VCL

ROYAL YUGOSLAV LEGATION
WASHINGTON, D. C.

April 11, 1941.

Mr. Secretary:

I would like to ask you to release from the Yugoslav Government funds an amount of One Hundred Thousand (\$100,000.00) Dollars, and place this amount at the disposal of the Royal Yugoslav Legation in Washington.

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If such Government credits are not available at the United States banks, I hope you will agree to issue instructions to the Federal Reserve Bank in New York to release this amount from the credits of the Yugoslav National Bank.

Believe me, Mr. Secretary,

Yours very truly,

CONSTANTIN POTITCH

Minister of Yugoslavia.

The Honorable

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

APR 11 1941
RECEIVED
U.S. DEPT. OF THE TREASURY
WASHINGTON, D. C.



TREASURY DEPARTMENT

WASHINGTON

My dear Mr. Secretary:

Pursuant to the provisions of Section 25(b) of the Federal Reserve Act, as amended, you are hereby notified of the issuance by the Acting Secretary of the Treasury of a license No. W-598, dated April 11, 1941, under Executive Order No. 6560, as amended (issued pursuant to subdivision (b) of Section 5 of the Act of October 6, 1917, as amended), to the Federal Reserve Bank of New York authorizing such Federal Reserve Bank to pay and transfer, upon the order of Constantin Potitch, \$100,000 from the amount on deposit with and held by such Federal Reserve Bank, to the credit of the dollar account in the name of Banque Nationale du Royaume de Yougoslavie, to the Hamilton B. Wood 34-4, Washington, D. C., for credit to an account in the name of Royal Yugoslave Legation. A copy of such license is hereto attached and made a part hereof.

Very truly yours,

W. H. Hall
Acting Secretary of the Treasury.

The Honorable

The Secretary of State.

Enclosure

License No. W-598
Date: April , 1941.

L I C E N S E

(GRANTED UNDER THE AUTHORITY OF EXECUTIVE ORDER NO.
6560 OF JANUARY 15, 1934, AS AMENDED, AND
THE REGULATIONS ISSUED THEREUNDER)

To Federal Reserve Bank of New York,
New York, New York.

Sirs:

1. You are hereby licensed to pay and transfer, upon the order of Constantin Fotitch, \$100,000 from the amount on deposit with and held by you, to the credit of the Banque Nationale du Royaume de Yougoslavie, to the Hamilton National Bank, Washington, D. C. for credit to an account in the name of Royal Yugoslave Legation, from which latter account payments, transfers, and withdrawals may be made only pursuant to a further license issued under Executive Order No. 6560, as amended.

2. This license is subject to the conditions, among others, that you will comply in all respects with Executive Order No. 6560 of January 15, 1934, as amended, and the regulations issued thereunder and the terms of this license.

3. This license, which shall expire on May , 1941, is not transferable, is subject to the provisions of Executive Order No. 6560 of January 15, 1934, as amended, and the regulations issued thereunder and may be revoked or modified at any time in the discretion of the Secretary of the Treasury acting directly or through the agency through which the license was issued; or any other agency designated by the Secretary of the Treasury.

Acting Secretary of the Treasury.

ROYAL YUGOSLAV LEGATION
WASHINGTON, D. C.

April 11, 1941.

My dear Mr. Secretary:

I, Constantin Fotitch, Minister of Yugoslavia to the United States, and the accredited representative of Yugoslavia to the Government of the United States, hereby certify, pursuant to the provisions of Section 25(b) of the Federal Reserve Act, as amended, that Banque Nationale du Royaume de Yugoslavie is the central bank of Yugoslavia, and that I have authority to receive, control, and dispose of the amount on deposit with and held by the Federal Reserve Bank of New York, to the credit of the dollar account in the name of Banque Nationale du Royaume de Yugoslavie, which is authorized by the license (a copy of which is attached), dated April 11, 1941, issued by the acting Secretary of the Treasury to the Federal Reserve Bank of New York, to be paid and transferred to the Hamilton National Bank, Washington, D. C., for credit to an account in the name of Royal Yugoslav Legation.

Constantin Fotitch

Minister of Yugoslavia to the United States

The Honorable,
The Secretary of State,
Washington, D. C.

April 11, 1941

Federal Reserve Bank of New York,

New York, New York.

Sirs:

Pursuant to the provisions of Section 25(b) of the Federal Reserve Act, as amended, I hereby certify to the Federal Reserve Bank of New York as follows:

- (1) That I have received a notification from the Acting Secretary of the Treasury, complying with the provisions of Section 25(b) of the Federal Reserve Act, as amended, of the issuance by the Acting Secretary of the Treasury of license No. W-398, dated April 11, 1941, under Executive Order No. 6560, as amended, to the Federal Reserve Bank of New York authorizing such Federal Reserve Bank to pay and transfer, upon the order of Constantin Fotitch, \$100,000 from the amount on deposit with and held by such Federal Reserve Bank, to the credit of the dollar account in the name of the Banque Nationale du Royaume de Yougoslavie, to Hamilton National Bank, Washington, D. C. to the credit of an account in the name of Royal Yugoslave Legation.
- (2) That Yugoslavia is a foreign state recognized by the Government of the United States.
- (3) That Constantin Fotitch is Minister of Yugoslavia to the United States and is recognized by me as being the accredited representative of Yugoslavia to the United States.

(4) That

(4) That said Constantin Fotitch has certified to me, in accordance with the provisions of Section 25(b) of the Federal Reserve Act, as amended, that the Banque Nationale du Royaume de Yougoslavie is the central bank of Yugoslavia and that he has authority to receive, control, and dispose of the amount on deposit with and held by the Federal Reserve Bank of New York, to the credit of the dollar account in the name of the Banque Nationale du Royaume de Yougoslavie, which is authorized by license No. W-598, dated April 11, 1941, issued by the Acting Secretary of the Treasury to the Federal Reserve Bank of New York, to be paid and transferred to Hamilton National Bank, Washington, D. C. to the credit of an account in the name of Royal Yugoslave Legation.

(5) That I recognize the Banque Nationale du Royaume de Yougoslavie as the central bank of Yugoslavia and accept and recognize the authority of said Constantin Fotitch to act with respect to the amount on deposit with and held by the Federal Reserve Bank of New York, to the credit of the dollar account in the name of the Banque Nationale du Royaume de Yougoslavie, which is authorized by said license to be paid and transferred as therein provided.

Enclosed herewith are authenticated copies of the notification and license referred to in item (1) above and of the certification referred to in item (4) above.

Also enclosed herewith are authenticated specimen signatures of Constantin Fotitch, Minister of Yugoslavia to the United States.

Very truly yours,

Enclosures:

As herein described.

A-A:

U

B

Draft of Suggestion as to Form of Instruction
from the Yugoslavian Minister to the Federal Reserve
Bank of New York.

April 11, 1941

Dear Sirs:

I hereby authorize and instruct you to pay \$100,000, from the amount on deposit with and held by you to the credit of the dollar account in the name of Banque Nationale du Royaume de Yougoslavie to Hamilton National Bank, Washington, D. C., for credit to an account in the name of the Royal Yugoslave Legation.

This payment is authorized by license No. W-598 dated April 11, 1941, issued by the Acting Secretary of the Treasury under Executive Order No. 6560, as amended, a copy of which is attached hereto.

I have certified to the Secretary of State of the United States, pursuant to Section 25(b) of the Federal Reserve Act, as amended, that I have authority to issue these instructions, and I understand that the Secretary of State has certified to you, pursuant to such section, that my authority to issue these instructions is recognized and accepted by him.

MEMORANDUM FOR THE FILES

April 11, 1941

At 1:30 p.m. today Dr. Feis telephoned me from the State Department. He said that the State Department had received a letter from the Yugoslav Minister requesting the release of Yugoslav funds in the amount of \$100,000 to be placed at the disposal of the Royal Yugoslav Legation in Washington. Dr. Feis read to me the letter from the Yugoslav Legation dated April 11, 1941, copy of which is attached to this memorandum. He stated that Mr. Welles had indicated to him that the State Department felt that the request was urgent and was prepared to write any letters and make any certifications necessary in order that the funds might be made available.

I told Dr. Feis that there were two aspects of the Yugoslav request. The first concerns the licensing of the disposition of the funds, which I advised him I did not believe would be difficult. The second involves whether the Yugoslav Minister has authority to draw on funds of the Yugoslav Government or of the Yugoslav Central Bank. I told Dr. Feis this might be possible under the recent amendment of the Federal Reserve Act, provided the State Department certified, as required by the statute, as to the authority of the Minister. Dr. Feis assured me that the State Department was prepared so to certify. I told Dr. Feis that the Treasury would immediately take the matter up. Dr. Feis said that Mr. Welles had asked that action be taken by 3 o'clock this afternoon if possible.

I immediately called Mr. Bernstein and advised him of my conversation with Dr. Feis. I also called Mr. Livesey and, with his approval, called the Yugoslav Legation in order to confirm how the transaction, if effected, would be handled by its bank in Washington. Dr. Rybar, Counselor of the Yugoslav Legation said that the Yugoslav Legation desires to have the funds deposited in the account of the Royal Yugoslav Legation with the Hamilton National Bank, Washington, D. C. I then joined Mr. Bernstein in his office. Mr. Bernstein's memorandum describes subsequent events.



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 15, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

When calling upon me yesterday Mr. Stopford of the British Embassy discussed in general the Intelligence work on financial matters which our two Governments are doing. While the New York office of the British Ministry of Economic Warfare is believed to obtain considerable data from the F.B.I., the Washington organization of the Ministry does not have direct contact with the F.B.I. here. Stopford inquired as to whether such contact could be arranged, or whether the Treasury itself could make available to Stopford material which we received from the F.B.I. It has been my understanding all along, and was confirmed by Mr. Klaus to me last night, that the F.B.I. here does not desire to have direct contact with the British Embassy. This point had been raised by Stopford when he first came here and the Department of State had been unwilling to intercede for the purpose of obtaining an effective arrangement. Stopford inquires as to whether our relations have now become so close that we could effect a pool of our confidential financial information, including British material such as is now provided the Treasury, and all F.B.I. data, available both from New York and Washington headquarters. I told Mr. Stopford that I would have to discuss this matter with some of the other officials in the Treasury.

Some days ago Mr. Trentham, who was formerly Financial Counselor in the British Embassy, and is now the Ministry of Economic Warfare man at Bermuda, came in to visit me with Mr. Stopford. Trentham seemed anxious to give us all possible information of interest, and said he would accept my suggestion that occasional reports summarize news or activities, rather than we be provided merely with individual intercepts. I let Stopford and Trentham know that we were quite interested in having information as to the source of funds used for Axis propaganda in this country and the channels through which such funds pass.

During our conversation yesterday Stopford raised the question, which has been referred to in occasional memoranda from him, as to whether the United States would be inclined to control the export of United States currency and the import of foreign bank notes. Naturally, they would be happy if we forbade imports of United States bank notes, but Stopford did not feel that he ought even to make this suggestion. They would like, however, to stop our notes getting into the hands of Axis countries, and also stop Axis agents from disposing of Belgian, French and other similar bank notes on our market. Stopford would be especially pleased if American officials in foreign countries, particularly Switzerland and Portugal, might assist in checking lending and bond transactions, food parcel shipments, note traffic, etc. That is, for example, are bond repurchases on this market for Swiss account actually made on behalf of Swiss interests, or what happens to the bonds after the Swiss get them. The names of cloaks for German transactions are desired.

- 2 -

Stopford raised the question again as to whether American banks should assist with credits to Axis concerns. He is aware of several recent instances where banking facilities have been extended by New York concerns to further Axis business with the United States or other areas. When the British have mentioned these transactions privately to the responsible banks in New York the latter have replied that they had no instructions from Washington that the Government opposed such credit arrangements.

Finally Mr. Stopford mentioned that Mr. Noel Hall, who has arrived here recently with the rank of Minister to be in charge of Economic Warfare, would be glad to call on the Secretary if the latter is receptive. He did not desire to embarrass Secretary Morgenthau but did want the latter to know that he would be delighted to come in if this is agreeable. Mr. Hall was a professor of social and political science in London before entering Government service.



94

Bell
Cochran
White
Zoley

Copies to
them on
5/1

KWANG PU CHEN

Shanghai Commercial & Savings Bank,
Chungking, China.
April 15, 1941.

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

Dear Mr. Morgenthau:

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The Eighth Plenary Session of the Fifth Central Executive Committee of the Kuomintang was adjourned a fortnight ago. Special emphasis had been placed on questions of economics. Besides the creation of two new ministries for Foreign Trade and Food Administration, it was resolved among other things that the central government should take over the collection of land tax from the provincial authorities. Some two weeks prior to the session, a set of regulations for the collection of land tax in kind had just been promulgated by the government. It is now estimated that after a fair revaluation of land, taxes based on the new valuation will total over four times the present receipts. An annual yield of one billion dollars in Chinese currency is expected to be reached in the near future.

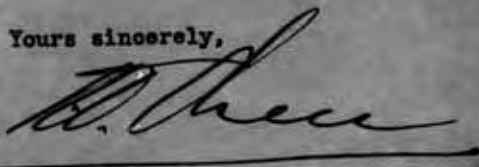
The new committee for the administration of transportation on the Yunnan-Burma Highway is now composed of five members, namely General Yui Fei-Peng who is to be the chairman of the committee, Mr. Chang Kia-
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I hope the foregoing will give you some glimpses of the efforts we are making towards solving our problems of finance and transportation. As for my part, I feel I should devote my whole attention to the stabilization fund affair which is in itself a very important business and on the success of which hangs the fate of China's post-war reconstruction. It is needless to say, however, that I shall always try to keep up the continuous shipment of enough woodoil, if international situation allows, to fulfill the conditions under our loan agreement.

With best personal regards,

Yours sincerely,

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KPC:W

KWANG PU CHEN

Shanghai Commercial & Savings Bank,
Chungking, China.
April 15, 1941.

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

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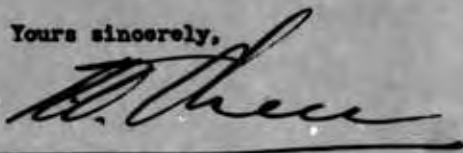
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KPC:W

Prepared by: Mr. Turner
Mr. Murphy
Mr. Haas

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 15, 1941

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Current Developments in the High-grade Security Markets

SUMMARY

- (1) Prices of Treasury bonds and notes declined early in April. Bonds have since recovered these losses; but notes still show a net price decline for the period since March 31 (Charts I and II). Taxable issues have performed better than tax-exempt issues (see table on page 2).
- (2) The new RFC 7/8 percent note was priced at 100-12/32 bid on a "when issued" basis at the close of the first day's trading; and the new 1-1/8 percent note was quoted then at 100-21/32. Both notes have since risen slightly in price. The yield of each is about 20 basis points above that of a corresponding tax-exempt guaranteed issue (Chart III).
- (3) The present high differentials between the yields of taxable and tax-exempt securities have brought into question the contention that the issuance of taxable securities would result in a net fiscal gain to the Treasury. These differentials, however, reflect in part the scarcity value of outstanding tax-exempts, and only in part the added cost to the Government of issuing taxable securities.

The spread between the yields of long-term Treasury and corporate bonds has increased by about 26 basis points since last June. This increase may be presumed to be due to the growing scarcity value of tax-exempt Governments. If it is subtracted from the spread between the yield of the new taxable 2-1/2's of 1952-54 and the yield of a corresponding tax-exempt bond, there remains only 17 basis points to be attributed to the cost of borrowing by means of taxable securities. This is well within the limit of what the Treasury may expect to recapture by taxation.

Secretary Morgenthau - 2

- (4) High-grade corporate bonds have declined in price since the end of March (Chart II). Municipals have remained unchanged in price for about three weeks (Chart IV).
- (5) Loans of weekly reporting member banks, and especially their "commercial loans", have increased sharply in the past ten months after about two years during which they changed but little. Total loans are now near their 1937 peak; and "commercial loans" are above their 1937 peak (Chart V).

I. United States Government Securities

Prices of Treasury bonds and notes declined early in April, but bonds have since recovered. Notes remain below their levels at the beginning of the month. Taxable issues have given a better performance than tax-exempts, as is indicated by the table below. The daily price changes are also shown, by maturity classes, in Chart I.

	Average price change March 31 - April 14		
	Tax-exempt issues	Taxable issues	All issues
	(In thirty-seconds)		
<u>Notes</u>			
1 to 3 years	- 3	- 1	- 3
3 to 5 years	- 6	- 1	- 5
<u>Bonds</u>			
5 to 15 years	+ 5	+13	+ 5
15 years and over	0	-	0

The average yield of long-term Treasury bonds, moving inversely to prices, increased from 2.00 percent at the end of March to 2.02 percent on April 9, but has since then decreased to 1.99 percent (Chart II).

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II. R. F. C. Financing

The new RFC 7/8 percent note due October 15, 1942 opened at 100-14/32 bid on the first day of "when issued" trading (April 10) and after reaching a high bid of 100-15/32 fell back to 100-12/32 at the close. The 1-1/8 percent note due July 15, 1943 opened at 100-20/32 bid, rose to 100-22/32 and closed at 100-21/32. Both notes have since risen slightly in price. Yields of the new notes, based on last night's closing prices, are shown on Chart III together with the yields of outstanding guaranteed issues with fixed maturities.

The yields of the two notes are each about 20 basis points above what tax-exempt notes of corresponding maturity would yield as indicated by the curve. This differential amounts, in the case of the shorter note to about 23 percent, and in the case of the longer to about 18 percent of the coupon.

III. The Additional Cost of Borrowing by Means of the Issuance of Taxable Securities

It is clear that the Treasury will derive a net fiscal advantage from the issuance of taxable securities only if the increased cost of borrowing by means of such securities is, in the long run, less than the increased revenue obtainable by taxing their interest. There are, of course, other advantages from the issuance of taxable securities which would make their issuance worthwhile even if it resulted in a fiscal disadvantage to the Treasury. The Treasury has consistently maintained, however, in its testimony before Congressional Committees, that the issuance of such securities would also result in a net fiscal gain. This point of view has been subject to considerable challenge in recent months, because of the high differentials obtaining in the market between the yields of taxable and tax-exempt securities, and so appears to be deserving of re-examination.

It was repeatedly pointed out by Treasury representatives, during discussion of the tax-exemption problem in recent years, that the only differential between the yields of taxable and tax-exempt securities which can constitute a cost to the governmental unit issuing taxable securities, is that which would exist if tax-exempt securities were also being issued

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freely. Any additional differential arising between the yields of new taxable securities and outstanding tax-exempt securities when the issuance of new tax-exempt securities has been discontinued, reflects merely a scarcity value on the part of the outstanding securities and would disappear should they again be resorted to as a new financing medium.

The problem of determining the cost of borrowing by means of taxable securities, therefore, involves splitting up the existing differential into its cost and its scarcity components. This cannot be done exactly, but can be roughly approximated.

In June 1940 the market was evidently paying very little attention to tax-exemption or to the possibility of its elimination. This is shown by the fact that in that month the yield differential between municipal and high-grade corporate bonds reached its lowest point in some years. Since that time the market has become increasingly tax-conscious and tax-exemption-conscious, and during this period the differential between the yield of high-grade corporate bonds and of long-term Treasury bonds, has increased by 26 basis points. It seems a reasonable presumption, therefore, that about this much of the existing yield differential between long-term taxable and tax-exempt Treasury bonds represents scarcity value. The remainder of the differential presumptively represents the real cost of borrowing by the issuance of taxable securities — i.e., the excess of the actual yield of the taxable securities over the presumed yield of corresponding tax-exempt securities were the latter being issued freely.

The above reasoning may be applied concretely to the new 2-1/2's of 1952-54 as follows: This issue yields about 43 basis points more than a corresponding partially tax-exempt issue. This differential amounts to about 17 percent of the coupon, which is probably more than the Treasury can hope to recover through taxation. If it is presumed, however, that about 26 basis points of this differential is due to the scarcity value of tax-exempt issues, then only about 17 basis points remains as the cost of making the new issue taxable. This differential amounts to only about 7 percent of the coupon, which is well within the limit of what the Treasury may expect to recapture by taxation.

Secretary Morgenthau - 5

IV. High-grade Corporate and Municipal Securities

High-grade corporate bonds have declined in price during the first two weeks of April, and in consequence our average of the yields of such bonds has increased 5 basis points (Chart II). Municipal bond prices, as reflected by the Dow-Jones average yield of twenty 20-year bonds, published weekly, have remained unchanged since March 22 (Chart IV).

New bond offerings to the public in the New York market have totaled about \$96 millions during the past two weeks. Of this sum about \$43 millions consisted of municipal offerings and the remainder of corporate offerings.

V. Loans of Weekly Reporting Member Banks

The past ten months have seen a sharp increase in the volume of bank loans, and more particularly in the volume of "commercial loans". Since June 1940 total loans of all weekly reporting member banks have increased by \$1.4 billions, or about 17 percent. Of this increase, \$1.1 billion is accounted for by "commercial loans" and \$0.3 billions by all other loans. This is in marked contrast to the rather narrow range of fluctuation of bank loans for the two years preceding June 1940 (Chart V). The net changes from June 1938 to June 1940, and since June 1940, are shown in the following table:

	June 1938- June 1940	June 1940- April 1941
	(Billions of dollars)	
Commercial loans	+0.4	+1.1
All other loans	-0.3	+0.3
Total loans	+0.1	+1.4

The present volume of total loans is about 98 percent of the post-depression peak reached in September 1937, while present "commercial loans" already exceed by 9 percent the

Secretary Morgenthau - 6

corresponding volume at that date. A comparison of the volume of loans in September 1937, with the present, is made in the following table:

	September 1937	April 1941
	(Billions of dollars)	
Commercial Loans	5.3	5.8
All Other Loans	4.7	4.0
Total Loans	10.0	9.8

Chart I

CHANGES IN THE PRICES OF U.S. SECURITIES
 Points Plotted Represent the Difference from December 29, 1940 Price of Each Maturity Class

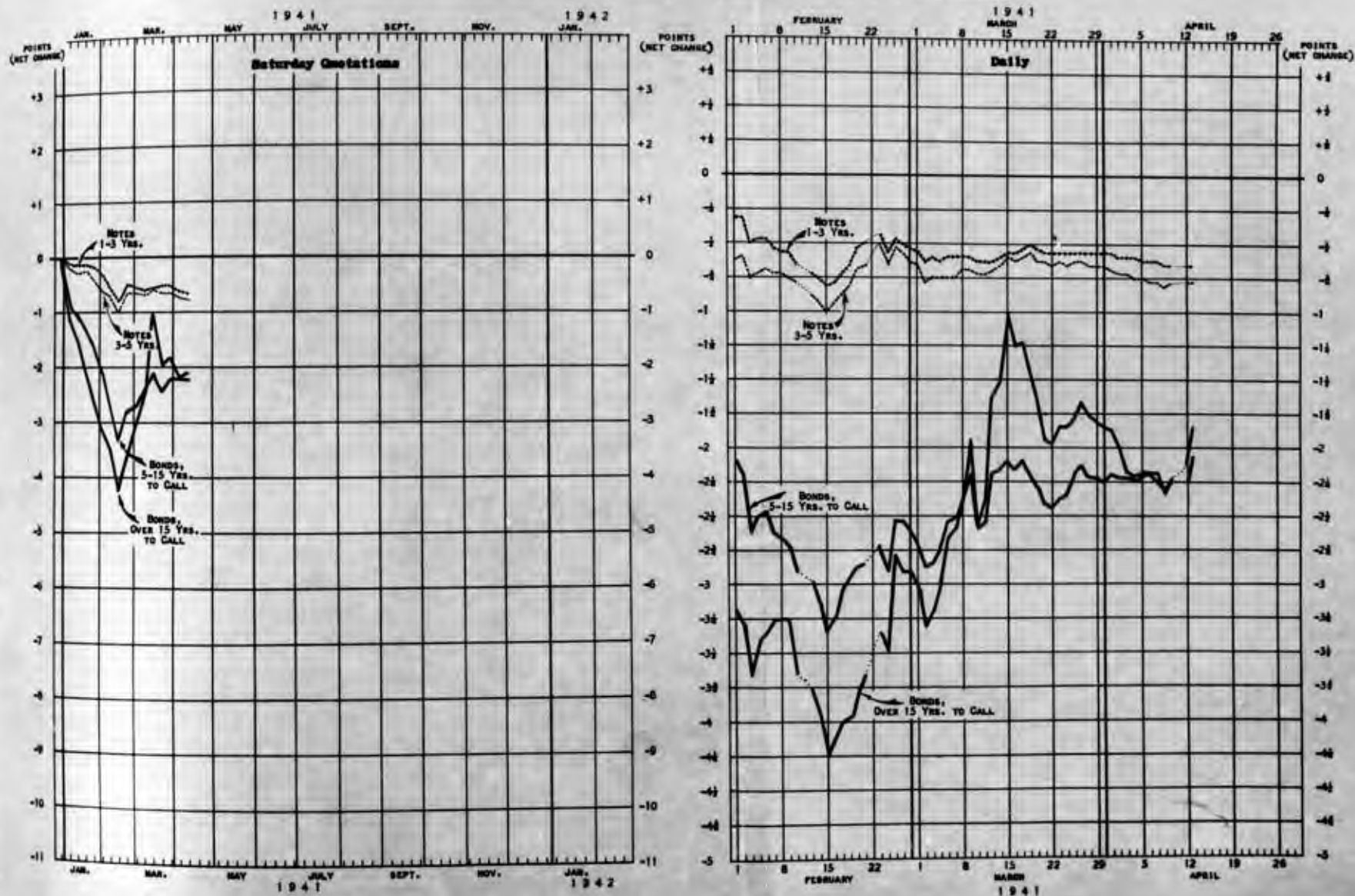
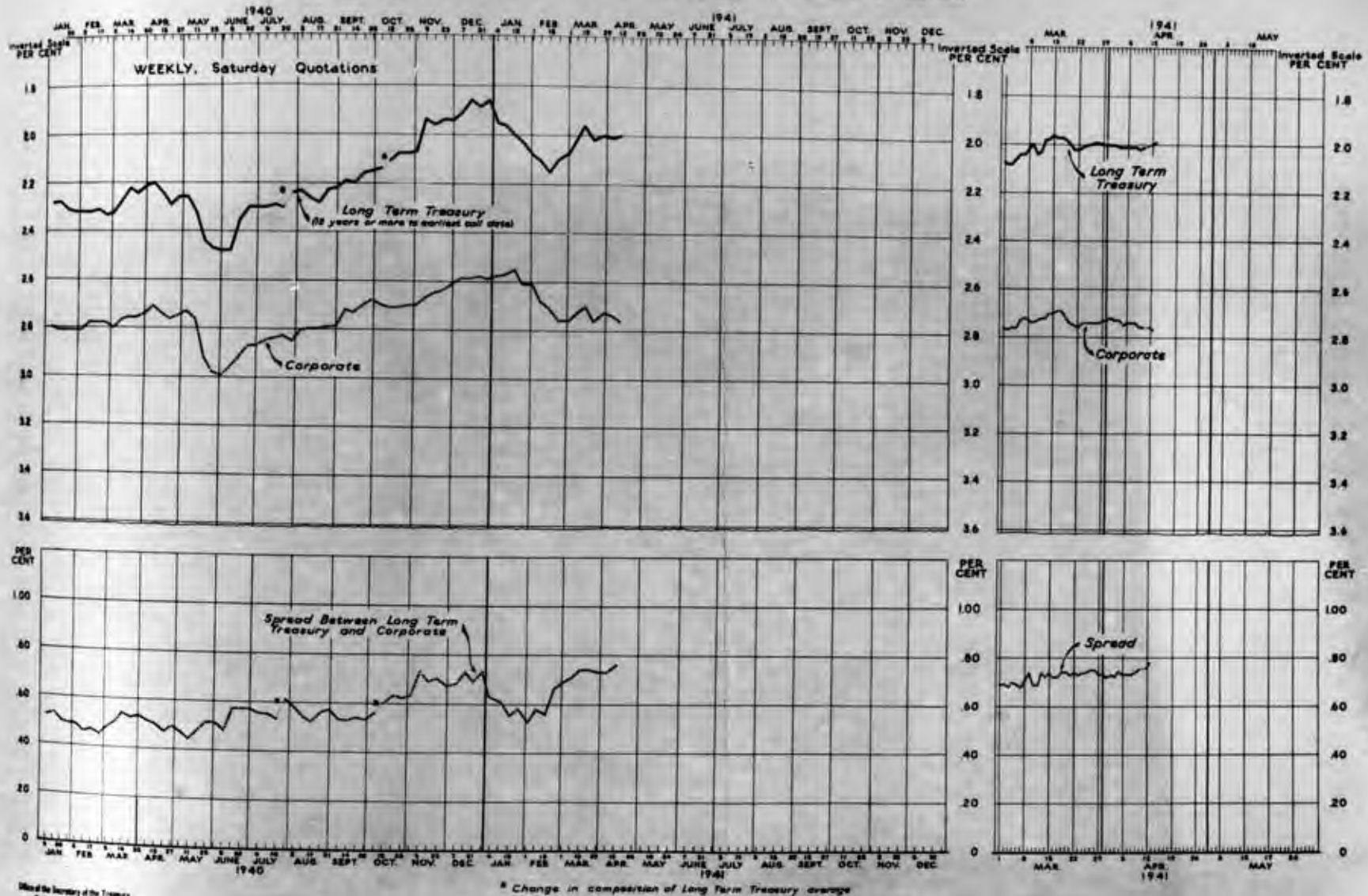


Chart II

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



YIELDS OF GUARANTEED ISSUES WITH FIXED MATURITIES
Based on Closing Bids, April 14, 1941

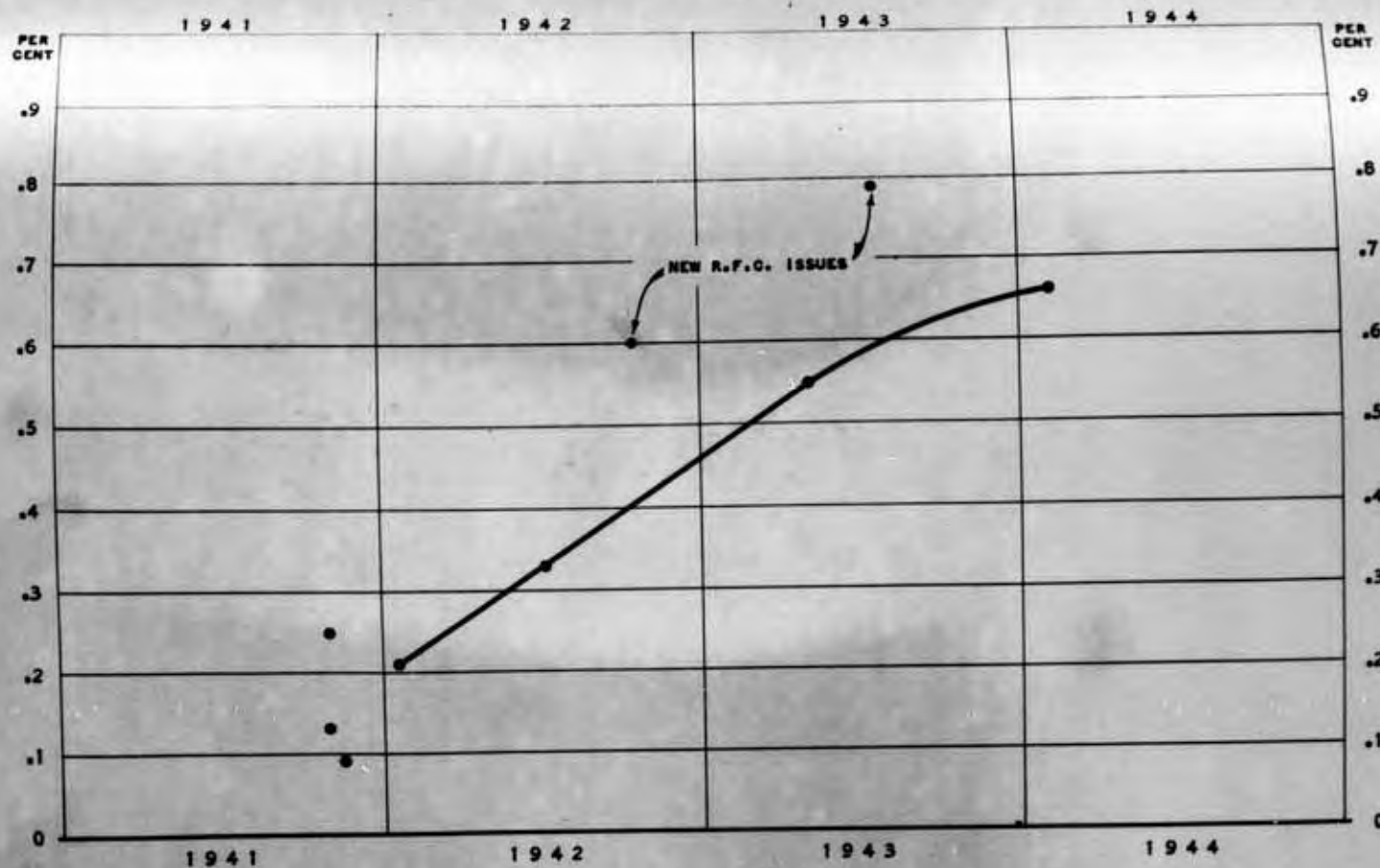
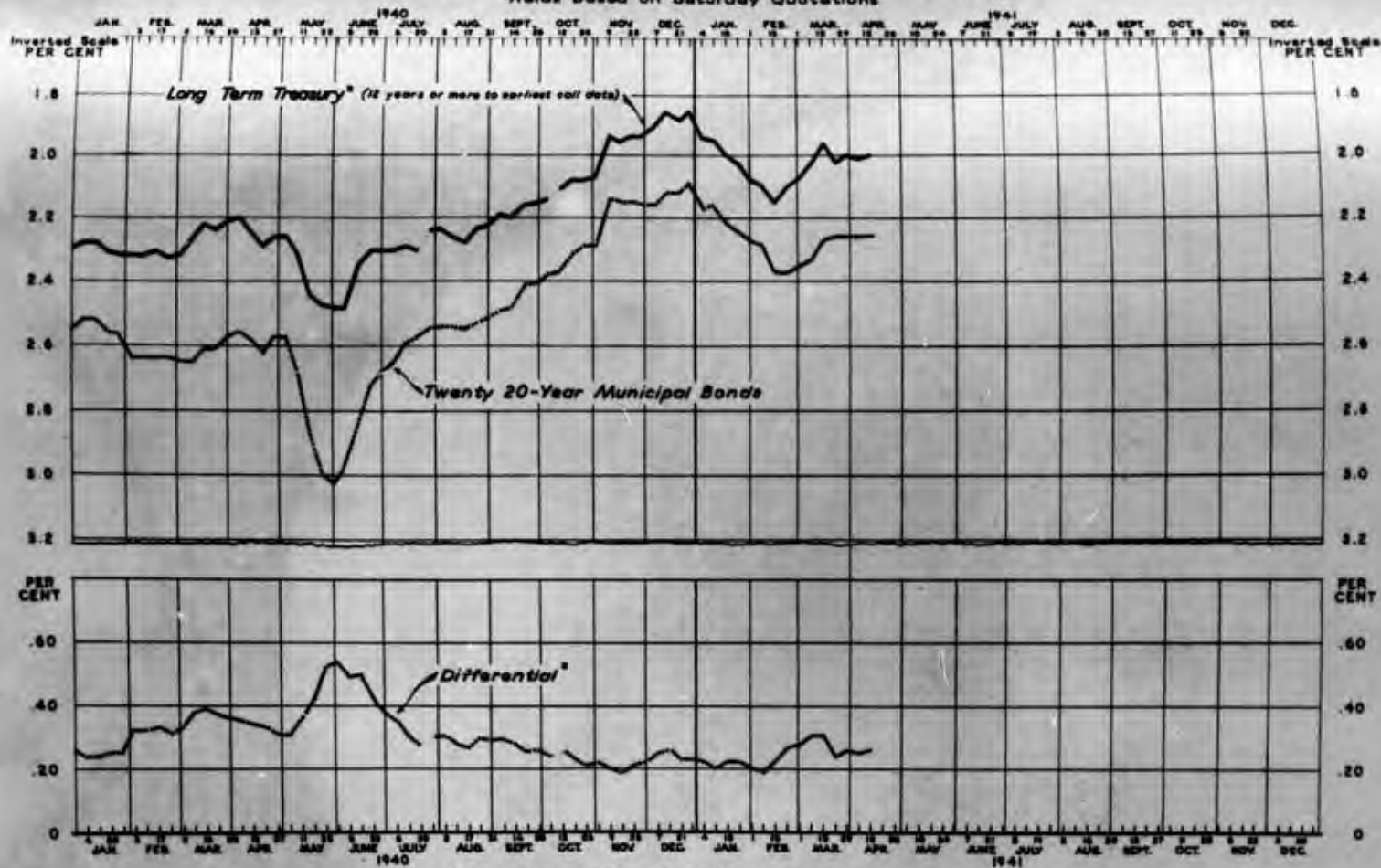


Chart IV

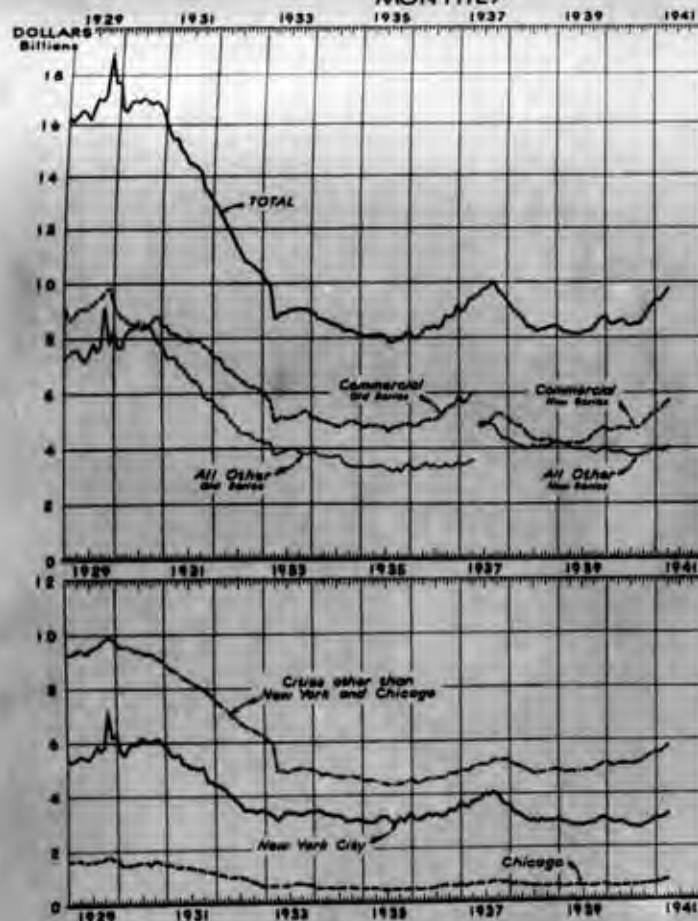
COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY
AND DOW-JONES AVERAGE OF MUNICIPAL BONDS
Yields Based on Saturday Quotations



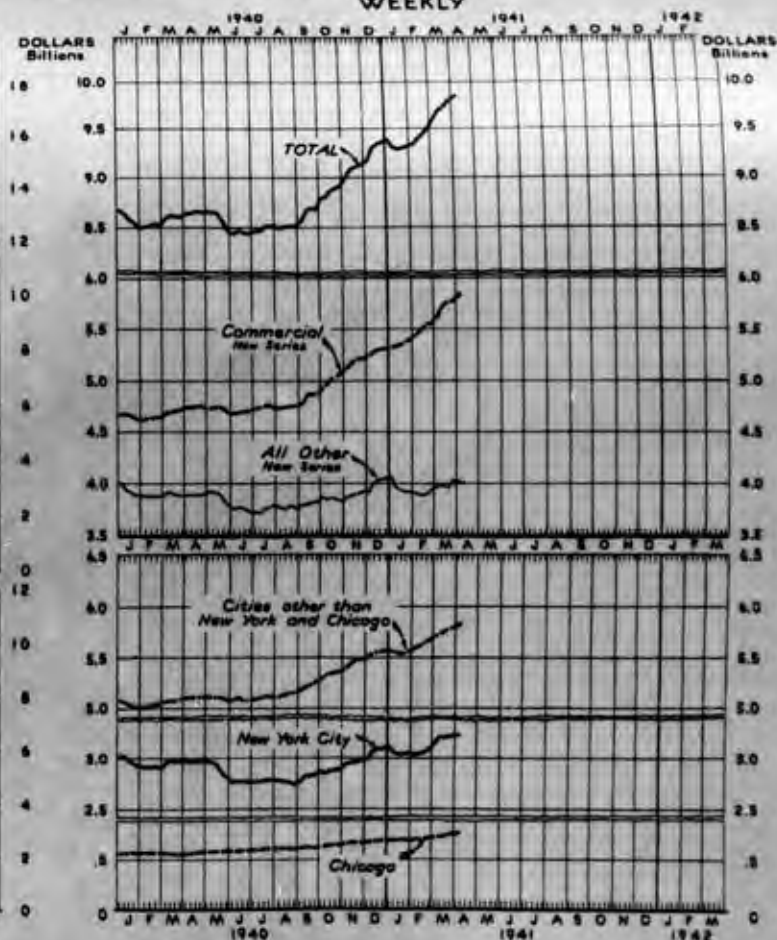
*Break in line indicates change in composition of Long Term Treasury average.

LOANS - WEEKLY REPORTING MEMBER BANKS

MONTHLY



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



5-95-C

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 15, 1941.

TO Secretary Morgenthau
FROM Mr. White

There is attached a list of memoranda and reports prepared in the Division of Monetary Research during January, February, and March, 1941.

RECEIVED
APR 17 1941
U.S. DEPT. OF TREASURY

Memoranda Prepared in the Division of Monetary Research
during January, February and March, 1941.

Material on British Assets and Needs:

- Estimate of Foreign Exchange Assets of Canada.
- Estimated total of United Kingdom dollar deficits.
- Estimates of foreign exchange assets that can be made available to U.K. for dollar expenditures.
- Dollar expenditures and receipts of Canada.
- Dollar expenditures and receipts of sterling area.
- Dollar requirements and receipts of U.K.

British Shipping Situation.

Material in connection with Hearings on January 15th on Lend-Lease Bill and subsequent meetings.

Memorandum for the President regarding the recommendations made to Congress by the Board of Governors of the Federal Reserve System.

Danubian agricultural assistance to Germany.

Digest of report on current experience of American companies with subsidiaries or affiliates in Axis territory.

German and Italian military expenditures.

Monthly imports into the United Kingdom.

Extension of freezing control - (Information for the President).

Memorandum for Mrs. Roosevelt on Argentine sales of food to Spain.

Report of the British Select Committee on National Expenditure.

Conference in Secretary's office with Mr. Schott, of Climax Molybdenum Corporation, and Mr. Pedotti.

U. S. Foreign Trade Developments in 1940.

Germany's improved foreign exchange position.

Proposal for an Inter-Democratic Bank to Finance British War Purchases: Comments on plan submitted by Mr. Boettiger.

Chart of reorganization of British Government machinery for war effort.

British Direct Investments in the United States.

British Empire Assets - U.K. Long-term Investments in the United States.

Conversation with Miss Strong about China.
Changes in U.K. Gold and Dollar Exchange Assets.
Memorandum for Mrs. Roosevelt regarding defense finance proposals of Congressman Jerry Voorhis.
Trade Agreements Committee consideration of a flaxseed concession to Argentina.
Current Argentine Situation.
J.P. Morgan not reporting security sales.
Report of conference meeting to consider the control of exports from the Philippine Islands.
Conference on Canadian exchange problem, March 3.
How shall England use her available gold during the coming year?
The situation in East Africa (map attached).
The British Financial Picture.
Significant Military Developments.
Preliminary Estimate of World Gold Production in 1941.
Possible sources of payment for materials sent to England under Lease-Lend Act.
Should the financial arrangements under Lease-Lend include rare art works?
Basis for Mexican Settlement.
Swiss Reactions to Rumored Extension of Foreign Funds Control.
Summary of Embassy report of debates on British war economic policy.
Material for inclusion in Public Papers of the President, relating to Silver Proclamations.
Conference with Dr. T. V. Soong, February 19th.
The Bolivian Tin Industry, with Special Reference to British Investments.
The value to the U.S. of sovereignty over the British dependencies in the Americas (excluding Newfoundland and Canada).

The Price Stabilization Division's report on the Capital Issues Committee of 1918.

Ownership of Strategic Minerals in Latin America.

Funds in the United States of Germany, Italy, Switzerland, Sweden and Japan.

What are Canada and Australia doing to help Britain? Why should we give assistance while these countries are demanding payment in cash?

Rumania's objection to Treasury's denial of licenses to free funds for payment of goods to be imported into Rumania from Iran and Turkey.

Treasury should prevent British individuals from turning their direct investments into "untouchable" trusts.

S. 20 - "Providing for small loans by RFC.

Madagascar graphite.

Do transactions in German Ruechwanderer Marks constitute extensions of credit in violation of the Johnson and Neutrality Acts?

Reports of the Paymaster General for Expenditures of the French State.

Comments on Tabular Study of Dealings in German Dollar Bonds on the New York Stock Exchange.

Chungking versus Shanghai as a Financial Center.

Plan to Freeze Axis Dollar Funds.

Einzig's comment on proposed freezing of foreign assets in the United States.

The Economic Situation in Japan.

Britain's proposals with respect to the Chinese currency situation.

"Financial News" on the Liquidation of British Direct Investments in the United States.

The pros and cons of the silver purchase program.

An index of prices of sensitive materials required for defense.

The bank holding company bill.

A rise in interest rates and U.S. savings bonds.
Proposed guide for central bank policy for Brazil.
Gold coinage.
Dr. Moulton's fundamental economic issues in national defense.
The relative economy of Treasury bills and Treasury bonds.
Discontinued Denominations in the Coinage System of the U.S.
Seasonal Variations in the circulation and production of coin.
Historical changes in our present subsidiary silver and minor coins.
The 2½ cent piece proposed.
Foreign Coinage and Currency Systems.
Germany's trade position in Scandinavia.
The Swedish-German Clearing Agreement.
Danish shipping in American ports.
German exploitation of Denmark.
Stabilization Fund loan to Iceland.
Cooperation between the F.B.I. and the Treasury.
Census of foreign accounts on improved capital movement figures.
Discussion of Post-war Economic Problems.
Far Eastern Situation.
Study on Mexico.
Proposal to raise reserve requirements.
Possible methods of dealing with the Federal Reserve request for powers.
Mr. Aldrich's and Governor Eccles' plans.
Bills to carry out Eccles' program.
Memorandum for the President on Governor Eccles' five main points.

Comment on Department of Commerce questionnaire for insurance companies.

A case for reissuing gold coins.

Recent developments in German trade with Japan and Sweden.

German regulations governing the foreign exchange transactions of immigrants to Germany and the treatment of their holdings.

Some problems of public finance.

Price discipline in Germany shows symptoms of a possible breakdown.

German exploitation of the Netherlands.

German scrip currency in the occupied territories.

Belgian gold holdings.

Prof. von Mises on the post-war economic reconstruction of Europe.

Germany's proposed new economic order.

Consequences of German victory over Great Britain for the European Continent.

Are Soviet imports from the United States aiding Germany?

Dr. Lorwin's study of Germany's war-financing.

A preliminary inquiry into the possible occurrence of speculation by German agents on the New York Stock Market.

S. 4435 - Re: Governmental reorganization and policy.

The effect of Nazi war finance on the distribution of wealth in Germany.

Proposed transfers in accounts of Banque Francaise et Italienne pour l'Amerique de Sud.

Swiss Reactions to Rumored Extension of Foreign Funds Control.

Questions which would clear up General Electric-Siemens and Halske tangle.

German military expenditures.

Italian military expenditures.

Germany's improved foreign exchange position.

Our sources of information on Scandinavia.

Are Soviet imports from the U.S. aiding Germany?

Types of compensation which Britain might give the U.S. for supplies transferred under the Lease-Lend Bill.

Syrian application to export wool and silk to the U.S. and import foodstuffs in exchange.

Application to pay \$27,469.65 from account of Bank of France to account of BIS for interest on French Treasury guilder notes.

Official funds blocked in the United States.

A new equation for estimating silver production in the United States.

Estimated Treasury gold acquisitions in 1941.

A preliminary estimate of silver production for 1941.

Preliminary estimate of world gold production in 1941.

Studies of U.K. investments outside the United States.

Ten plans to finance British purchases.

German and Italian investments in Latin America.

International investments questions which will probably be of interest to the Treasury.

Proposed organization of work relating to international investments.

Suggestions for preventing the Germans from realizing on securities obtained from the Belgian National Bank.

Standard Statistics Company's estimate of British direct investments in the U.S.

British acquire \$400 million in India loans to liquidate trade balance.

Analysis of Mr. Klaus' "Plan for Securities Black-List".

Recommendations on Acquiring British Direct Investments.

Subrogated British Securities.

Organization of the Office of the Alien Property Custodian.

Capital Movements in 1940.

Changes in unfrozen foreign funds in the United States.

Short-term Funds of the Axis Powers in the United States.

Organization of an Economic Warfare Division in Col. Maxwell's Office.

Bulletins put out by Military Intelligence of interest to the Secretary.

Comment on British announcement of liquidation of certain U.S. security holdings.

Direct investments not included in the British list.

Special work for Naval Intelligence.

Work being done by Mr. Louchheim on direct investments.

Comment on memorandum proposing use of British insurance direct investments as a means of raising additional dollar credits.

Journal of Commerce article on availability of shipping for Britain.

Inquiry into cause for decline in exports to U.K.

Comment on military and naval intelligence memoranda on the British shipping situation.

Monthly imports into the United Kingdom.

The Military Situation.

Liquidation of British-held American securities.

American trusts and estates owned by the British.

Omissions by the British in their lists of holdings of U.S. securities.

Conference with S.E.C. officials on proposed corporation to assist British in selling their U.S. securities and direct investments.

Commodities manufactured by German subsidiaries of American concerns.

Total Assets of American concerns controlled by the British.

The situation in East Africa.

The significance of the German occupation of Bulgaria.

"Fivefold Aid to Britain", by Fritz Sternberg.

Conference on Amortization Deduction, March 5, 1941.

Recent measures taken by the Canadian Government to shift the Canadian economy to a war-time basis.

Whose gold are we buying?

U.S. Balance of International Payments in 1940.

Canadian Wheat Situation.

Breakdown of the Ottawa Conference on the Sirois Report, held on January 14.

Canada and Lease-Lend Arrangements.

Merchandise trade of Canada with the U.S. since Sept. 1939.

Abstract of MacKenzie King's speech of March 25 on Canada's War Effort.

Salient facts relative to Mexico's current economic position.

Immediate difficulties in establishing an accurate value for the assets of American oil properties expropriated by Mexico.

Summary of monograph by Frederick Strauss, entitled "War-time Agricultural Surpluses of the Danube Basin".

Preliminary survey of German interests in American corporations.

The Balkans: Economic and Political Survey.

The Value of the Balkans to Germany as a source of mineral supplies.

Gold and dollar resources of Bulgaria, Hungary, Yugoslavia, and Turkey.

Results of four Inter-departmental conferences with D'Arcy Cooper November - December, 1940.

Proposal of New York bankers for an amendment to the charter of the Inter-American Bank.

The question of the Cuban claim.

Chilean rejection of Export-Import Bank loan; and Chilean commandeering of Danish ships.

Executive Committee on Commercial Policy consideration of the Cullen Bill and of proposals for the modification of the Anti-Dumping and Countervailing Duty provision.

Executive Committee on Commercial Policy meeting on the proposed Cocoa Agreement.

Export-Import Bank memorandum to its Executive Committee concerning a proposed \$300,000 credit to the Dominican Republic.

Confidential correspondence between Sir Frederick Leith-Ross and Assistant Secretary of State Grady on the subject of surplus commodities.

Does South American exchange procedure involve a bounty in the meaning of Sec. 303?

Rockefeller Committee recommendations on United States participation in Latin American development programs.

Basis for Mexican settlement.

Should the Treasury extend a stabilization credit to Colombia?

Training program for Latin Americans in the Treasury Department.

Exchange allocation by Latin American countries for the payment of United States income taxes.

Dollar balances held in the Bank of Brazil.

Colombia is using dollars in operations with compensation countries.

Debt and Fiscal Position of Mexico.

Recent Latin American Developments.

Resignation of Argentina Finance Minister.

Brazilian repayment of the 1937 stabilization credit.

Notes regarding flow of German funds to Latin America.

Haiti's foreign trade and foreign exchange position.

Japan: Paralysis of Manchukuo Heavy Industries.
(Digest of despatch from Mukden, Manchuria).

The economic situation in Japan.

China - Current stabilization in Shanghai.
Japanese foreign exchange resources.
Economic Review of China, 1940.
Japan's Foreign Exchange position.
Economic Review of Japan, 1940.
Philippine Government Proposal for Monetary and Tariff Changes.
Report of conference meeting to consider the control of exports
from the Philippine Islands.
The Foreign Trade of French Indo-China.
Decrease in New York Bank Deposits for the Account of China.
Japanese gold movements and dollar balances in the United States,
January to March 1941.
Confidential Report on Soviet Oil.
Proposals to aid Britain: Executive Committee on Commercial Policy.
The Puerto Rico Sugar Proposal.
Petroleum situation in Japan.
Report on Export-Import Bank activities.
United States Trade with U.S.S.R. in 1940.
U.S.S.R. Imports from the United States.
Navy report on Japan's oil situation.
Daily report of transactions in domestic stocks for account of
foreigners whose heavy selling for Swiss stopped since Feb. 1st.
Desirability of supporting Shanghai open market.
Currencies now circulating in China.
Proposed Chinese Government salt monopoly calling for a 3 billion
yuan capital outlay.

Dumping cases completed:

Billiard cloth from Belgium

Ramie yarn from Japan.

Henrietta Cloth and 64-inch All-Wool Shawl Cloth from Germany.

Toilet soap from England.

Cotton bandage from Germany.

Glass syringes from Japan.

Gelatine spangles from France and imitation pearl beads from Belgium and Germany.

Artificial suusage casings from Germany.

Naphthenic acid from Rumania and Mexico.

Ceramic colors from the United Kingdom.

Artificial mustard oil from Germany.

Precipitated chalk from Japan.

Ground talc from Japan and Italy.

Women's unlined machine-seamed leather gloves from Germany (via Belgium).

Printers' type from Latvia.

Household furniture of wood from Italy.

Turpentine from Mexico.

Bound books of foreign authorship printed in English from Canada.

Lamb leather other than shoe leather from Italy.

Gasoline-driven pumps from Canada.

Glass lanterns and lamp parts from Italy.

Sturgeon caviar from England.

Stoves, blow torches and incandescent lamps operated by compressed air from Sweden.

Dumping cases (continued)

Canned eels from China.

Iron oxide from England.

Current reports in addition to the above:

Daily report on transactions in domestic stocks (compiled from S.E.C. figures).

Weekly table: "Balances and Earmarked Gold Held for Foreign Account".

Weekly table: "Net Capital and Gold Movements".

Weekly table: "Expenditures of Bank of England, Bank of France, and Bank of Canada from Special Accounts at the New York Federal Reserve Bank".

Material for monthly Treasury Bulletin.

Correspondence:

363 Letters replied to.

In addition to the above, material falling into the following categories is also prepared:

1. A large number of tables on various items.
2. Reports on conferences in which this Division participates.
3. Participation in preparation of some of the statements and speeches by the Secretary.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 15, 1941

For the Chairman
to Secretary Morgenthau

from Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£58,000
Purchased from commercial concerns	£12,000

The Federal Reserve Bank of New York sold £10,000 in registered sterling to the American Express Company.

Open market sterling was first quoted at 4.05. It eased to 4.02-1/2 around noon, and remained at that level until late in the afternoon. The final quotation was 4.02. The extreme thinness of the market was indicated by the fact that there were no reported transactions.

The Canadian dollar, which closed at a discount of 12-3/4¢ last night, was first quoted at that level this morning. A steady improvement took place throughout the day, which carried the rate to 11-1/8¢ at the close, the best quotation in more than a year. It was reported that the Post Office, which usually appears on weekdays as a buyer of about 100,000 Canadian dollars, was today bidding for 30,000. The appearance of this unexpectedly large demand in a thin market was reported to be the main reason for the gain in the quotation. We understand that the Post Office was unable to obtain much more than half of its requirements.

In New York, improvements also took place in the Argentine free peso and the peso. Closing rates for the foreign currencies listed below were as follows:

Swiss franc (commercial)	.2321-1/2
Swedish krona	.2364
Danish mark	.4005
Lira	.0505
Argentine peso (free)	.2335
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	4-1/4¢ discount

In Shanghai, the yuan in terms of our currency was quoted at 5-9/32¢, or 4/32¢ from the rate of April 10. The sterling rate was unchanged at 3.92-1/2.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

In London, a price of 23-1/3d was fixed for both spot and forward silver, unchanged from the price of April 11. The U.S. equivalent of 23-1/3d is 42.67¢.

The Treasury's purchase price for foreign silver was unchanged at 35¢. Handy and Harman's settlement price for foreign silver was also unchanged at 34-3/4¢. If the current demand for silver by India continues, it is quite possible that Handy and Harman may raise its settlement price. It was reported that there was a bid of 35-3/16¢ placed in the market today. In addition to the Indian demand, we understand that Handy and Harman has an order from one of the arsenals to provide 72,000 ounces of solder. To fulfill the order it will be necessary for Handy and Harman to obtain 36,000 ounces of silver.

We made one purchase of silver amounting to 25,000 ounces under the Silver Purchase Act. This consisted of new production from foreign countries, for forward delivery.



CONFIDENTIAL

April 15, 1941.

My dear Mr. Postmaster General:

Mr. Graves has told me of the conference this morning between you and your associates and representatives of the Treasury, regarding the program for the sale of Defense Bonds and Defense Savings Stamps beginning May 1. I am greatly obliged for the cordial cooperation of yourself and the others in the Post Office Department who have been collaborating with us. All have been most helpful.

With respect to the matter of the help which we would like to have from postmasters individually, which Mr. Graves reports was brought up at the conference, we of course expect to ask for nothing except with your express approval or through the usual Departmental channels. We have but two things in mind at this time.

There will be occasional, though not frequent, press releases, such as the one left with you by Mr. Graves, which we would want the postmasters in the larger cities to place in the hands of the local newspapers. These we would like transmitted by letter signed by yourself, both letter and release to be duplicated and put in the mail by this Department. This is a continuation of a practice which has prevailed for a number of years in relation to United States Savings Bonds, and has proven very satisfactory.

We would like also to have your authorization for our State representatives to invite postmasters to serve in the various communities as members of committees of prominent public-spirited citizens, whose function it would be to further the dissemination to the public of information about Savings Bonds and Stamps. We believe that this would not interfere with the efficient performance of postmasters' duties as such, and their membership on the community committees would of course be very helpful from the standpoint of insuring the completeness and accuracy of the information to be disseminated. In any case, we would instruct our people not to ask postmasters to serve as chairman of such committees.

Sincerely,

(Signed) E. Mergenthaler, Jr.

Secretary of the Treasury.

HNG/mff

The Honorable,

The Postmaster General.

Copy to Mr. Thompson

3:00
By Messenger on 4/16

April 15, 1941.

My dear Mr. Postmaster General:

Mr. Graves has told me of the conference this morning between you and your associates and representatives of the Treasury, regarding the program for the sale of Defense Bonds and Defense Savings Stamps beginning May 1. I am greatly obliged for the cordial cooperation of yourself and the others in the Post Office Department who have been collaborating with us. All have been most helpful.

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Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

HMG/mff

The Honorable,

The Postmaster General.

Copy to Mr. Thompson

By Messenger 3⁰⁰ on 4/16

APR 15 1941

Dear Peter:

You of course are aware of the value we place upon the service which you have been rendering to the Treasury during the past few months in aiding us to plan the Defense financing program.

Great as this has been, we have been seriously handicapped because we have had only a fraction of your time. We badly need you here on a full-time basis. I am wondering whether you could not so present our necessities to the College as to induce them to grant you leave to serve us continuously, for an indefinite period if possible, and in any event until the beginning of the fall term.

This is an opportunity for you to perform an outstanding service to the Country, and I very much hope that you may find it possible to accept.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

HMQ/aff

Professor Peter Odgaard,
40 Orchard Street,
Amherst, Mass.

Copy to Mr. Thompson

Mailed by Mr. Graves' office

4/15/41

My dear Philip:

It may interest you to see the attached copy of a letter from the President, confirming the fact that the Liaison Committee has ended its work on the coordination of foreign purchases.

Now that the responsibility has been placed in other hands, I want you to know how much I appreciate all that you have done as a member of the Committee during the past nine months. I should just like to add my thanks to the President's for a hard job well done.

Sincerely yours,

Mr. Philip Young,
Federal Reserve Building,
Washington, D. C.

Enclosure.

FK/hkb
4/15/41

4/15/41

My dear General Burns:

It may interest you to see the attached copy of a letter from the President, confirming the fact that the Liaison Committee has ended its work on the coordination of foreign purchases.

Now that the responsibility has been placed in other hands, I want you to know how much I appreciate all that you have done as a member of the Committee during the past ten months. I should just like to add my thanks to the President's for a hard job well done.

Sincerely yours,

Major General James H. Burns,
Munitions Building,
Washington, D. C.

Enclosure.

FK/hkb
4/15/41

acked by Gen
Burns 4/15
and filed that
date

4/15/41

My dear Admiral Spear:

It may interest you to see the attached copy of a letter from the President, confirming the fact that the Liaison Committee has ended its work on the coordination of foreign purchases.

Now that the responsibility has been placed in other hands, I want you to know how much I appreciate all that you have done as a member of the Committee during the past sixteen months. I should just like to add my thanks to the President's for a hard job well done.

Sincerely yours,

Rear Admiral Ray Spear,
Navy Building,
Washington, D. C.

Enclosure.

FK/pkb
4/15/41

ack'd by Adm
Spear 4/16 &
filed that
date

April 2, 1941

My dear Mr. Secretary:

In accordance with the letter of March 29th, from Mr. Sumner Welles, Acting Secretary of State, the files, records, papers, and other materials pertaining to the purchase of military supplies by foreign countries outside of the lend-lease area were forwarded to you under date of April 1, 1941.

This Department will be very glad to assist in any way possible in the transfer of this material.

Sincerely yours,

(Signed) H. Morgenthau, Jr

Secretary of the Treasury

The Honorable,

The Secretary of State

PT:hj

*Wash
ington
Bureau*
President
Mark 4/2/41
the

Dear Mr. Secretary:

Thank you for your letter of March 12th concerning the operations of the Liaison Committee for the coordination of foreign and domestic military purchases.

I would like to thank this committee for the work which it has done in the past year, and say I express my appreciation to you for your sincere and continuous efforts to make war materials available to those countries defending themselves against aggressor nations.

The work of the Liaison Committee as a coordinating body for foreign and domestic military purchases is no longer useful since the signing of the Lend-Lease Act and will be dissolved. Purchasing operations by all countries in the Lend-Lease area will be supervised by Harry Hopkins, and such operations by all other countries which must necessarily involve consideration of foreign policy will be processed by the Department of State.

Sincerely yours,

The Honorable,

The Secretary of the Treasury.

Signed by the Pres.
4/14/41.

April 15, 1941.

Dear Captain Devoto:

I thought you might like to know that Secretary Morgenthau this morning telegraphed his endorsement of the United Service Organizations direct to headquarters in the Empire State Building. A copy of the telegram is enclosed. I am very glad indeed that you gave him the opportunity to express public approval of such a fine cause.

Sincerely yours,

(Signed) Ferdinand Kohn, Jr.

Assistant to the Secretary.

Captain William L. Devoto,
The Salvation Army,
426 Sixth Street, N. W.
Washington, D. C.

Enclosure.

STANDARD FORM NO. 14A
APPROVED BY THE PRESIDENT
MARCH 10, 1925

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

United Service Organizations
1228, Empire State Building
New York NY

I am glad that the United Service Organizations will serve the spiritual, emotional and social needs of our uniformed men and our workers in the defense industries. It is a work of morale building and it should be of great value in helping to make America safe and strong.

Henry Morgenthau, Jr.

Ferdinand Kuhn, Jr. - Ext. 332

Room 2334
TREASURY DEPARTMENT

WASHINGTON

136

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

H. Morgenthau, Jr. - Official

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE

8-14117

April 15, 1941

THE SALVATION ARMY
William Booth, Founder
National Capital Division
426 Sixth Street, N. W.
Telephone District 6702
Washington, D. C.

April 10, 1941

Lieut. I. J. Stephens
Secretary of Treasury's Office
United States Treasury Department
Washington, D. C.

Dear Lieut. Stephens:

I am attaching herewith a copy of the preliminary memorandum stating the aims and objects of the United Service Organization for National Defense.

It is our hope that the Secretary of the Treasury will look upon our request for his endorsement with favor and we shall be glad to receive the same at his early convenience.

Yours very sincerely,

WILLIAM L. DEVOTO

D.Y.P.S.

WLD/a
Enc.

TO:

MISS CHAUNCEY:

138

A copy of this memo dated ^{ask} April 1
was sent you on April 4. Mr. Foley has
changed the date to April 15 and we are
sending this original and carbon per
his revision of date only. No change in
the content of the memo.

MR. FOLEY

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 15, 1941

TO Secretary Morgenthau
FROM Mr. Foley

Mr. Wise, an attorney, and Messrs. A. W. Kimber and M. V. Yassukovich of White, Weld & Co. came in to see me on April 1 with respect to the following matter:

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

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

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

- 2 -

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

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

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

E. W. F. h.

WHITE, WELD & CO.

40 WALL STREET, NEW YORK

NEW YORK
BOSTON

January 30, 1941.

White, Weld & Co.,
40 Wall Street,
New York, N. Y.MANILA RAILROAD COMPANY

Dear Sirs:

This company was incorporated in the Philippine Islands on March 10, 1919, as successor to a company of the same name which had been incorporated in the State of New Jersey on June 6, 1906. The New Jersey company had been in its turn the successor of an old British company which held a concession from the Spanish Government for the construction and operation of 820 miles of railroad line in the Island of Luzon, Philippine Islands.

In 1916 the Philippine Government purchased control of this road pursuant to a contract between the Government and the Railroad Company which was ratified September 8, 1916 by Governor General Harrison of the Philippines and President Higgins of the road. Under the contract of transfer, which had been authorized by the Philippine legislature in February 1916, the Government received all of the outstanding capital stock of the company against payment of \$4,000,000 cash in U. S. currency, the transaction being financed through the issue of \$4,000,000 Government of the Philippine Islands 4% Gold Registered Bonds dated December 1, 1916, due December 1, 1946 with option of redemption in and after 1926. The actual transfer of cash against stock was effected in January 1917.

Properties

The Company owns and operates a total of 1,140 kilometers of 3 ft. 6 in. gauge steam railroad, all on the Island of Luzon. Of the total, 557 miles comprise the "Northern Lines" and 583 miles the "Southern Lines". These lines of railroad center in the City of Manila, and with the exception of suburban electric lines comprise the entire railroad system of the Island of Luzon. The "Northern Lines"

comprise the lines of the Company running north and east from Manila, and the "Southern Lines" are those running south from that city. See map on last page hereof.

In addition to its railroad lines, the Company owns or controls and operates a number of other facilities and properties, including:

1. The Manila Hotel Company, of which the Railroad Company owns 8,737 out of total 9,000 shares of capital stock, and carries its investment therein at 558,512 pesos. The Company also owns and operates the Mayon Hotel in Legaspi, Province of Albay, the southern terminus of this line; this hotel was opened to the public on January 8, 1939.

2. The Company owns and operates several steamers in coastwise passenger and freight transportation, the most important being the steamers Mayon and Bicol, and the motor ships Alabat and Naga. The services of these water lines connect with and supplement the passenger and freight services of the railroad lines.

3. The Company operates a number of motor bus and motor truck lines on the highways in the Island of Luzon, more important of which are the Benguet Auto Line in Baguio District, (see illustration on a following page) and the Luzon Bus Line, operating over a network of routes in the Provinces of Rizal, Cavite, Batangas and Laguna in central Luzon. Since 1939 company has also operated a bus line on the Island of Mindanao in the Province of Cotabato.

4. The Company operates the Manila Port Terminal which is owned by the Bureau of Customs of the Philippine Government (see illustrations on a following page) under arrangements effective May 16, 1937. Profits from operation of this terminal are split 50-50 between the railroad company and the Bureau of Customs.

Rolling stock at June 30, 1938 included: For steam railroad service: 160 steam locomotives, 2081 freight cars, 209 passenger coaches, 55 rail motor cars, 80 rail motor car trailers, 85 express and caboose cars and 106 service cars. For highway service: 65 freight and express trucks, 197 passenger buses and 16 automobiles for passenger transportation and for service inspection.

New motive power purchased by the railroad in recent years has been gasoline-driven, no new steam locomotives have been bought for several years. The number of rail motor coaches and trains has been increasing rapidly. Many of the passenger cars are air conditioned, and dining car service is provided on through passenger trains.

Traffic

Principal commodities carried by the railroad during the past three years are shown in tabulation on the next page, the figures being of quantities in metric tons. Freight traffic has a whole has shown substantial increase during the past three years, making good recovery from the decline which set in during 1930 and ended in 1935. Tonnage of the various freight items, however, tends to fluctuate sharply from year to year, as most of them are farm products and tonnage volume is determined largely by crop yields. This condition is illustrated in the tabulations and charts on following pages.

Revenue from freight tonnage, over the period of the last 20 years, has not increased with the increases in tons carried, due to successive reductions in freight rates. The railroad is operated primarily as a national facility and service, not chiefly for profit, and freight rates as well as passenger fares were reduced from time to time prior to the last four years when they became fairly stabilized. This condition is also illustrated in the tables and charts on following pages.

Passenger service on the Manila Railroad is as important as freight service, in terms both of traffic volume and of earnings. The Manila Railroad, except for a few disconnected lines owned by others and which are of local importance only, constitutes the only railroad transportation system on the Island of Luzon, principal island of the Philippine group. A comprehensive passenger service therefore has been built up by the company, serving practically all population centers on Luzon. Passenger train service is coordinated with bus transportation services operated by the railroad company and by other companies, in some cases through formal agreements. Among the other companies are:

Rural Transit Co. connecting at San Jose for all points in the Cagayan Valley.

MANILA RAILROAD COMPANY
Comparative Operating Statistics
Years Ended December 31

	1936	1937	1938
Average Kilometers operated	1,176,711	1,088,676	1,124,644
Passenger car kilometers	20,404,594	22,168,788	24,002,441
Passenger train kilometers	4,482,111	4,547,842	5,022,806
Revenue passengers carried	8,925,624	10,279,121	10,158,619
Revenue passenger kilometers	334,878,221	421,191,082	432,912,648
Revenue passenger density	284,588	386,884	384,933
Avg distance carried (kil.)	37.52	40.98	42.62
Total freight car kilometers	21,871,699	23,699,020	26,371,319
Tons of freight carried ...	1,387,228	1,681,408	1,648,903
Ten kilometers revenue			
freight	128,486,095	150,444,033	162,014,375
Revenue freight density ...	109,191	138,190	144,058
Average distance carried, kilometers	99.52	95.52	94.97

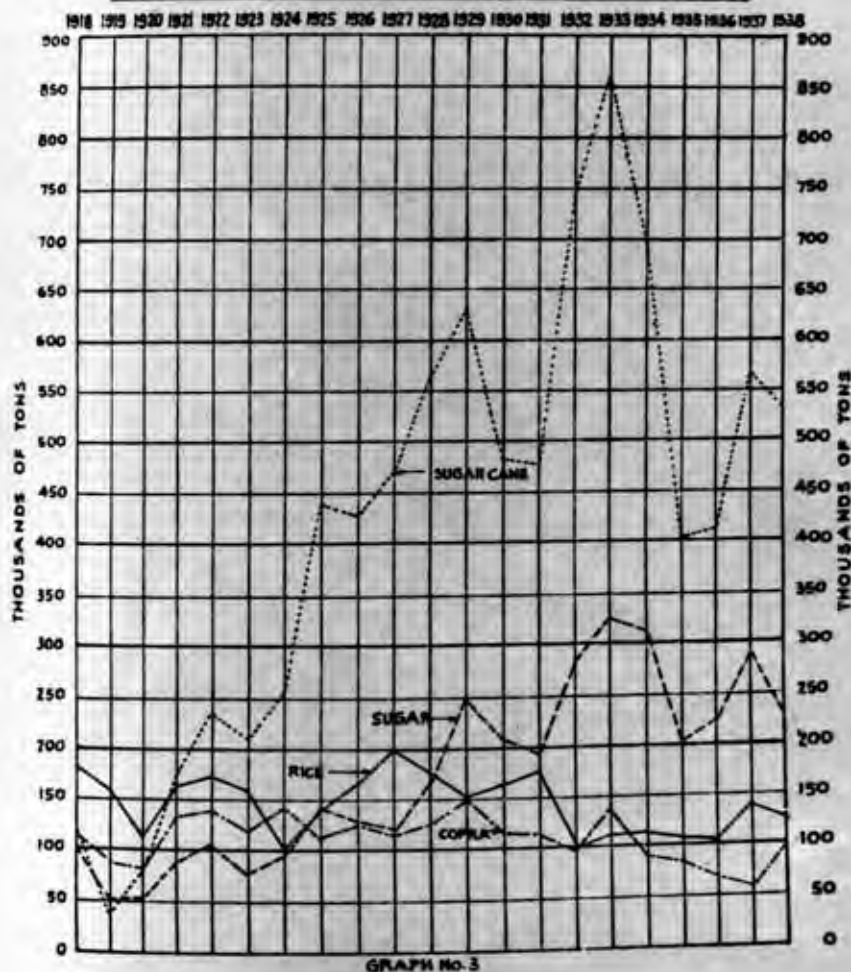
Revenue Freight Tonnage
(in metric tons)

Commodities	1936	1937	1938
Rice	104,015	141,277	126,393
Palay	15,624	28,935	31,329
Sugar, centrifugal	223,002	288,977	232,281
Sugar cane	411,578	563,505	534,434
Copra	68,103	59,303	95,556
Cocoanuts	13,060	11,938	10,224
Nony	2,504	1,079	186
Tobacco	1,475	3,145	2,114
Mineral products	42,039	27,757	36,800
Lumber	45,662	50,293	67,948
Other forest products	61,803	66,601	83,476
Manufactures	154,183	189,463	180,950
All other, including L.C.L.	147,969	146,785	141,587
Total	1,291,017	1,575,058	1,543,270

MANILA RAILROAD COMPANY

TONNAGE OF PRINCIPAL COMMODITIES 1918-1938

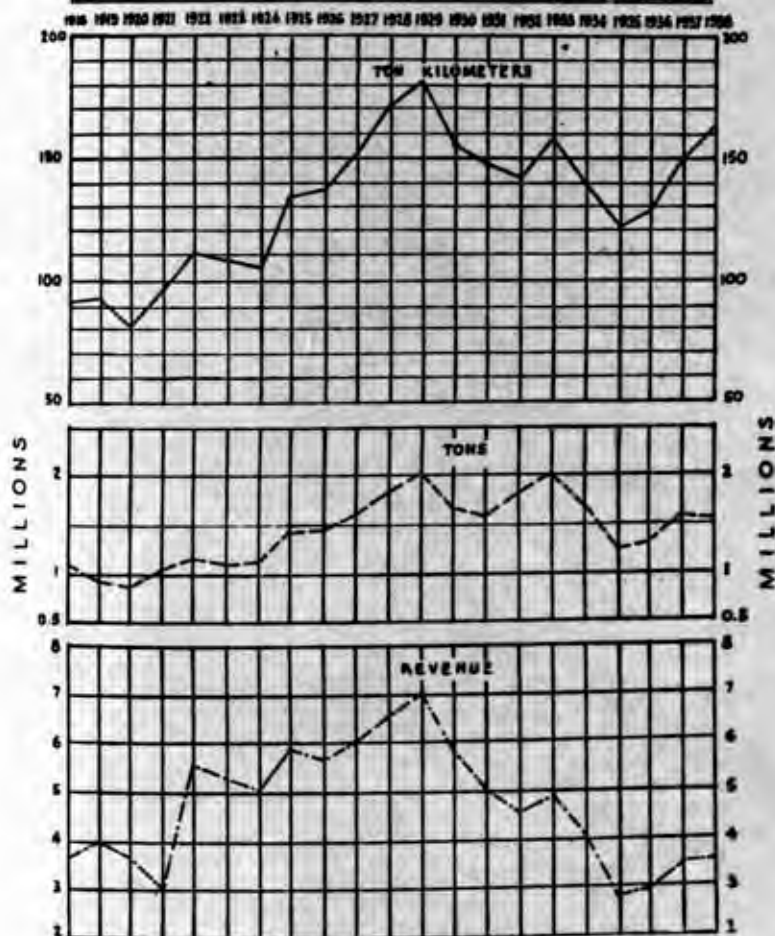
YEAR	RICE	SUGAR	COPRA	SUGARCANE
1918	184,197	101,610	114,395	115,735
1919	162,620	51,369	89,158	40,688
1920	112,158	52,568	75,063	75,653
1921	163,633	89,104	135,490	173,123
1922	172,806	102,316	139,955	232,834
1923	162,163	79,939	122,752	212,817
1924	100,594	99,583	141,010	289,897
1925	141,775	141,833	116,202	442,334
1926	146,584	120,581	127,443	429,413
1927	200,931	121,125	117,745	466,662
1928	177,901	164,480	123,546	563,703
1929	151,616	250,210	151,826	627,782
1930	162,653	208,809	116,900	482,782
1931	173,478	198,656	116,676	477,684
1932	96,112	260,784	95,944	742,269
1933	112,264	323,293	136,646	864,679
1934	114,019	313,836	91,107	699,468
1935	104,832	203,540	84,752	400,777
1936	104,018	115,002	64,109	411,870
1937	141,277	186,877	90,303	563,808
1938	126,353	232,261	98,536	534,434



MANILA RAILROAD COMPANY

FREIGHT TRAFFIC HANDLED 1918-1936

YEAR	TON KILOMETERS	TONS	REVENUE
1918	92,447, 677	1,132, 757	\$ 3,644, 503. 26
1919	93,623, 771	957, 231	- 4,034, 608. 86
1920	81,786, 546	878, 783	- 3,718, 571. 08
1921	96,081, 367	1,081, 881	- 3,932, 275. 89
1922	110,716, 674	1,166, 888	- 5,607, 876. 39
1923	108,831, 461	1,109, 342	- 5,323, 770. 56
1924	108,263, 838	1,110, 608	- 5,051, 614. 17
1925	134,318, 131	1,446, 346	- 5,903, 354. 45
1926	137,844, 394	1,489, 758	- 5,698, 196. 38
1927	151,051, 178	1,573, 301	- 6,035, 048. 57
1928	171,682, 117	1,840, 808	- 6,897, 398. 57
1929	182,730, 142	2,007, 668	- 7,012, 116. 85
1930	195,727, 910	1,667, 316	- 5,846, 350. 47
1931	148,858, 925	1,584, 996	- 5,003, 626. 94
1932	142,874, 716	1,808, 400	- 4,617, 277. 70
1933	156,064, 512	2,007, 878	- 4,926, 709. 49
1934	139,960, 456	1,691, 718	- 4,068, 347. 46
1935	121,771, 519	1,748, 983	- 2,642, 522. 94
1936	126,464, 085	1,191, 017	- 2,800, 594. 57
1937	180,444, 033	1,675, 058	- 3,478, 650. 71
1938	162,014, 378	1,843, 270	- 3,506, 070. 96



GRAPH NO. I

Northern Luzon Transportation Inc. connecting at San Fernando and Ia Union for points in Ilocos Provinces.

Pangasinan Transportation Co. connecting at Dagupan and Tarlac for points in Pangasinan and Zambales.

Alatco buses connecting at Daraga and Albay for points in the Bicol District, Province of Sorsogon, and at Sipocot, Camarines Sur for the Paracale mining district and other points in Province of Camarines Norte.

The feature of passenger train service is the proportionately large number of rail motor cars and rail motor trains, gasoline-driven (see illustrations on a following page) which provide rapid service on both northern and southern divisions of the system.

Passenger service has increased more rapidly than freight traffic, especially during the last few years, but revenues from passenger service have not increased in proportion. As in the case of freight traffic, this has been due to successive reductions in rates, such reductions over the period of the last 20 years having been more pronounced in the case of passenger traffic than in freight traffic. These conditions are illustrated in the tabulations and charts on the two pages next following.

Capitalization

Capital stock of Manila Railroad Company consists of 314,270 shares of 100 pesos par value, or a total capital value of 31,427,000 pesos. All of the outstanding shares, except directors' qualifying shares, are held by the Philippine Government.

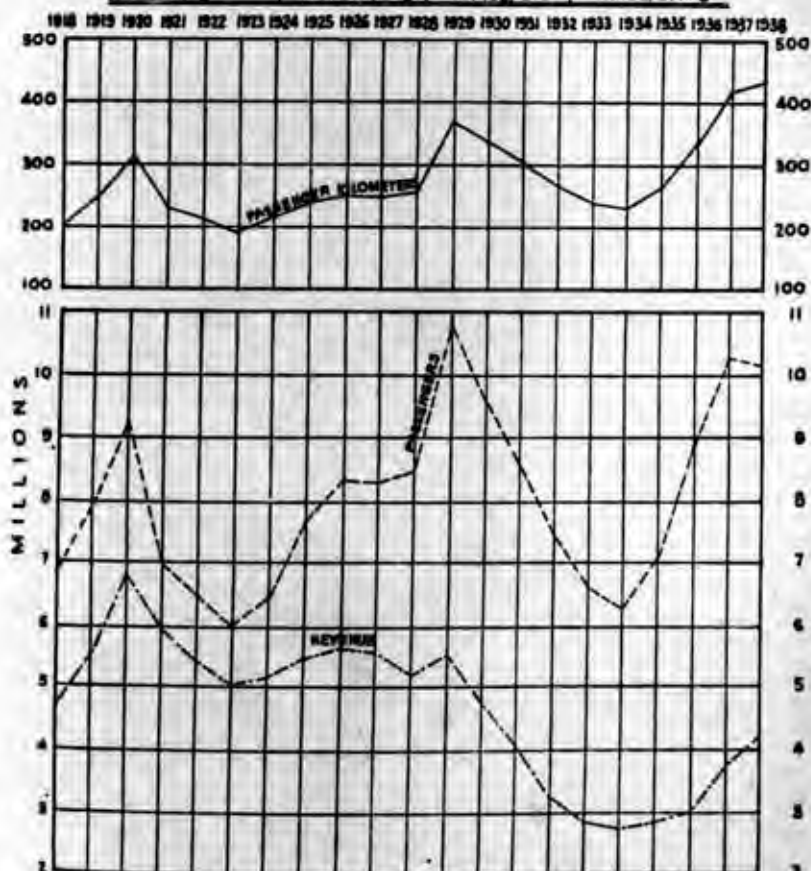
Funded debt consists of 26,472,000 pesos (\$13,236,000 U.S.) of refunding 5% bonds, and 25,002,483 pesos of other long term debt, a total of 51,472,483 pesos. In respect of 3,146,000 pesos of debt, comprising the remaining amount outstanding of the Southern Lines 1st 4% bonds due May 1, 1939, the Railroad Company has placed funds in dollars in the hands of the paying agent in New York for the payment of these bonds. No interest has been paid on them since payment of the coupon due May 1, 1939.

The two principal bond issues of the Company now outstanding are the following:

MANILA RAILROAD COMPANY

PASSENGER TRAFFIC HANDLED 1918-1938

YEAR	PASSENGER KILOMETERS	PASSENGERS	REVENUE
1918	204,846,680	6,851,705	4,696,758.21
1919	244,406,578	7,881,167	5,495,451.84
1920	313,084,769	9,282,953	6,813,245.08
1921	228,093,305	6,956,149	5,955,873.45
1922	211,041,848	6,501,363	5,430,631.25
1923	193,247,244	6,015,352	5,028,531.66
1924	212,536,438	6,399,790	5,151,099.17
1925	237,810,797	7,671,652	5,472,328.26
1926	251,311,800	8,357,067	5,590,190.36
1927	249,715,009	8,339,469	5,557,580.39
1928	257,146,163	8,466,363	5,220,468.83
1929	369,335,666	10,826,075	5,499,174.86
1930	335,122,557	9,556,503	4,822,838.29
1931	304,418,461	8,595,732	4,092,010.01
1932	264,175,613	7,498,745	3,247,625.85
1933	236,604,186	6,655,550	2,847,639.73
1934	230,515,430	6,292,726	2,760,751.46
1935	263,716,315	7,041,635	2,838,178.22
1936	334,878,221	8,925,624	3,033,745.29
1937	421,197,087	10,270,171	3,754,238.32
1938	431,572,626	10,156,619	4,164,817.76



GRAPH No. 4

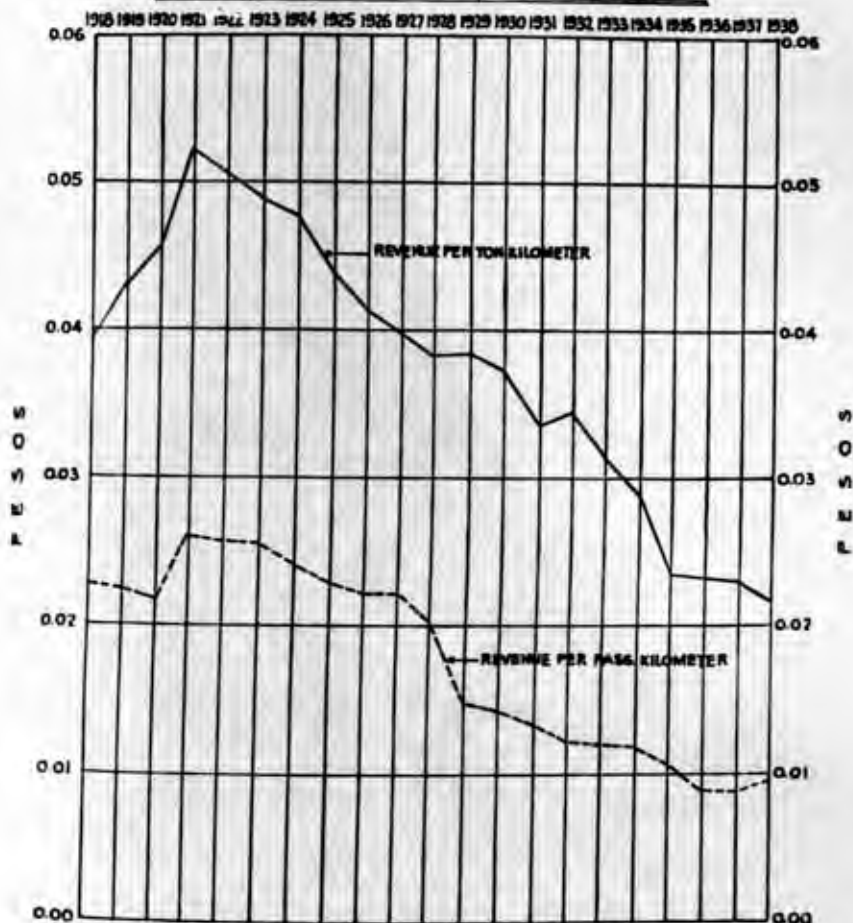
MANILA RAILROAD COMPANY

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AVERAGE REVENUE PER TON KILOMETER AND
PASSENGER KILOMETER 1918-1936

9

YEAR	REVENUE PER TON KILOMETER	REVENUE PER PASS. KILOMETER
1918	P 0.03942	P 0.02260
1919	0.04309	0.02248
1920	0.04546	0.02176
1921	0.05238	0.02611
1922	0.05060	0.02573
1923	0.04892	0.02562
1924	0.04789	0.02424
1925	0.04325	0.02301
1926	0.04134	0.02200
1927	0.03555	0.02080
1928	0.03641	0.02080
1929	0.03646	0.01489
1930	0.03754	0.01435
1931	0.03361	0.01344
1932	0.03443	0.01229
1933	0.03117	0.01204
1934	0.02508	0.01198
1935	0.02334	0.01076
1936	0.02320	0.00906
1937	0.02112	0.00892
1938	0.02164	0.00962



Manila Railroad Company refunding gold 5% dated July 1, 1916, due July 1, 1956. Principal and interest (J&J 1) are payable at New York in U. S. funds. The entire outstanding amount of this issue, \$13,236,000 (U.S.) is held by Manila Railway Company (1906) Limited of London, England. These bonds are secured by first mortgage on the Northern Lines of the Company and by mortgage on the Southern Lines subject to lien of the Southern Lines 1st 4% 1959 described below. The refunding 5% 1956 are redeemable at the option of the company on any interest date at 110, upon three months' notice. These bonds were issued in 1916 in exchange for \$4,330,000 Northern Lines 1st 6% and \$7,716,000 Northern Lines 2nd 7% bonds, which were canceled July 1, 1916 under provisions of agreement of sale of the capital stock of the Company to the Philippine Government.

Manila Railroad Company, Southern Lines 1st gold 4% dated June 1, 1909, due May 1, 1939 and (as extended) May 1, 1959. As issued in 1909 in the total amount of \$16,714,000 these bonds were all due May 1, 1939. In 1936 the amount outstanding had been reduced to \$13,903,000, of which Manila Railway Company (1906) Limited of London owned \$8,170,000. In 1936 these \$8,170,000 bonds were purchased by the Railroad Company with proceeds of a loan from the Philippine Government, and these \$8,170,000 were pledged as security for that loan. The amount then remaining in hands of public was \$5,733,000, of which \$1,123,000 had been extended (in May 1917) to mature May 1, 1959 pursuant to terms of a supplemental indenture dated July 1, 1916, which provided for a sinking fund at a rate sufficient to pay off the extended bonds by maturity. Subsequently the amount of these 1959 bonds outstanding has been reduced by sinking fund retirements and by purchase by the railroad Company, and at June 30, 1939 there remained outstanding in hands of public only \$706,000 of these bonds. At the same date there were still outstanding in hands of public \$1,573,000 of the original series due May 1, 1939, which had not been presented for payment, but funds to make such payment are in the hands of the paying agent in New York for that purpose.

As originally issued, both principal and interest of these Southern Lines 4% bonds were payable in New York in U. S. gold coin, or in the case of coupon bonds, at the holder's option, in London at \$4.86 to the pound sterling, in Amsterdam at fl.2.48 to the dollar, or if made payable in France, Belgium or Switzerland at the rate of 4.16 to the dollar. Since May 22, 1939 coupons have been paid in U. S. currency only.

These Southern Lines 4% bonds are guaranteed as to interest, and in effect as to principal, by the Philippine Government.

Balance sheet of the Company as at June 30, 1939 is given on following pages and . Details of Company's investment of capital accounts up to December 31, 1938 are given on page , following the balance sheet.

Earnings:

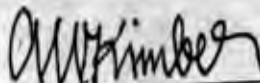
Income accounts of the Company for the three years ended December 31, 1936, 1937 and 1938 are given on page , together with income accounts for the two six months periods ended June 30, 1938 and 1939, the latest figures available at this writing. Following the income statement is a condensed statement of earnings and other statistical data for the six-year period 1933-1938 inclusive.

Under the original concessions granted to the British company which formerly owned the Manila Railroad, the Northern and Southern lines were required to be kept separate and distinct and were to be constructed, maintained and operated and their books and accounts kept as if owned by separate and independent companies. Since acquisition of the road by the Philippine Government, however, the entire lines have been considered as one system, having a terminus in the City of Manila, and the Northern and Southern lines accounts have not been kept as if owned by two separate companies.

The concessions provide that there shall be paid annually for a period of thirty years, an amount equal to 1/2 of 1% and for forty years thereafter an amount equal to 1% of the gross earnings of the Company in lieu of all taxes of every name and nature on the franchises, earnings and all other property owned or operated by the Company under its concessions. The concessions also provide that all material imported for the construction and equipment of the Company's lines are to be admitted free of duty.

The foregoing is intended to be a factual presentation, without personal interpretation or expression of opinion. It is based on or taken from official reports and other data of the Manila Railroad Company and of the Philippine Government, in minor part only from other sources. It is not a complete presentation.

ANK:MM


A. W. KIMBER

MANILA RAILROAD COMPANY

Balance Sheet
as of June 30, 1939

<u>ASSETS:</u>	<u>Pesos</u>
Investment in road & equipment	
North - unfunded	10,569,043
South - unfunded	20,500,261
North - funded	42,691,216
South - funded	32,324,652
Sinking Funds:	
Cash & certificates of deposit	16,837
Bonds issued and reacquired by company P.3,054,000	
Deposits in lieu of mortgaged property sold	65,603
Miscellaneous physical property	4,540,802
Investment in Manila Hotel stock	558,512
Current Assets:	<u>Pesos</u>
Cash	1,350,609
Demand loans & deposits	20,471
Time drafts & deposits	20,418
Special deposits	4,682,205
Traffic & car service balances	16,936
Net balances receivable	
from agents etc	38,969
Miscellaneous accounts re-	
ceivable	906,585
Materials & supplies	2,421,512
Interest & dividends rec....	524
Other current assets	60,419
Total current assets	9,518,650
Deferred assets-working fund advances	17,786
Unadjusted debts: sundry	295,432
	<u>121,098,795</u>

NOTES:

(a) Increases in investment as against Dec. 31, 1938 included 662,805 pesos for road and equipment-north-unfunded, 192,749 pesos for road and equipment-south-unfunded, and 519,144 pesos for miscellaneous physical property.

Special deposits at 4,682,205 pesos show increase of 4,501,585 during the six months. This item includes funds in hands of paying agent in New York for the redemption of all outstanding 45 bonds due May 1, 1939.

MANILA RAILROAD COMPANY
Balance Sheet as of June 30, 1939

<u>LIABILITIES</u>	<u>Pesos</u>	<u>Pesos</u>
Capital stock		31,427,000
Funded debt:		
Refunding 5% due 1936		26,472,000
1st 4% due May 1, 1939	(31,182,000)	
Less: Pledged	17,850,000	
Retired	3,680,000	
Reacquired & held	2,394,000	
Outstanding	3,146,000	
O/s but held by Philippine National Bank at 2% on invest- ment of P.3,360,000	4,112,000	7,258,000
1st 4% due May 1, 1959	2,246,000	
Less - retired	174,000	
Reacquired & Held by company ..	660,000	1,412,000
Philippine Gov't-advances for in- terest on 4% & 7% bonds		5,741,883
Philippine Gov't-loan for redemption of 4% bonds due May 1, 1939.....		9,390,600
Chattel mortgage (2%) on S.S.Mayon National Development Co		1,200,000
Current liabilities:		
Notes payable	3,526,000	
Accounts & wages payable	588,211	
Miscellaneous accounts payable..	10,215	
Interest matured, unpaid	144,148	
Unmatured interest accrued	819,011	
Other current liabilities	17,692	5,105,278
Deferred liabilities		238,893
Unadjusted credits:		
Tax liability	35,149	
Insurance & casualty reserves ..	156,017	
Operating reserves	6,875	
Accrued depreciation on equipment	10,740,898	
Accrued depreciation, miscellan- eous physical property	929,079	
Other unadjusted credits	305,765	12,173,783
Corporate Surplus:		
Additions to property through income & surplus	20,208,213	
Funded debt retired through income & surplus	6,343,371	
Sinking fund reserves	3,590,956	
Miscellaneous fund reserves ..	2,769,998	
Total appropriated surplus ...	32,912,539	
Profit & loss balance	d. 12,233,181	
Total corporate surplus		20,679,358
		121,098,795

NOTES:

Capital stock increased 2,000,000 pesos over December 31, 1938. All of the stock is owned by the Government of the Philippines.

MANILA RAILROAD COMPANY

INVESTMENT OF CAPITAL ACCOUNTS UP TO DECEMBER 31st, 1938

Cap. Acct.	ALLOCATION	TOTAL OUTLAY TO DECEMBER 31st, 1938			Per Cent
		December 31st, 1937	Year 1938	Total	
	ROAD				
1-A	Engineering Survey.....	P 525,567.63	P 13,423.92	P 538,991.55	~.51
1-C	Engineering Construction.....	1,535,680.48	41,684.90	1,577,365.38	1.50
2	Land for Transportation Purposes.....	7,984,832.09	(101,628.75)	7,883,203.34	7.49
3	Grading.....	9,774,925.10	232,418.64	9,967,343.74	9.48
6	Bridges, Trestles and Culverts.....	12,962,886.03	304,723.27	13,267,609.40	12.61
8	Timber.....	4,744,960.55	(3,685.98)	4,741,274.57	4.50
9	Rails.....	6,246,651.24	48,668.74	6,295,319.98	5.96
10	Other Track Materials.....	1,344,425.72	54,901.69	1,399,327.41	1.33
11	Ballast.....	1,436,970.32	35,535.18	1,472,505.50	1.40
12	Track Laying and Surfacing.....	1,575,026.04	48,068.75	1,583,094.79	1.50
13	Right of Way Fences.....	82,662.35	81.72	82,744.07	.08
15	Crossings and Signs.....	125,501.89	19,008.67	144,510.56	.14
16	Station and Office Buildings.....	3,802,706.34	356,525.65	4,159,231.99	3.95
17	Roadway Buildings.....	336,931.63	387.27	337,318.90	.32
18	Water Stations.....	720,439.15	21,307.03	741,746.18	.70
19	Fuel Stations.....	100,010.40	64,227.08	244,237.48	.23
20	Shops and Enginehouses.....	1,324,584.29	30,577.22	1,355,161.51	1.29
23	Wharves and Docks.....	683,697.98	15,367.69	699,065.67	.66
26	Telegraph and Telephone Lines.....	846,948.11	54,353.52	901,301.63	.86
27	Signals and Interlockers.....	215,158.12		215,158.12	.20
29	Power Plant Buildings.....	24,837.25		24,837.25	.02
35	Miscellaneous Structures.....	401,077.14	(200.00)	400,877.14	.38
37	Roadway Machines.....	59,182.49	(298.27)	58,784.22	.06
38	Roadway Small Tools.....	19,537.38	(910.63)	18,626.75	.02
39	Assessments for Public Improve- ments.....	90,790.43		90,790.43	.09
40	Rev. and Oper. Exps. during Constr.	(341,137.90)	30,440.02	(310,697.88)	(.29)
43	Other Expenditures—Road.....	17,516.12		17,516.12	.02
44	Shop Machinery.....	793,810.78	1,503.01	795,313.79	.73
45	Power Plant Machinery.....	64,184.32	1,419.28	65,603.60	.06
46	Power Sub-Station Apparatus.....	7,417.01		7,417.01	.01
		57,507,780.48	1,266,799.73	58,774,580.21	55.85
	Main and Quay Line.....	15,856,606.15		15,856,606.15	15.07
	Total Expenditures—Road.....	73,364,386.63	1,266,799.73	74,631,186.36	70.92
	EQUIPMENT				
51	Steam Locomotives.....	8,498,560.67	(25,564.14)	8,472,996.53	8.05
53	Freight Train Cars.....	6,180,773.68	(64,712.94)	6,116,060.74	5.81
54	Passenger Train Cars.....	4,694,075.46	49,883.64	4,743,959.10	4.51
54-A	Bodies of R.M.C. and Trailers.....	565,269.83	103,417.59	668,687.42	.64
55	Motor Equipment of Cars.....	164,283.24	41,508.72	205,791.96	.20
56	Floating Equipment.....	830,142.00		830,142.00	.79
57	Work Equipment.....	508,158.87	(6,321.00)	501,837.87	.47
58	Miscellaneous Equipment.....		6,481.73	6,481.73	.01
	Total Expenditures—Equipment.....	21,441,263.75	104,693.60	21,545,957.35	20.48
	GENERAL				
72	General Officers and Clerks.....	170,507.41		170,507.41	.16
73	Law.....	145,177.93		145,177.93	.14
74	Stationery and Printing.....	62,877.38		62,877.38	.06
75	Taxes.....	1,914.68		1,914.68	
76	Interest during Construction.....	2,609,220.46		2,609,220.46	2.48
77	Other Expenditures—General.....	6,062,775.98		6,062,775.98	5.76
	Total Expenditures—General.....	9,052,473.84		9,052,473.84	8.60
	GRAND TOTAL	103,858,124.22	1,371,493.33	105,229,617.55	100.00

MANILA RAILROAD COMPANY
Comparative Income Account

	(In Philippine Pesos) Years ended December 31			(In Philippine Pesos) 6 months ended June 30	
	1936	1937	1938	1938	1939
Operating Revenues:					
Freight	2,980,595	3,478,651	3,506,071	2,112,606	2,312,331
Passenger	3,033,745	3,758,228	4,162,918	2,297,556	2,317,225
Express	373,678	434,170	501,373	263,505	293,993
Water Lines	414,124	504,191	167,200	106,983	39,608
Mail	116,375	112,509	137,464	68,732	68,732
All other	149,922	189,051	193,310	103,639	112,252
Total operating revenue	<u>7,068,439</u>	<u>8,476,800</u>	<u>8,668,336</u>	<u>4,953,022</u>	<u>5,144,141</u>
Operating Expenses:					
Maintenance of Way	810,528	796,878	960,661	457,385	490,526
Maintenance of Equipment	855,691	871,923	984,267	463,903	516,936
Depreciation of Equipment	631,713	628,216	643,150	318,847	321,816
Retirement of Equipment	322	3,827	51,449	18,581	32,166
Traffic	61,806	65,928	69,939	42,755	33,312
Transportation	3,246,887	3,446,313	3,850,397	1,943,458	2,074,148
General, etc. (net)	369,261	314,227	325,406	192,260	182,654
Total operating expenses	<u>5,976,207</u>	<u>6,127,312</u>	<u>6,885,270</u>	<u>3,411,093(b)</u>	<u>3,642,881(b)</u>
Net Operating Revenue	1,092,232	2,349,488	1,783,067	1,541,928	1,501,260
Railway tax accruals etc	37,965	44,251	45,991	26,285	26,796
Railway Operating Income	1,034,267	2,305,238	1,737,076	1,515,643	1,474,464
Miscellaneous Operating Income	254,683	508,678	439,743	239,186	308,386
Total Operating Income	1,308,950	2,813,916	2,196,829	1,814,829	1,782,850
Non-operating Income	216,974	148,268	124,237	72,161	66,834
Gross Income	<u>1,525,924</u>	<u>2,962,185</u>	<u>2,321,066</u>	<u>1,886,990</u>	<u>1,849,684</u>
Deductions from Income:					
Bond Interest	2,109,967	1,931,085	1,842,122	921,801	891,329
Other interest	679	336			161
Extraordinary Exchange Expenses	114,033(a)	80,000	83,880	44,527	26,667
Other Deductions	6,121	6,345	1,292	cr. 485	878
Total Deductions	<u>2,230,800</u>	<u>2,017,766</u>	<u>1,927,294</u>	<u>965,843</u>	<u>919,035</u>
Net Income	<u>305,124</u>	<u>944,419</u>	<u>393,771</u>	<u>921,147</u>	<u>930,650</u>

NOTES:

- (a) Extraordinary Exchange Expense was incurred in connection with payment of interest due May 1 and Nov. 1, 1936 on company's 1st 4% bonds, paid in excess of dollar face amount to bondholders exercising option to collect interest in other currencies.
- (b) Totals given for six months ended June 1938 and 1939 are after deduction of 26,096 pesos and 8,677 pesos respectively for capital transportation for investment-credit.

MANILA RAILROAD COMPANY

STATISTICAL DATA FOR FIVE-YEAR PERIOD AND FIVE YEAR AVERAGE, (1933-1937), COMPARED WITH 1938

	1933	1934	1935	1936	1937	Five-Year Average 1933-1937	1938
Railway Operating Revenues.....	P8,764,263.72	P7,721,707.44	P6,624,487.07	P7,068,438.98	P8,476,800.27	P7,731,139.50	P8,668,336.39
Railway Operating Expenses.....	6,205,291.34	6,161,511.33	5,863,875.33	5,976,207.21	6,127,312.02	6,066,839.45	6,885,269.52
Railway Operating Income.....	2,445,114.02	1,518,076.44	725,093.10	1,054,267.14	2,305,237.56	1,609,557.65	1,737,076.75
Non-Operating Income.....	244,885.11	259,137.09	210,363.98	210,853.04	141,923.64	213,432.57	122,944.64
Deduction from Gross Income.....	2,749,476.57	3,078,409.56	3,002,716.53	2,230,800.33	2,017,765.55	2,615,833.71	1,927,294.63
Net Income.....	21,431.96	(1,155,650.71)	(1,838,285.88)	(704,876.18)	944,418.97	(546,592.36)	363,770.81
Operating Ratio (Exps. to Revenues)	70.80	79.79	88.52	84.55	72.28	78.47	79.43
Ratio of Fixed Charges and Deductions to Railway Operating Revenues.....	31.87	39.67	45.38	31.56	23.80	33.84	22.23
Ratio of Net Income to Railway Operating Revenues.....	.24	(14.07)	(27.75)	(9.97)	11.14	(7.07)	4.54
Capital Expenditures (Excluding Retirements).....	805,026.23	1,382,449.67	567,186.65	765,813.08	2,215,418.30	1,147,174.79	2,197,568.77
Retirements.....	133,762.27	213,791.25	121,100.03	108,679.64	2,168,433.07	549,153.43	826,075.44
Investment in Physical Property used for Trans. Service to End of Period.....	101,539,281.41	102,707,939.83	102,154,005.55	103,811,138.99	103,858,124.22	103,014,098.00	105,229,617.55
Ratio of Railway Operating Income to Investment.....	2.41	1.48	.70	1.02	2.22	1.56	1.65
<i>Sources of Operating Revenues</i>							
Freight Revenue.....	P4,926,709.40	P4,089,947.46	P2,842,522.94	P2,980,594.57	P5,478,650.71	P3,659,685.03	P3,506,070.96
Number of Tons Hauled.....	2,007,578	1,692,718	1,245,963	1,291,017	1,575,058	1,562,471	1,543,270
Ton-Kilometers.....	158,056,522	139,960,458	121,772,519	128,486,095	150,444,033	139,743,925	162,014,375
Revenue per Ton.....	2.454	2.404	2.291	2.309	2.209	2.342	2.272
Revenue per Ton-Kilometer.....	.03117	.02908	.02334	.02330	.02312	.02619	.02164
Passenger Revenue.....	2,847,639.73	2,780,751.46	2,838,178.22	3,083,745.29	3,758,228.32	3,047,708.00	4,162,917.78
Number of Passengers Carried.....	6,655,559	6,292,726	7,041,635	8,925,624	10,279,121	7,833,933	10,158,619
Passenger-Kilometers.....	236,606,186	230,519,430	263,716,315	324,878,221	421,191,062	297,383,247	432,912,648
Revenue per Passenger.....	.4179	.4387	.4031	.3599	.3656	.3888	.4068
Revenue per Passenger-Kilometer..	.01204	.01196	.01076	.00906	.00892	.01025	.00962
Express.....	426,053.44	375,054.09	361,570.39	373,677.89	434,170.45	394,105.23	501,373.17
Water Lines.....	231,876.39	240,341.73	329,816.51	414,124.12	504,191.05	344,069.96	187,200.44
Purchase of 4% Bonds:							
Face Value.....				40,000.00	160,000.00	4,218,000.00	1,520,000.00
Cost.....				29,000.00	127,384.74	4,818,684.39	1,503,208.15

NOTE: (a) Up to and including December, 1938.



NEW MANDA PORT TERMINAL BUILDING OPPOSITE PIER 7, PORT AREA.



SECTION OF WAREHOUSE, MANDA PORT TERMINAL BUILDING, SHOWING
ELECTRIC CRANE IN OPERATION.



SHOWS OF NEW TRACTOR-TRAILER AND PORTABLE CRANE EQUIPMENT
OF THE MANILA PORT TERMINAL



TYPICAL LIGHT-MATERIAL
HOUSE FOR USE AS STA-
TION AGENT'S QUARTERS
AT SMALL STATIONS.



RAIL MOTOR TRAIN LEAVING MANILA TERMINAL STATION; RAIL MOTOR CAR
POWERED WITH INTERNATIONAL 150 HORSE POWER MOTOR AND THREE
TRAILERS. TOTAL SEATING CAPACITY OF TRAIN-150 PASSENGERS.



FRONT VIEW OF NEW STEVENS ART DECO CLUB, ALBANY, WITH MT. MANSION IN BACKGROUND.



ENLARGED STATION AT BANKA BANKA, PAGSANJAN BRANCH, SHOWING
TYPICAL SMALL BRANCH LINE STATION



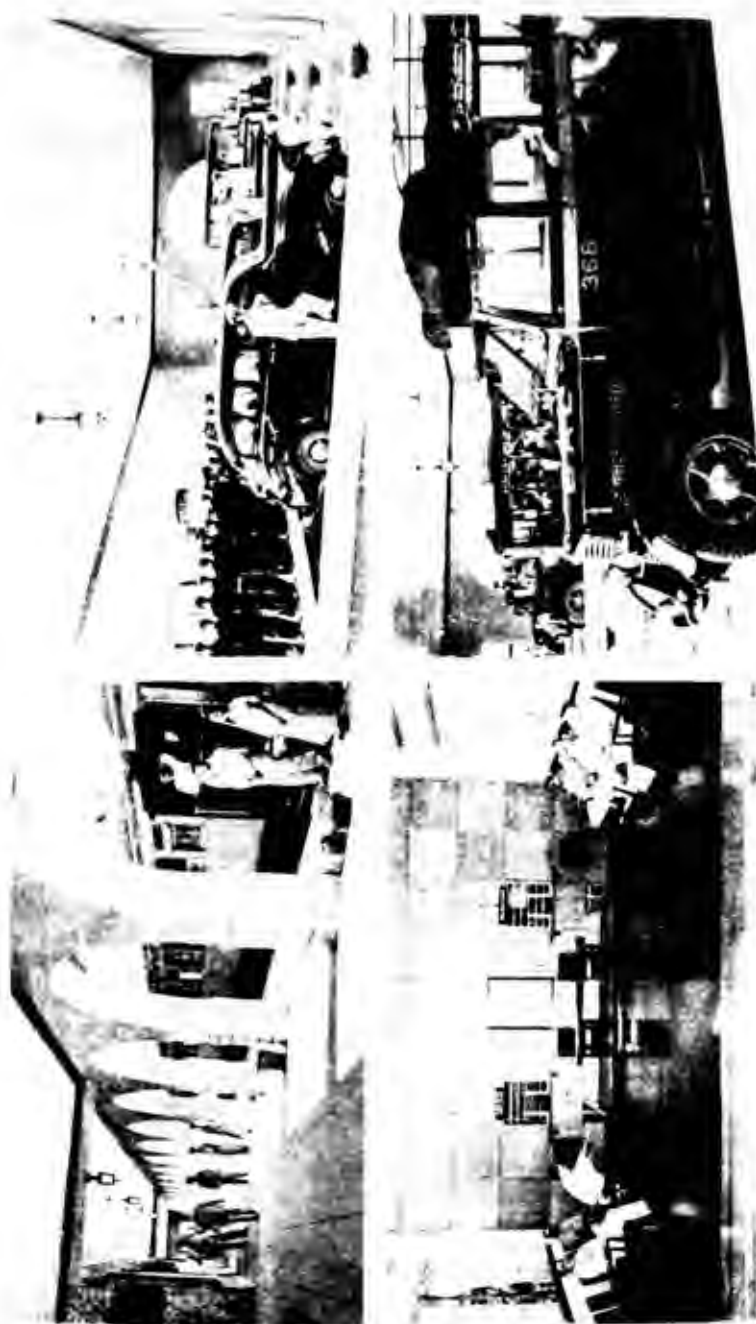
NEW TYPE CANOPY SHELTER AT MASSELL, BETWEEN PASSOB AND
LOS BANOS, MAIN LINE SOUTH



VIEW OF REGRADED TRACK AT THE BAHIA BUAYA GORGE, MAIN LINE
SOUTH SHOWING A PORTION OF REMAINING WALL



THROUGH THE LUDON BUS LINE IS MAINTAINED SERVICE BETWEEN
MOLLE AND MANILA, AT RIGHT NEW
TYPE CARBIDE ENGINE BUS



VIEWS TAKEN AT THE NEW STATION. AT HAMBURG. MARY JOSE SOUTH. TOP LEFT, THE COVERED PLACE
 FORMER. BOTTOM LEFT, THE FIRST CLASS WAITING. RIGHT TOP AND BOTTOM, VIEW'S SHOWING
 AT HAMBURG'S AND MEN OF THE HONORABLE AUTO LINE WAITING TO TAKE ON PASSENGERS.



NEW GARAGE AND SHOPS OF THE BENGUET AUTO LINE, BAGUIO.



NEW STATION AT LUCENA, TAYABAS, SHOWING ISLAND PLATFORM
WITH PASSENGER SHELTERS.



NEW JOURNITORY FOR EMPLOYEES OF THE BENGUET AUTO LINE WITH ACCOMMODATIONS FOR 72 PERSONS AND PROVIDED WITH DINING ROOM, KITCHEN AND TOILETS.



VIEW SHOWING NEW COTTAGES CONSTRUCTED FOR EMPLOYEES OF THE BENGUET AUTO LINE AND THEIR FAMILIES AT REAR OF NEW SHOPS AND GARAGE IN BAGUIO.



RAND McNALLY
STANDARD MAP OF
PHILIPPINE ISLANDS

SCALE
Nautical Miles, 0 to 200
Statute Miles, 0 to 200
Kilometers, 0 to 200

MANILA RAILROAD COMPANY

Railroad lines on island of
Luzon, Philippine Islands,
shown in blue.

Upper inset shows position of
Luzon in the Philippine group.

Lower inset shows Manila Rail-
road Company's lines in vicinity
of the city of Manila.

C
O
P
Y

DEPARTMENT OF STATE

WASHINGTON

In reply refer to
IA 892.515/59

April 15, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of a paraphrase of telegram no. 215 dated April 13 from the American Legation at Bangkok reporting the intention of the Thai Government to withdraw certain gold deposited in banks in the United States.

Enclosure:

No. 215, April 13,
from Bangkok.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bangkok.

DATE: April 13, 1941, 4 p.m.

NO. : 215.

It is reported in the newspapers here that the Thai Government is planning to withdraw the gold which is deposited with United States banks as a currency reserve in connection with the request that the Thai Minister urge that the sum which was paid for the bombing airplanes be refunded.

It is understood that Matsuda (an official of the Exchange Control Board of the Ministry of Finance of Japan) is in Bangkok for the purpose of helping to facilitate the development of trade between this country and Japan with the exchange control system of Japan.

This telegram has been repeated to Shanghai. It is requested that Shanghai repeat this telegram to Tokyo.

GRANT

EA:MSG

Copy:bj

TO THE
TECHNICAL
DIVISION
APR 13 1941
RECEIVED

BRITISH EMBASSY,
WASHINGTON, D.C.

PERSONAL
AND SECRET

15th April 1941

Dear Mr. Secretary,

I enclose herein for your
personal and secret information copies
of the latest reports received from
London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Henke Butler

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram received from London
dated April 11th, 1941

NAVAL.

Scharnhorst, Gneisenau still at Brest
April 10th, one in dry dock.

2. On April 11th reported that only one small
port in United Kingdom closed temporarily by mines -
sweeping continues successfully.

3. MILITARY. LIBYA.

Our troops taking up positions about Tobruk
based on the old Italian defences. April 8th - seven
heavy aircraft seen unloading supplies for enemy forward
troops south of Mechili.

4. NORTHERN YUGO-SLAVIA.

Reported attack being carried out on Zara,
but yesterday the German radio announced that Zara occu-
pied and independent Croatian State proclaimed.

5. SOUTHERN YUGO-SLAVIA.

The rate of the German advance slackened.
Advance from Nis towards Belgrade reached Lapovo afternoon
of April 10th after severe fighting North of Jacobina.

Reported capture of Tetovo not confirmed nor
move towards Pristina. Small parties of paratroops
captured in Serbia.

6. ROYAL AIR FORCE. Night of April 9/10th.

BERLIN.

Forty-four tons of high explosive and 11,400
incendiaries dropped. Chief target inland port area where
large fires caused. Tempelhof aerodrome and Marshalling
yards Charlottenburg district also attacked.

7. April 10th.

During the daylight eight Blenheims bombed

Berlin/

Regraded Unclassified

Borkum town setting fire to buildings.

Quay-side at Heligoland was machine gunned. Early on night of April 10th a Hlenheim scored direct hit on 8,000 ton merchant vessel off the French Coast.

8. Night of April 10th/11th.

Bomber Command sent out 122 aircraft to Brest (53), Dusseldorf 54, Merignac aerodrome Bordeaux 11, and Rotterdam upper harbour. Seven aircraft missing.

9. LIBYA.

Reported that during recent operations sixteen enemy aircraft shot down and nine destroyed on the ground and advancing enemy columns and M.T. heavily bombed and machine gunned. Our losses two Hurricanes missing, one Hurricane destroyed, pilot safe, and 6 aircraft damaged on the ground during attack on Derna aerodrome.

10. GERMAN AIR FORCE.

April 10th. Enemy activity chiefly off the Coasts. Two enemy aircraft destroyed.

11. Night of April 10th/11th.

Estimated about 224 enemy aircraft operating 12 of which mine-laying. Our night fighters destroyed 10, probably destroyed 4 more and damaged 2 others.

12. HOME SECURITY. Night of April 10th/11th.

Chief centres attacked were Birmingham and Coventry and several fires started at the latter town, all under control by 6:00 a.m. Casualties appear not heavy.

TELEGRAM FROM LONDON
DATED April 13th, 1941.

Naval. Dunottar Castle April 12th boarded French 9,000 ton ship Benfara bound Dakar to Casablanca. Captain and crew gave considerable opposition. Strong guard and navigating party taking her to Free Town escorted by Dunottar Castle. French cruiser with light cruisers and two destroyers reported 70 miles south southwest of Cape St. Vincent p.m. on April 12th course 300 degrees, speed slow.

2. **Night of April 11th/April 12th.** Enemy aircraft laid mines Phaleron Salamis Strait and Eleuria Bay also shipping Piraeus was attacked. One tanker set on fire at dawn.

3. Swedish ship Kaskholm, 3816 tons Buenos Aires Gothenburg bombed and sunk by enemy aircraft northwest of Hebrides April 12th. Crew saved.

4. **MILITARY. GREECE. Northern Front.** Morning of April 11th: our patrols in touch with the enemy just south of Veve. Unconfirmed reports state that 14th Greek Division evacuated from Thrace to Thess.

5. **YUGOSLAVIA. Northern Front.** Budapest radio reports Hungarian Troops entered Subotica without resistance and have continued to penetrate southward. Definite information scant but 5 Croatian Divisions ceased fighting and two Divisions mainly Slovenes, west of Zagreb, withdrawing southward. Reported that 3 Yugoslav Divisions forming the front along Sava between Arod and Zagreb.

6. **ROMANIA FRONT.** Yugoslav troops resisting the German advance from Nis towards Belgrade, while other forces have counter-attacked from both sides of Morava and some German armoured forces cut off. The Yugoslavs now hold the Krusevac-Kragujevac area and have retaken Prokuplje

2.

7. SOUTHERN FRONT. Yugoslav troops advancing from Suha Reka area upon Rascanik gorge and according to Angola radio have destroyed eighty German tanks in this region.
8. ROYAL AIR FORCE. Night of April 12th/13th. Sixty-six bombers sent to attack battle cruisers at Brest and twenty-four to enemy occupied aerodromes Bordeaux. All have returned except one heavy bomber.
9. SOUTHERN ETHIOPIA. April 10th. South African Air Force Hurricanes machine-gunned two aerodromes, destroying ten enemy aircraft on the ground and two in the air.
10. GERMAN AIR FORCE. Night of April 11th/12th. 210 enemy aircraft operated against this country; five destroyed.
11. April 12th. No enemy activity over land.
12. Night of April 12th/13th. Only ten enemy aircraft reported, all over southwest England.
13. MALTA. Bombs dropped on April 11th which caused no service damage or casualties. Three enemy aircraft destroyed and two of ours.
14. GREECE. Night of April 11th/12th. Enemy bombers attacked shipping and laid mines in Piraeus; three brought down by anti-aircraft.

CONFIDENTIAL

174

Paraphrase of Code Radiogram
Received at the War Department
at 8:47, April 13, 1941.

Sofia, filed April 14, 1941.

Macedonian and Thracian elements in the local population held large demonstrations here on the thirteenth of April. There is a great deal of movement by Bulgarian troops through the Sofia streets tonight. Cavalry predominates. This may be meant as preparation for the occupation of Thracian and Macedonian territories.

Distribution:

Secretary of War
State Department
Secretary of Treasury
Under Secretary of War
Chief of Staff
Assistant Chief of Staff, G-2
War Plans Division
Office of Naval Intelligence

CONFIDENTIAL

SECRET

By authority A. C. of S., G-2

Date APR 19 1941 BP4

Initials

175

Paraphrase of Code Cablegram
Received at the War Department
at 9:06, April 15, 1941.

London, filed April 15, 1941.

The following is a summary of British Military Intelligence
to 11:00 A.M., April 15:

1. Yugoslavia

Information received here is all indicative of a collapse
of Yugoslav government morale. Requests have been received for R.A.F.
planes to proceed to pick up high government authorities and carry them
to safety. Similarly they have asked for British ships to be dispatched
at once to Cattaro and for British planes to attack towns which have
been captured. Specific directions have been requested where Yugoslav
planes will report when leaving the country.

2. North Front, Yugoslavia

The Fourth, Sixth, and Seventh Armies have substantially
ceased to exist on account of mutiny reported among the Greeks.

3. Southern Front, Yugoslavia

The Commanding General of the Third Group of Armies,
General Nedich, on the 14th of April was ordered to request an armistice.
Information is lacking as to what was done, but General Kalafatic has
emerged from retirement to take over this command.

4. Greece

The Allied forces which formerly occupied lines facing
to the northeast have retired in the face of German columns advancing
from Manastir. A number of sharp actions took place during this retire-

SECRET

ment and serious casualties were inflicted on the advancing German forces. Ptolemais has been reached by columns of German motor transport.

5. Libna

An attack was made on April 14 by German Infantry and machine gun units supported by 20 tanks. They succeeded in entering the outer defense lines at Febrush until British armed forces counter-attacked and repulsed them. Losses were six German and two British tanks. Three hundred German foot troops were captured. These were in a very low state of morale. They reported that the supply of food and water is very irregular and some were visibly weeping when captured. British positions in the Sellum sector are east and south of the town. Only minor actions have occurred here.

LHM

Distribution:

Secretary of War
State Department
Secretary of Treasury
Under Secretary of War
Chief of Staff
Assistant Chief of Staff, G-3
War Plans Division
Office of Naval Intelligence
G-3

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177

Paraphrase of Code Radiogram
Received at the War Department
at 9:06, April 15, 1941

London, filed April 15, 1941.

1. British air activity over the Continent.

a. Daylight April 14. The Royal Air Force attacked seaborne traffic and military objectives on the Dutch coast with direct hits on two freighters. They also machinegunned four other ships. Direct hits were scored on illuminating gas storage tanks and electric generating plants at Liase, Leyden and Haarlem.

b. Night of April 13-14. Fires were observed after attacks by 29 British heavy bombers on the airfield and U-boat base at Bordeaux.

2. German air activity over Great Britain.

a. Night of April 14-15. There was little activity over Britain and what there was was limited to the northeast and southwest coasts. Night pursuit elements took to the air but failed to make contact.

b. Daylight April 14. Little damage was reported after minor German raids by single planes only over Cornwall, Surrey, Cambridge, Lincolnshire, Kent, Lancashire, Yorkshire and eastern Ireland.

3. Air losses British theater.

a. British.

(1) Night April 13-14. No planes were reported lost.

b. German.

(1) Daylight April 14. One German plane was destroyed in the course of scattered raids.

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4. British air activity Middle East Theater.a. Libya.

(1) Daylight April 14. Severe destruction was reported in bombing and machine gun attacks by Egyptian-based British planes on 60 German mechanized vehicles attacking Tobruk and concentration of more than 500 vehicles in the vicinity of El Adem and other motor convoys near Gazala.

b. Greece.

(1) Daylight April 14. British aircraft repeatedly attacked German motor convoys, mechanized vehicles and troops on roads in Ptolemais-Monastir Sector as well as supply convoys and rail traffic around Sofia.

5. German air activity Middle East theater.a. Libya.

(1) Daylight April 14. Little destruction was caused by German raids on Tobruk.

b. Malta.

(1) Daylight April 14. Little destruction was caused by an attack by 30 German bombers.

c. Greece.

(1) Daylight April 14. German aircraft performed supporting missions with ground troops on the northern front and bombed the port of Volos.

6. Air losses Middle East Theater.

a. British. No loss reported.

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h. German.

(1) Libya. Daylight April 14. Nine planes were shot down during German attacks on Tobruk.

(2) Greece. Daylight April 14. One German plane was shot down during the bombing of Velos.

7. British naval aircraft attempted unsuccessfully to bomb five large freighters in an escorted convoy to the south and the northwest of Pantellaria.

8. British freighter was attacked by a submarine on April 14 400 miles south of Newfoundland.

9. On April 13 300 survivors were picked up 150 miles west-northwest of Reykjavik, Iceland, when the British steamer RAJPUTANA was torpedoed and abandoned.

LEE

Distribution:

Secretary of War
State Department
Secretary of Treasury
Under Secretary of War
Assistant Chief of Staff, G-2
War Plans Division
Office of Naval Intelligence
Air Corps
G-3

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By authority A. C. of S., G-2

Paraphrase of Code Cables
Received at the War Department
at 11:06, April 15, 1941

16 Apr 41 (Initials)
180

Cairo, filed April 14, 1941.

The supply situation of the British lines on the Gre-
cian front is serious. The use of the port of Piraeus is entirely
prevented by magnetic mines. In an air raid on the first day of
operations against Greece, a German plane made a direct hit on a
freighter loaded with munitions. Four nearby ships were sunk by
the resultant explosion.

PELERS

Distribution:

Secretary of War
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Secretary of Treasury
Under Secretary of War
Chief of Staff
Assistant Chief of Staff, G-2
War Plans Division
Office of Naval Intelligence (2)
Air Corps (2)
G-3

SECRET

Paraphrase of Code Cablinggram
Received at the War Department
at 12:06, April 15, 1941

SECRET

By authority A. C. of S., G-2

Date 16 Apr 41 (ChwK)
Initials

Cairo, filed 22:35, April 14, 1941.

General Howall has received specific request from Prime Minister Churchill that Tobruk be held. Fighting is now taking place at Sollum. On April 14 more than a hundred exhausted Germans were captured in a serious attack on Tobruk that was repulsed by the British.

FINES

Distribution:

Secretary of War
State Department
✓ Secretary of Treasury
Under Secretary of War
Chief of Staff
Assistant Chief of Staff, G-2
War Plans Division
Office of Naval Intelligence (2)
G-3

SECRET

SECRET

By authority A. C. of S., G-2

Date APR 16 1941 (T.P.H.)

Initials

182

Paraphrase of Code Cabbagegram
Received at the War Department
at 11:05, April 15, 1941.

London, filed April 15, 1941.

The Military Attache from the Yugoslaviana Army gave me this message at 15:00 o'clock today. He informed me that it had been received by the Admiralty wireless.

"Belgrade, April 14. 15:00 o'clock. Yugoslaviana
Military Attache, London.

Colonel Fortier asks that the American Military Attache at London receive the following report: This office has received no news from Washington. If America could send planes here, the military situation would immediately be bettered. The Serbian army is reciting strongly German attacks. Fortier."

LHM

Distribution:

Secretary of War
State Department
Secretary of Treasury
Under Secretary of War
Chief of Staff
Assistant Chief of Staff, G-3
War Plans Division
Office of Naval Intelligence
Air Corps
G-5

SECRET

CONFIDENTIAL

183

-Paraphrase of Code Outgoing
Received at the War Department
at 5:34, April 15, 1941.

London, filed 10:45, April 15, 1941.

1. British Air Activity over the Continent.

a. Day of April 15. One medium sized merchant vessel was sunk off Brest by British medium bombers. The Brestet airbase was machine-gunned by planes of the Fighter Command.

b. Night, April 12-13. Naval units at Brest were subjected to bombing by 66 heavy bombers of the R.A.F. Twenty-four other planes of this type bombed Narbonne airbase at Narbonne, a base from which the Focke-Wulf light bombers of the German Air Force operate against British shipping. Several other British bombers attacked the German submarine base at Lorient. At both Narbonne and Lorient many fires were observed.

c. Night of April 10-11. Planes from the Bomber Command dropped 25 tons of high explosives on Biscuit and 30 tons on Brest.

2. German Air Activity over Britain.

a. Night of April 13-14. Cornwall, Liverpool Bay, Scilly Isles and Devon were subjected to minor isolated attacks. There was a large amount of sea-mining in the Liverpool area. Night pursuit units took to the air but failed to make contact.

b. Day of April 15. There were two small German fighter sweeps in the vicinity of East Ham. Other German flights occupied themselves with reconnaissance patrols over the Dover Straits.

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3. Aircraft Losses British Theater.

a. In the raids on Lorient and Bordeaux one heavy bomber of the R.A.F. was destroyed. There were no British losses among the planes which intercepted the German flights over East Kent.

b. The Germans lost one plane destroyed and one damaged in their flight over East Kent.

4. British Air Activity in the Balkan Theater.

During April 11 and April 12 British planes attacked Sallate airfield (Dodecanese Islands), and motor convoys between Monastir and Velos (Macedonia). Another motor convoy near Valona (Albania) was also bombed. These British planes were part of the R.A.F. based in Greece.

British planes based in Egypt attacked a motorized column near Tobruk. Considerable confusion was caused and in addition to damaging 60 armored fighting vehicles, 6 motorcycles and 33 motor transport vehicles were damaged.

5. Axis Air Activity, Middle Eastern Theater.

German planes attacked shipping at Piraeus (port for the city of Athens) and during four raids on Malta inflicted small civilian damage.

6. Aircraft Losses, Middle East.

a. No information is reported on British losses.

b. In the raid on the motorized column near Tobruk, one German aircraft was destroyed.

c. In the raid over Malta three German planes were lost.

-4-

7. The British have reports, as yet unconfirmed, that the Yugoslavs have taken Durazzo (important Albanian port). It is also reported that the Italians have concentrated in the Dabar-Struga area (southwest corner of Yugoslavia) four divisions. There are indications of German pressure in Northern Yugoslavia south of Belgrade and in the vicinity of Sarajevo and Mostar.

Night of April 12-13. In Libya operations were underway to attack the British with 60 German tanks and large numbers of Infantry. About the hour of 6 P.M., April 13, there was stiff fighting in Sollum (Egyptian side, Libyan-Egyptian border) and Axis troops succeeded in occupying Fort Capuzzo (Libyan side, Libyan-Egyptian border). R.A.F. planes severely attacked Axis troops still in Tobruk dispersing them with losses.

8. Night of April 12-13. German planes sank a Swedish ship off the Hebrides Islands. Two French destroyers and three cruisers were reported on a course 300 degrees 70 miles southwest of Cape St. Vincent.

A 9,000-ton French ship bound from Dakar to Casablanca was boarded by a British armed merchant cruiser. The French greatly objected to being forced to go to Freetown.

9. According to information received at the War Office military stores and petrol is being removed by the Turks to east of the Dnieper from the Bulgarian frontier.

END

-3-

Distribution:

Secretary of War
State Department
Department of War
Department of Navy
Mr. Clegg

Chief of Staff
Assistant Chief of Staff, G-2
Mr. [illegible]
Office of Naval Intelligence
G-3

CONFIDENTIAL

RESTRICTED

G-2/2657-220; No. 366

M.I.D., W.D.

12:00 M. April 15, 1941.

SITUATION REPORTI. Western Theater of War.

Air: German. No reports received of important offensive activity.

British. Limited activity. The German capital ships at Brest were attacked again.

II. Balkan Theater of War.

Ground: Yugoslavia. Situation in central Yugoslavia continues confused. The Germans are mopping up in the Monastir-Skopje region.

Greece. The German thrust Monastir-Florina appears to have extended to Kozani and thence across the Aliakmon River. This river also has been crossed on the east near the seacoast.

Albania. Unconfirmed reports that the Italians have reached Koritza. In the north there is some Yugoslav pressure in Soutari.

Air: German close support of operations continued. Sarajevo was heavily bombed.

III. Mediterranean and African Theaters of War.

Ground: Libya. Axis infantry, supported by tanks, attacked Tobruk on the morning of April 14. According to the British a counter-attack threw them back with severe losses, restoring the situation at Tobruk.

East Africa. British pursuit continues.

Air: Axis. Repeated attacks on Tobruk. Malta was bombed.

RESTRICTED

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Wednesday, April 16, 1941.

Press Service
 No. 24-61

Secretary of the Treasury Morgenthau today announced the final subscription and allotment figures with respect to the current offering of 7/8 percent notes of Series U and of 1-1/8 percent notes of Series V of the Reconstruction Finance Corporation.

Subscriptions and allotments were divided among the several Federal Reserve Districts and the Treasury as follows:

	<u>SERIES U</u>		<u>SERIES V</u>	
<u>Federal Reserve District</u>	<u>Total Subscriptions Received</u>	<u>Total Subscriptions Allotted</u>	<u>Total Subscriptions Received</u>	<u>Total Subscriptions Allotted</u>
Boston	\$ 185,864,000	\$ 22,371,000	\$ 251,620,000	\$ 22,793,000
New York	1,300,426,000	156,165,000	1,661,002,000	149,789,000
Philadelphia	161,063,000	19,368,000	192,542,000	17,457,000
Cleveland	206,766,000	24,885,000	278,846,000	25,302,000
Richmond	81,861,000	9,879,000	113,334,000	10,388,000
Atlanta	87,021,000	11,759,000	122,733,000	12,711,000
Chicago	267,556,000	32,354,000	469,759,000	42,734,000
St. Louis	66,643,000	8,186,000	81,895,000	7,726,000
Minneapolis	31,608,000	3,848,000	52,568,000	4,847,000
Kansas City	44,704,000	5,421,000	56,276,000	5,186,000
Dallas	60,670,000	7,362,000	71,894,000	6,681,000
San Francisco	145,769,000	17,505,000	200,446,000	18,099,000
Treasury	6,600,000	792,000	7,600,000	684,000
TOTAL	\$2,646,551,000	\$319,895,000	\$3,560,515,000	\$324,397,000

-000-

MEMORANDUM

April 16, 1941.

TO: Secretary Morgenthau

FROM: Mr. Sullivan

SUBJECT: Conference at the Secretary's Home at 9 a.m.

PRESENT: Secretary Morgenthau, Senator George, Congressman Doughton, Cullen, Cooper, and Mr. Sullivan.

The Secretary opened the discussion by reviewing his proposal to raise two-thirds of current expenditures from current receipts. Senator George indicated that he had been vaguely considering the proper proportions as 60 percent and 40 percent. Congressman Cooper recalled the idea discussed by the Secretary in Speaker Rayburn's room on February 27th and wondered if it would not be possible to block aside 25 or 30 billion dollars, or whatever amount we felt defense would cost us, and then plan to retire that in 8 or 10 years out of new taxes. After a lengthy discussion it was agreed that this would not be feasible because we could not anticipate the final total cost for defense nor could we estimate with any degree of accuracy tax collections for more than one year in advance.

Senator George stated that he had felt that we should raise \$2.5 billion in additional taxes and asked how we proposed to raise the \$3.5 billion. I outlined our plan and Senator George then inquired if we intended to increase the normal tax on either individuals or corporations. After some discussion he apparently accepted our viewpoint but it was demonstrated to him that surtaxes could be applied to even the lowest brackets.

The next point of discussion was excess profits. Senator George stated that the credit of 8 percent in invested capital was entirely too high, and that he probably would not agree on a reduction of the average earnings credit. I stated that even if average earnings credit were not reduced I agreed with Senator George that the invested capital credit should be reduced. I also told them that whatever additional money was to be raised through excess profits could be raised by changing the rate schedules rather than by reducing the credits. Senator George indicated that he believed this to be the preferable method.

- 2 -

They then asked me to read the excise taxes. When I stated we had estimated \$200 million additional revenue from increased taxes on tobacco, Mr. Doughton said that he was coming to believe that we should have a general sales tax and that he did not see how we could defend increasing the tax on some specific commodities and not tax other commodities. He expressed the opinion that cigarettes were just as much a necessity as food and clothing. Congressman Cullen said he was wholeheartedly in favor of a general sales tax. Senator George indicated that he was favorably disposed and Congressman Cooper stated that he was against it. I remarked that I thought that we had overestimated the importance of this tax because a 2 percent general sales tax, exempting food, fuel, clothing and medicine would not yield more than \$400 million a year. Immediately Congressman Doughton and Senator George said that if it did not yield more than that we should not consider it any further. Senator George added that if we were in favor of it, it would be necessary to get a Presidential message because that unless the President put his full strength behind this bill it would be impossible to pass it.

When I referred to the check tax, Mr. Doughton asked if we had stopped to consider that this would mean that many people would withdraw their bank accounts. I told him that we had anticipated that instead of making out twenty checks to pay twenty bills many depositors would draw one check and pay the twenty bills out of their pockets. Senator George then stated that that was always the case and that he was sure that the Treasury estimate had allowed for that anticipated development.

When I referred to the soft drinks tax Senator George asked if this tax was to be levied upon the sirups and other ingredients, and when I replied that it was he said that that was the way it should be done. He also asked if all of these excises would involve taxes at the manufacturing source and the Secretary replied that they would (this is so in the case of the tax on jewelry and furs).

I advised the group that there had been some talk of substituting an undistributed profits tax for the excess profits tax, and inquired how they felt about this. They seemed to think that this would involve a serious fight and that it would be better to stand by tax methods that had already been tried.

No schedules or papers were distributed at this meeting and the meeting adjourned with an understanding that the same group, together with the ranking Republican members of both committees were to meet at 9 o'clock tomorrow morning at the Secretary's office.

Later in the morning Mr. Doughton phoned me and rather shyly inquired how we felt about having Mr. Stam present. In accordance with our previous understanding, I immediately apologized for not having suggested that myself and said that by all means Mr. Stam should be here.

5-5

MEMORANDUM

April 16, 1941.

TO: Secretary Morgenthau
FROM: Mr. Sullivan

George Douglas, Secretary of the Committee on Government Finance of the National Association of Manufacturers, called this afternoon and said he wished to advise me, entirely off the record, of the thinking now being done by the Manufacturers Association on the tax problem. I assured him that he could talk freely and that the information he gave me would not be used outside of the Treasury.

At a meeting of the full board of the Association held recently (50 or 60 members being present) it was unanimously determined that additional taxes voted at this session of Congress should yield \$3 billion. Of this amount they felt that approximately one-half should be derived from increased individual and corporation taxes and that the other one-half should come from:

- A. Manufacturers sales tax,
- B. Retail sales tax, or
- C. Gross income tax.

In the event that "C" was adopted, they then believed that the individual income tax rates in the lower brackets should be lower than if "A" or "B" were adopted.

The problem now facing the Association is whether or not they should engage in a widespread public relations program to present this tax plan to the people of the country. The vote on this question was evenly divided and no decision has yet been made. I told Mr. Douglas that I would be glad to talk with him about this confidently and informally next Tuesday when he returns to town.

JLS

WAR DEPARTMENT
WASHINGTON

April 16, 1941

Personal

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

Dear Mr. Secretary:

I attach papers giving the information which you requested in connection with the Allison engine situation which we discussed this morning.

Memorandum marked "a" gives the number of air frames awaiting engines in the various types of aircraft using the Allison "E" and "F" engines. These figures are as of April 16 and indicate that there are 164 air frames which lack engines at this time. The detail is broken down to show the distribution over these four types. On the same memorandum there is included a schedule showing the number of engines necessary to meet airplane schedules, exclusive of this 164 air frames previously mentioned. The Allison Company's estimated deliveries are set alongside the air frame requirements and it indicates, as of this date, an estimated shortage of engines of over 1,100 in the "E" and "F" types.

I have also enclosed copies of memorandum and letters marked "b" and "c", respectively, to the Office of Production Management and to the Allison Engineering Company on the subject of their failure to meet their contract deliveries.

As I indicated to you this morning, General Echols, Chief of the Materiel Division, and I are arranging to meet Mr. Hunt and go over the matter in detail with him since our only hope now appears to be in dealing direct with this problem.

Very sincerely yours,

/s/ Robert A. Lovett,
ROBERT A. LOVETT,
Special Assistant to the
Secretary of War

Enclosures (4)

CONFIDENTIAL

ALLISON "E" and "F" ENGINESREQUIREMENTS

	Bell P-39	Curtiss P-40D	Lockheed P-38	North American 73	Total	Allison Company Estimated Deliveries
Number of Airplanes Awaiting Engines	157	0	2(4)	3	164	0
Number of Engines necessary to meet airplane schedules exclusive of above						
April	76	45	0	5	126	45
May	171	118	16	40	345	60
June	143	195	28	60	426	90
July	143	225	38	60	466	145
Total	690	583	86	168	<u>1527</u>	<u>340</u>

Above does not include delay in delivery of approximately 1000 "C" engines on original schedules for British account.

4-16-41

CONFIDENTIAL

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March 29, 1941

MEMORANDUM FOR - Mr. William S. Knudsen
Office of Production Management

1. A critical situation exists with respect to the production of liquid-cooled engines for the new models of the Curtiss P-40 and the Bell P-39 airplane. At your conference with Mr. Fairey and General Arnold in Buffalo last September, it was agreed to produce 324 additional P-40B model pursuit airplanes in order to keep the capacity of the Curtiss-Wright Corporation fully occupied until the supply of F3R engines permitted the change. At that time it was understood that the procurement of an additional 150 P-40B (British Hawk 81) would provide the Allison Company ample time to get into production on the later models of engines required for the P-39 and P-40D airplanes. It now appears from all available estimates that the Allison Company is again seriously delaying the delivery of airplanes vitally needed by both the British and ourselves. As of this date the Allison Company is approximately 200 engines behind the contract schedules of the types in question.

2. It appears that production tooling for the E engines for installation in the Bell P-39 will not be completed until sometime in April and that the manufacturer can get up to a production rate of approximately 125 engines per month by July providing too much pressure for the delivery of the F engines used for the Curtiss P-40 airplane is not brought to bear on the Allison Company.

3. The estimates for the month of April indicate that not over 30 engines will be available for division between the British and the U.S. for installation in the Bell P-39. Approximately the same number of the F type engines must be distributed between the Curtiss P-40D, Lockheed P-38 and the North American N-73's. The engines delivered in April will affect June deliveries of airplanes. (Approximately 250 are scheduled for delivery during the month of June).

4. In addition to the Allison engine situation, the Rolls Royce Packard appears to be in a similar category. Information furnished me indicates that production is at least 2 months behind schedule as of this date. It has also been reported that failure occurred in both of the test engines with many difficulties in engineering including 900 design changes initiated by the British in one month.

CONFIDENTIAL

Mr. W. S. Knudsen.

5. The seriousness of the situation confronting us with respect to the production of pursuit airplanes, suitable for combat, is brought to your attention with the request that you take such action that is appropriate under existing circumstances.

/s/ Robert P. Patterson

ROBERT P. PATTERSON
Under Secretary of War.

CONFIDENTIAL

April 12, 1941

Allison Engineering Company
Indianapolis, Indiana

Gentlemen:

Recent figures on engine deliveries indicate that the Allison engine is falling seriously behind in delivery of the "E" Type and it is apparent that the scheduled deliveries of the "F" Type will not be met. As a major portion of the Army's pursuit plane program centers around the various types of Allison engines, we are greatly concerned at the apparent inability to reach and maintain the comparatively modest scheduled deliveries which you agreed to make.

The situation with respect to deliveries on British schedules is virtually a duplication of the Army's experience in spite of the fact that large additional orders for "C" engines were placed last fall with a definite purpose of avoiding delays in the pursuit plane program.

In going over the record which commences early in 1940, it appears that the present situation that is confronting us with respect to the production of Allison engines is a repetition of the delays that have previously been encountered. While we realize that rapid expansion, coupled with the lack of skilled workmen used to aircraft engine, has been in large part responsible for these delays, we are concerned with the fact that other aircraft engine manufacturers appear to have been able to meet the problem with greater success than the Allison Engineering Corporation.

As the urgency of the situation demands that every possible effort be made to maintain the schedules on which we are relying, we would be glad to know what steps are being taken to correct these delays. It might be helpful if you will arrange to come in to Washington and indicate to us the reasons for the delays and methods which you propose to adopt to cure them.

Very truly yours,

/s/ Robert P. Patterson
ROBERT P. PATTERSON,
Under Secretary of War.

April 12, 1941

Mr. O. E. Hunt,
General Motors Corporation,
Detroit, Michigan.

Dear Mr. Hunt:

It appears that the production tooling for the "E" and "F" engines that are so vital to our pursuit program will not be completed until late this month.

Early last fall the procurement of a large number of additional "C" engines delivered to the Army and British were authorized in order to avoid a possible delay in the pursuit program so urgently needed by both the British and ourselves.

There is enclosed a copy of a letter to the Allison Engineering Company pointing out the seriousness of the situation and it is hoped that you will see fit to make a personal investigation of the conditions at Allison and advise me of your findings. I would appreciate your estimate of the situation at an early date in view of additional expansions of engine capacities that are now under consideration by the War Department.

Very truly yours,

/s/ Robert P. Patterson

ROBERT P. PATTERSON,
Under Secretary of War.

1 Incl.
cc ltr to Allison Eng. Co.

April 16, 1941
11:36 a.m.

H.M.Jr: Hello.

Operator: Mr. Sloan.

Alfred Sloan, Jr.: Hello.

H.M.Jr: Mr. Sloan?

S: Yes, Mr. Morgenthau.

H.M.Jr: How are you?

S: Pretty good. How are you?

H.M.Jr: Well, I'm pretty good. I didn't think I'd be calling you up again to talk about that Allison engine.

S: Well, all right. Do you want me to tell you how the situation stands?

H.M.Jr: If you can tell me anything, I'd love it. I can tell you what they tell me.

S: (Laughs). All right, Mr. Secretary. But listen, Mr. Secretary, let me say this. What I tell you I'm going to ask you to keep it entirely off the record - I mean to say certain features of it because it embarrasses me in telling you things that we're working on and it gets around the other way. You understand.

H.M.Jr: Well, I'd like to be free to tell it to Mr. Lovett.

S: Well, here's the point. At the moment we're changing from - we got up to pretty good productivity on the "C" engine and then we reached the point where we felt we should change from the "C" engine to the "E" and "F". You know that was contemplated some time ago. Well, now, we've run into the normal amount of difficulties in changing the design because the "E" and "F" design was quite - although the fundamentals of

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the engine were the same there were quite a number of differences that were quite technical. For instance, the principal difference in the design involved the super-charger and there were two or three technical things. One particularly was what we call the balancer on the crankshaft which involved some delays in production. I would say that the delays were principally incidental to the fact that tools, when they are made by machine tool people and come into a factory, frequently have to be fussed with or changed about because they don't always do exactly the work contemplated. And when you are dealing with a job of this kind, which is so highly technical and involves such narrow limits of tolerance, why that fact is particularly true. Now just at the moment we're going through that process of testing out our tools, making the changes in the tools that are incidental to getting into the "E" and "F", and that involves some delay in production. Now I went into the thing very exhaustively yesterday afternoon with Mr. Hunt and I can assure you that there is nothing fundamental at all in the "E" and "F" engine except the normal problems that we get when we get into something that is different even if the difference - this case as compared with the "C" engine - is merely a matter of degree.

Now we're going to ship this month quite a substantial quantity of the "E" and "F" engines. I can assure you that from now on that that type of engine will increase in production just the same as the "C" did last summer and through the fall.

H.M.Jr: Well, now, how many do you think you are going to produce in April, May and June?

S: For this month?

H.M.Jr: Yes.

S: In April. I don't know as I ought to say that without checking the thing, but as I

- 3 -

recollect it, I was informed that we expected to ship about 200.....

H.M.Jr: Well, I think you had better check up on

S: I tell you what I'd better do, Mr. Secretary. I'd better get the actual figures and phone you. I don't want to do anything that would mislead you.

H.M.Jr: No. Because, Mr. Sloan, I can't understand, frankly, how a smart fellow like you could get yourself in this position again.

S: Could get what?

H.M.Jr: Get into the same position that you were in on the "C" engine.

S: Well, because it's the same problem and if after we get the "E" and "F" engine we have a "G" and "H" engine, we get into the same thing with the "G" and "H" engine. You can't do this thing any other way; you can't go to work and bring something that is different into production without going through the same sort of thing. Now, you are never so smart but what there is always something. There is some time that has to be taken in making some adjustments. If you have a good break on some things, you'll get a bad break on others.

H.M.Jr: But you see according to your own promises, you are about 1,000 engines behind.

S: That may be. That is apt to be so in the initial stage of a new thing. I knew perfectly well when we went to the "E" and "F" engine that we'd get into these difficulties, and there is bound to be delay at the initial stage of it. I don't know when - I'll tell you frankly, we don't know how to avoid those things. We've been making motor cars for twenty-five years and we get up against the same thing when we bring out a new model of motor cars.

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H.M.Jr: Oh, now, wait a minute! If you had done that you would have been in the hands of the junk dealer a long time ago.

S: What was that?

H.M.Jr: You'd have been in the hands of the junk dealer a long time ago.

S: Yes, but all I'm trying to say to you is that every year when we bring out a new model we go through exactly the same thing only in this case the situation is very much exaggerated because, as you know, in an aviation engine the tolerances of error are very, very narrow, one-tenth as much as they are in motor car practice so that accentuates the difficulty.

H.M.Jr: Yeah, but I thought you would have learned how to make these things by now.

S: Well, I think we have learned a good deal, Mr. Secretary, but if we change a design, we've got to learn certain things that were not involved in the first design and I've been doing these things for twenty-five years - I don't know how to avoid that and I don't think anybody else has avoided it.

H.M.Jr: Well, now, look. Here's the thing. This whole program - the Bell and all these other people, they've got a whole flock of

S: He's got some planes ahead of us at the moment. I realize that and I think that can be helped out and is being helped out by the fact that he can go ahead and produce the planes and we can put the engines in afterwards. We're sending him certain other parts - transmissions and so forth incidental to the thing to facilitate that ahead of the engines.

H.M.Jr: Well, now, will you do me a little favor?

S: I'll do anything I can for you.

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H.M.Jr: Find out what you think you can do in the way of the "E" and "F" - what you really expect for April, May and June.

S: Let's say for April, May and June.

H.M.Jr: Yeah.

S: All right. I'll get that information and telephone it to you as soon as I can get it.

H.M.Jr: Because everybody down here is terribly worried about it.

S: Well, of course, I can appreciate that, but I realize that and I would be worried about it too if I thought that there was anything inherent in it, but I know there isn't. I'm only concerned with the delay.

H.M.Jr: Well, are you satisfied that the "E" and "F" will perform once it is in the air?

S: That gets in the area that I'd better express it yes. I'll answer that without any question or without any hesitancy, yes. As a matter of fact, I think - and here is something that is between you and me very strictly, and please respect what I tell you on that point. I think we're shortly going to move up to a considerably higher rating on the "E" and "F". I suppose that you know that the rating of the "E" and "F" now is 1150.

H.M.Jr: Well, I've been a little rusty on this.

S: Well, I tell you, when you and I were originally talking on the "C", Mr. Secretary, we were talking about 950.

H.M.Jr: That's right.

S: Now we're up to 1150 and here's where I - I'm so anxious because I want to give you all the encouragement that I can and at the same time I don't want to get involved

- 6 -

in a lot of difficulties. But I think that we will within a reasonable time move the 1150 up considerably.

H.M.Jr: How much?

S: Now don't pin me down so much.

H.M.Jr: Well, I don't know. Are you talking 100 horse, 200 horse more?

S: More than that.

H.M.Jr: How much?

S: A little more than that.

H.M.Jr: A little more than that.

S: Now, please don't - please keep that to yourself.

H.M.Jr: No. I'll protect you.

S: Yes, because it prejudices me terribly when it gets back because the great trouble with those things, Mr. Secretary, the time element is always there and the urge for more power and more of this is so great that it prejudices our operating people. I'll just say - let me put it this way. I think that the 1150 has already had its test; that has been approved and I think in the due course of time that we'll have another test which will give us a better rating because we have been ever since the thing started working toward balancing out the various parts and eliminating weaknesses so that we have a better balanced engineering design from the standpoint of its factors of safety because, as you know, a chain is only as strong as its weakest point.

H.M.Jr: Well, now you find out for me and maybe I'll hear from you this afternoon.

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S: I think that that information is available. I was discussing it yesterday but I had better not quote figures to you unless I'm sure I'm right.

H.M.Jr: Thank you.

S: All right.

H.M.Jr: Thank you.

April 16, 1941

Files

Mr. Cochran

STRICTLY CONFIDENTIAL

At 2:30 this afternoon Mr. Playfair telephoned me from the British Treasury Mission that a cablegram had just been received from London to the effect that the gold shipment consists of 4,650 boxes containing 9,360 Rand bars, plus 6 boxes containing sovereigns. I telephoned Mr. Eakin at once but since he had someone with him I transferred to Mr. Cameron and gave the latter the foregoing information at 2:30 p.m.

When the British Treasury people were with me this noon I submitted to Messrs. Phillips and Playfair two alternate texts of the press release and got their approval thereto. At 3:00 this afternoon I submitted the text by telephone to Admiral Byrd. I told the latter that I would let him hear from me later as to what the desires of the Secretary of the Treasury in the premises might be.

April 17, 1941

This morning I received from Mr. Playfair the attached note confirming his message of yesterday. Upon the receipt of this word I asked Mr. Dietrich to telephone the Federal Reserve Bank at New York in regard to the possibility of an error of two gold bars.



British Embassy,

Washington, D. C.

April 17, 1941

By hand - urgent.

Dear Cochran:

I write to confirm the information which I gave you yesterday on the telephone, that the shipment consists of

- (a) 4690 boxes containing 9560 Rand bars, fine weight 3,774,564.70 ounces. The number of bars is subject to a possible error of two, otherwise the figures are firm.
- (b) 6 boxes containing 11,462-1/2 sovereigns.

I am afraid that over the telephone I gave you to understand that the figure quoted above in fine ounces covered the sovereigns as well as the bars, whereas in fact it excludes the former, as stated in Pincent's note of April 3..

Yours sincerely,

H. V. Playfair.

Mr. E. Neville Cochran,
U. S. Treasury,
Washington, D. C.

Cogg:lap-h/17/41

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 16, 1941.

TO Mr. Cochran
FROM Mr. Dietrich

The following is a brief resume of the delivery of the British gold to the Assay Office today:

At 10 a.m. Mr. Cameron of the Federal called and said that they were going to use six trucks of the U.S. Trucking Company in transporting the gold from Brooklyn to the Assay Office. He also said that Mr. O'Keefe, Deputy Collector of Customs at New York, would send Special Agent Fitzgerald of Customs to the dock to keep other Customs officials away from the shipment.

At 12:52 p.m. Mr. Harding of the Federal said that their men were on their way to Brooklyn and that the ship was expected to dock at 1:30 p.m.

At 2:36 Mr. Harding called and informed me that the ship docked at 2:15 p.m.

At 3:10 p.m. Mr. Harding said that the first truck had left Brooklyn at 3 p.m. with 200 bars. I then suggested that the Federal put on two or three more trucks.

At 4 p.m. Mr. Harding said that six trucks had left Brooklyn with 1,120 boxes and that the first three trucks had arrived at the Assay Office. He informed me that the Federal had put on three more trucks making a total of nine trucks in use.

At 5:10 p.m. Mr. Harding stated that eight trucks with 1,460 boxes had arrived at the Assay Office.

At 6:45 p.m. Mr. Harding called and said that eighteen trucks had been loaded with 3,545 boxes of which fifteen trucks had arrived at the Assay Office with 2,800 boxes.

At 7:35 p.m. Mr. Cameron called me at home and said that the last truck left Brooklyn at 7:30 p.m.

At 8:15 p.m. Mr. Cameron again called and said that all of the shipment of 4,696 boxes had been delivered to the Assay Office and that the Federal held the Assay Office receipt for the boxes delivered.

TO:

Mr Cochran 207

Secretary handed
this back to me
after reading it.

My
Coy E

From: LIEUT. STEPHENS

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 16, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. Jay Crane spoke with me informally by telephone a few days ago, inquiring as to the possibility of his company providing petroleum products to Great Britain under the Lend Lease system. I spoke with Phil Young about this and Phil recommended that Mr. Crane come down and see him. Mr. Young would pass Mr. Crane on to someone else if this might be necessary, but he thought that he could give him basic information and could receive any representations from Mr. Crane.

Mr. Crane telephoned me at 12:15 today. He had talked the matter over with some of his Directors who approved his coming to Washington to put their proposition up to Mr. Young. They were, however, so appreciative of the assistance which the Secretary had rendered them on a prior occasion in relation to their oil sales to England, that they desired that Mr. Crane leave with the Secretary a copy of the memorandum which they have drawn up and which he will present to Mr. Young.

Will the Secretary let me know whether he could receive Mr. Crane for five minutes to accept this memorandum, and, if so, at what hour on Thursday, April 17.



April 17, 1941

The Secretary sent out word yesterday afternoon that he would receive Mr. Crane at 3:30 p.m. today. I telephoned this word to Mr. Crane and also arranged for Mr. Philip Young to receive him at 2:30 p.m. today. At 11:30 this morning Lieutenant Stephens sent word to me that the Secretary was cancelling all appointments for this afternoon, including that of Mr. Crane. It was too late to get this word to Mr. Crane in New York, but I gave it to him at 12:50 this noon when he telephoned me upon his arrival in Washington.



Memorandum for the Secretary's Diary:

April 16, 1941

A conference was held in the Secretary's office on April 16, 1941 at 3:30 p.m. There were present Secretary Morgenthau, Donald Nelson, Harry White, Ed Foley and Mrs. Klotz.

Nelson distributed the attached letter which he had sent to the President as a counter proposal to Secretary Morgenthau's letter of April 6 recommending that a clause be inserted in all defense contracts to the effect that the contractor agrees to comply with the labor laws.

Nelson's objection to our proposal was that it would require policing of all contracts and rejection of the contracted material as a penalty for violation. In his opinion, he said the way to do it was to check the labor record of the proposed contractor prior to the award and withhold contracts if the labor record is bad. Secretary Morgenthau asked Nelson how many contracts were processed through his office before awards were made. Nelson replied that a procedure could be set up whereby all contracts would be submitted to him and a check made of the proposed contractor's labor record. Foley pointed out that if the labor clause had been inserted in the contract which had been tendered to Ford, Ford never would have signed up and the subsequent labor difficulties could have been avoided. Nelson related that he had talked to the President about the Ford situation and the President had authorized him to proceed when he told the President there was no other plant capacity where the airplane engines could be procured. Nelson insisted that delivery of the engines was paramount to all other considerations.

Secretary Morgenthau took issue with Nelson on this point and said that higher considerations than quick delivery were involved. He said that his objective was to protect the President and at the same time to prevent a repetition of the labor situation recently witnessed in the coal, steel and automobile industries. Secretary Morgenthau said he was convinced that disgruntled fellows like Lewis had sworn to get the President by tying up the defense program in labor difficulties and he wanted to prevent Lewis from further embarrassing the President if possible. Secretary Morgenthau

- 2 -

said he thought that he and Nelson ought to be able to agree on a joint proposal to accomplish this purpose.

Nelson said in his opinion that the real difficulty was the failure of OPM to announce a labor policy similar to the one announced by the Advisory Commission last September and communicated by the President to Congress. He said that Stimson, Knox and Knudsen were opposed to any labor pronouncement by OPM. Nelson thought that a great deal of difficulties in the future could be avoided if publicity could be given a labor policy pronouncement by OPM which would indicate that defense contracts would be withheld from proposed contractors with bad labor records.

Secretary Morgenthau was of the opinion that something along this line could be worked out and suggested that Foley and Nelson draft something and submit it to him for approval.

Nelson said that he was leaving for New York City, but would be back sometime tomorrow. In the meantime, he suggested that Foley and Milton Katz get together and draft something.

On April 17, at 10:18 a.m. Milton Katz came to Foley's office and agreed to a joint proposal along the lines contained in the attached drafts prepared by O'Connell and Kades. Katz said he would clear it with Nelson as soon as Nelson returned to town.

The President

The White House

Dear Mr. President:

I am writing to supplement my oral report of April 11 concerning the suggestion of the Secretary of the Treasury "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."

In my judgment, it would not be helpful to require the inclusion of such a clause in defense contracts. To do so would, it seems to me, inevitably visit upon the various contracting and purchasing officers of the government (and upon prime contractors in their relation to subcontractors) the burden of determining whether and when a violation of law has occurred. Experience demonstrates that these questions are frequently intricate and highly controversial, and tax the capacities even of agencies specially trained and equipped to resolve them. Such a clause would, moreover, introduce an incalculable factor into contracts which might prove acutely embarrassing to the government. With events moving and conditions changing as rapidly as they are, we cannot know at the time when a contract is executed how urgent our need may be for the particular articles three or six or twelve months later. In consequence, if contracts should include the suggested clause, we may find ourselves repeatedly forced to choose between rejecting articles the need for which is vital and immediate, and

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avoiding the obligations imposed on us by the clause.

It seems to me that the point at which to implement the labor policy incorporated in the principles governing the letting of defense contracts transmitted by you to the Congress under date of September 13, 1940, is the time of award. Under a procedure already established, major proposals for purchase or construction by the Army and Navy are submitted to the Office of Production Management for clearance prior to award. The Office of Production Management has vested the function of clearance in the Director of Purchases, who is required, prior to clearance or rejection, to take the opinion of any division, bureau or office of the Office of Production Management which may have an interest in the proposal. It would be practicable to submit the name of any proposed supplier to the Labor Division of the Office of Production Management, prior to clearance of a proposed award; the Labor Division could report on such proposed supplier's record of compliance with or violation of labor laws, as established by the orders or reports of appropriate administrative agencies or by judicial decision; and in the light of this record and the acuteness of the need for the capacity of the particular supplier, a determination could be made whether to clear or reject the proposed award. In following such a course, I believe that our emphasis should be upon promoting compliance, as far as this can be done consistently with the primary objective of military procurement, rather than punishing for non-compliance. In consequence, the essential questions in each case would be: is the supplier now in violation of existing law, or does his record indicate a substantial probability that he will continue to violate in the future as he has in the past; and, if the record does thus establish him as an actual or imminent violator, is it feasible to seek alternative sources of supply? Whenever a proposed supplier is rejected because of violation of federal laws affecting labor, the permanent files should contain a clear statement of the basis for rejection. Similarly, whenever an award to such a supplier is cleared notwithstanding objections based upon violations of labor laws, the permanent files should contain a clear statement explaining why the circumstances of the particular case nevertheless justified the award.

Respectfully yours,

Donald A. Nelson
Director of Purchases

NE/CR

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April 18, 1941

MEMORANDUM FOR THE PRESIDENT:

As a result of several conversations we have come to the conclusion that a statement of policy, incorporating the labor requirements issued by the Advisory Commission on August 31, 1940, ought to be issued by the Office of Production Management. We recommend for your consideration the desirability of the issuance by that office, and its publication in the Federal Register, of a statement of labor policy along the lines set forth in the attached statement.

The statement adopts the labor policy of the Advisory Commission and implements it by requiring, before the award of any defense contract, a certificate from the contractor that he is complying with and will comply with all Federal laws affecting labor. A suggested form of certificate is also attached.

This suggestion is made in lieu of our individual recommendations previously made to you.

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

(Signed) Donald M. Nelson

Director of Purchases.

Sent to the White House today by hand.

STATEMENT OF LABOR POLICY
OF OFFICE OF PRODUCTION MANAGEMENT.

I. Notice is hereby given that no defense contracts shall hereafter be awarded unless the contractor is complying with the labor policy of the Advisory Commission to the Council of National Defense unanimously adopted on August 31, 1940. The President of the United States considered that policy to be of such importance as to justify transmitting the statement of it to the Congress in a message on September 13, 1940. The statement of the Advisory Commission's labor policy follows:

"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.

2.

"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 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:

3.

"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."

2. In order to effectuate this labor policy, no defense contracts shall hereafter be awarded, unless the contractor shall have first certified to the Government department or agency awarding such contract that he is complying with and will continue to comply with all Federal laws affecting labor to which he is subject and that he will require subcontractors to sign similar certificates before making awards to or purchases from such subcontractors.

6.

Any person falsely certifying as to such compliance may be punished as provided in section 35 of the Criminal Code, as amended.

**CERTIFICATE OF COMPLIANCE WITH FEDERAL LAWS AFFECTING LABOR
IN CONNECTION WITH DEFENSE CONTRACTS**

To:

(Insert name of Government Department or Agency awarding contract)

It is hereby certified that the undersigned is complying with and will continue to comply with all Federal laws affecting labor to which the undersigned is subject, and that the undersigned will require all subcontractors to sign similar certificates before the undersigned will make awards to or purchases from such subcontractors.

(Signature)

Penalty for False Certification

Section 35 of the Criminal Code, as amended, provides a penalty of not more than \$10,000 or imprisonment of not more than ten years, or both, for knowingly and wilfully making or causing to be made "any false or fraudulent statements * * * or use or cause to be made or used any false * * * certificate * * * knowing the same to contain any fraudulent or fictitious statement * * *" relating to any matter within the jurisdiction of any Governmental department or agency.

To:

219

MISS CHAUNCEY:

D

Mr. Foley carried the original
to the Secretary - 4-16-41.

MR. FOLEY

APR 16 1941

Secretary Morgenthau**Mr. Foley**

Col. Greenbaum and Mr. Duryee of the War Department conferred with Messrs. Sullivan, Blough, Kades and myself at my office yesterday afternoon from 2 until 4 o'clock on the question of the applicability of state sales taxes to contractors working for the War Department on a cost-plus-fixed-fee basis. The following program was agreed to by all present and I understand was approved by Judge Patterson this morning:

1. No legislation dealing with state sales taxation of War Department cost-plus contractors should be drafted.
2. No litigation attacking the right of a state to levy state sales taxes on War Department cost-plus contractors should be instituted or carried by the Federal Government to the United States Supreme Court.
3. The form of War Department cost-plus contracts should be revised so that the purchase of gasoline and other similar commodities subjected to state sales taxes would be made directly by the War Department and for its account instead of being billed to the contractor, which is the existing procedure. (It was Col. Greenbaum's understanding that no State except North Dakota, is attempting to impose a sales tax on

- 2 -

transactions directly with the Federal Government.) Existing cost-plus contracts will be amended wherever possible to accomplish the same result.

4. The War Department will discuss with state officials the financial burden imposed upon the Federal Government in carrying out its defense program by a state tax policy which imposes sales taxes on War Department cost-plus contractors and would indicate that the War Department would discourage the location of additional cantonments in such states because of the increased costs.

Early in the conference Col. Greenbaum submitted a memorandum from Secretary Stimson to Judge Patterson which stated that the President had said at Cabinet meeting that the Federal Government would gain more by taxing the interest on future issues of state and municipal securities than it would lose if it paid state sales taxes, and that a statute should be drawn and introduced which would provide for the taxation of future issues of state and municipal bonds and would also consent to state taxation of sales to the Federal Government and to contractors working for the Federal Government on a cost-plus basis. Secretary Stimson's note instructed Judge Patterson to work with the Treasury and the Attorney General on the drafting of such proposed legislation.

- 3 -

I stated that it was my understanding that Judge Patterson, Col. Greenbaum, Mr. Sullivan and myself were to work out a program satisfactory to us and to take it up with the Attorney General, and that if approved by the Attorney General and all of us, it would be agreeable to the President. The conference proceeded on this basis.

The trend of Supreme Court decisions limiting the doctrines of reciprocal immunity from taxation and the various holdings by the Comptroller General concerning the power of War Department officials to pay state gasoline, sales and other excise taxes on transactions with the United States and with contractors working on a cost-plus-fixed-fee basis were generally discussed.

The cost to the Federal Government of the state sales taxes in question is still undetermined. The War Department figures are so far apart from the Treasury estimates that Col. Greenbaum agreed to try to secure more detailed information as to the basis of the War Department's computation of cost.

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

CLK:t
4-16-41

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 16, 1941

TO Secretary Morgenthau
FROM Mr. Cochran ^{For Miss Gurnea}

Sir Frederick Phillips telephoned me at 3:55 this evening. He said that he had just received a message by telephone from New York to the effect that Mr. Jesse Jones had agreed to lend the full \$40,000,000 to the Brown and Williamson people. This would presumably yield \$25,000,000 in dollar exchange for the British Treasury, above the indebtedness of \$15,000,000. Sir Frederick understood that Mr. Jones would give out some publicity on this transaction at 4 p.m. today.

I gave the foregoing information personally to Secretary Morgenthau at 4:15 this evening.

When the ticker report of Mr. Jones' press conference came over at 4:30 p.m., I telephoned the wording thereof to Sir Frederick Phillips, and also summarized it to Secretary Morgenthau over the phone at 4:55 p.m.

WMS

April 16, 1941

Dear Mr. Wilson:

Thank you very much for your letter of April 15th with inclosed memorandum which proved to be the exact information that I needed.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Morris Wilson,
British Air Commission,
1785 Massachusetts Avenue,
Washington, D. C.

April 16, 1941

Dear Mr. Wilson:

Thank you very much for your letter of April 15th with inclosed memorandum which proved to be the exact information that I needed.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Morris Wilson,
British Air Commission,
1705 Massachusetts Avenue,
Washington, D. C.

- 1) Aircraft Engines.
- 2) Alclad sheet, forgings,
Castings & extrusions.
✓ 6) Magnesium.
- 3) Machine tools.
- 4) Propellers
- 5) Oleo struts.

**BRITISH AIR COMMISSION**

1785 MASSACHUSETTS AVENUE

WASHINGTON, D. C.

TELEPHONE HOWARD 9000

PLEASE QUOTE

REFERENCE NO. _____

April 15, 1941.

Dear Mr. Secretary,

Following our talk this morning, I enclose a note of the principal difficulties arising in the British aircraft programme. I hope it is what you required for your talk with Mr. Lovett tomorrow morning.

Yours sincerely,

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

NOTE FOR MR. MORGENTHAU ON
CAUSES OF DELAYED PRODUCTION UNDER BRITISH ORDERS

* * * * *

1. The most serious difficulty precluding immediate deliveries is supplies of Allison "E" and "F" type engines. The Bell Airacobra P.39 and the North American Mustang N.A.73 type contracts are both running from two to three months behind schedule. The prospective shortages of Allison "E" and "F" type engines on American and British orders to the end of 1941 is thought likely to reach a total of not less than 2,000 engines. This will mean a corresponding loss of complete aircraft. The difficulties relate primarily to the development problems which are still holding up the production of these new engine types.
2. The next serious case concerns the Lockheed "Lightning" i.e. the English version of the P.38 aircraft. To clear the "Lightning" production position the British have been obliged to install Allison "C" type engines until the "F" type becomes available. But even on this basis, this order is running four months behind schedule and the current U.S. Army programme for P.38 deliveries is likely further to delay British orders. The U.S. Army Department are now taking steps to ensure acceleration on the British deliveries by allowing Lockheeds to place the emphasis on British orders rather on those for the U.S. Army.
3. The prospective shortage of Allison "F" engines will thus effect Airacobras, Mustangs and Lightnings. It will, however, also prejudice deliveries of the Curtiss Kitty-Hawk i.e. the P.40D type aircraft already due for initial deliveries. A big building-up programme is in prospect here as the production of the P.40 type runs out; it is to be feared that a serious holdup in production will develop over the next two to three months if the Allison "F" difficulty is not cleared. Meanwhile it is hoped that prior consideration may be given to British

-2-

needs in allocating the limited number of engines available.

4. In general, for the rest of the programme there is a definite prospect of shortages of aluminum extrusions, forgings and castings over the next six months. The trouble is causing delays, for example, on the British Baltimore aircraft order with Glenn-Martins which is nearly two months behind. We are already 50 aircraft behind the original Baltimore scheduled deliveries and will have lost roughly 250 aircraft in all by the end of 1941. This is a typical case of a threatened trouble likely to concern the whole aircraft industry. It is not so much a shortage of aluminum ingot as of fabricating capacity for extrusions, forgings and castings.

5. A similar difficulty has emerged on magnesium. Shortage in supplies threatens to involve a cut of 20% in engine deliveries from June onwards. Substitutions of other metals wherever possible may ease this position later, combined with development of new capacity for magnesium production; but the immediate problem is to tide over the next six months. Exports to England have already been cut to the level barely adequate to maintain the production of incendiary bombs and flares on the scale necessary for air offensive operations this summer. The importance of incendiary bombs and flares cannot be overemphasised in the light of recent developments in air technique.

6. The foregoing cases illustrate the more important difficulties affecting the British programme. The problems are already well known to the O.P.M. and action is being taken to meet them as far as possible. Insofar as such action is unlikely to meet the situation, priority for British orders seems to be the only solution. Generally speaking, the whole programme is running from two to three months late and over 600 aircraft are

-3-

already behind their contract schedule delivery dates. It may be convenient to summarise the essential points calling for urgent attention, viz.

- (a) intensive action to bring the Allison "E" and "F" type engines into full production
- (b) quick development of capacity for fabricated aluminum extrusions, forgings and castings and
- (c) adjustment of the acute magnesium shortage.

Washington, D.C.
April 15th, 1941.

APR 16 1941

MEMORANDUM

To: Mr. Harry Hopkins
From: Oscar Cox
Subject: The Possible Use of Flight-Delivered Aircraft for
Convoy Work.

In view of the part which aircraft has played in the naval battles of this war, it might be worthwhile exploring the possibility of integrating the flight-delivered aircraft into the convoy system.

Subject to further check, it would seem that flight-delivered aircraft might conceivably be used for the purpose of spotting German submarines and raiders, and for combating them with depth-charge bombs.

At the present time, long-range, four-engine bombers and some medium bombers with additional fuel tanks are being flight-delivered. By the possible use of bases such as Greenland and Iceland, lighter planes can probably also be flight-delivered.

- 2 -

On the basis of the present production schedules, there is some likelihood that more long-range and medium bombers can be made available to Britain.

You may want to have these possibilities explored by our Navy people, and by some of the British Admiralty and air people, such as Air Commodore Pirie.

OSC:djb
4-18-41



THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

April 16, 1941

TO THE SECRETARY:

As you know, the Argentine Ambassador tried to see you yesterday and I understand you asked him to see me. He came in today and said he had instructions from his Government to ascertain from you whether or not it was your intention to recommend an extension of the Stabilization Fund, and if you so recommended, whether you had any thoughts that it would be difficult to obtain.

I told him that we had every intention of recommending an extension of the Fund and, while we might expect to have the usual debate on the question of extension, we expected that in the end it would be extended. The Ambassador said that this was a satisfactory answer to him and he knew that we had a Congress to deal with, the same as his Government, and that we could not give a definite answer as to whether the legislative body would approve the extension.

He also brought up the question of approving applications made to the Foreign Funds Control Section of making payment in dollars to Argentina from French account for goods delivered by Argentina to France prior to the German occupation. He wondered if something could not be done by the Treasury Department to approve these applications as his Government needed the dollars very much. I told him that I was not familiar with these applications but would send Mr. Pehle a memorandum on the matter.

swB

C
O
P
Y

Buenos Aires, April 16, 1941

No. 2280

Subject: LOAN OF 60 MILLION DOLLARS BY THE EXPORT-IMPORT BANK OF WASHINGTON TO ARGENTINA AND CREDIT ARRANGEMENT EXECUTED BETWEEN THE UNITED STATES TREASURY DEPARTMENT AND THE CENTRAL BANK OF ARGENTINA: EDITORIAL IN La Prensa OF BUENOS AIRES CRITICIZING LEGISLATION INITIATED IN THE ARGENTINE CONGRESS FOR APPROVING THESE TRANSACTIONS

The Honorable

The Secretary of State,
Washington.

Sir:

With reference to the Embassy's despatch no. 1838 of January 21, 1941, and previous despatches reporting the campaign being conducted in La Prensa calling for ratification by specific legislation of the credits arranged in Washington some weeks ago with the Export-Import Bank of Washington and the United States Treasury Department, I have the honor to report that La Prensa has continued this campaign. Enclosed is a clipping, with translation, from the paper of April 14, 1941, containing a leading editorial which censures the Executive Power for seeking approval of the measures by means of the legislation recently sent to Congress. However, the thesis now maintained by the paper appears to be not a challenge of the legality of the means sought to ratify the credits but a criticism of the effort allegedly being made to induce Congress to delegate to the Executive Power authority with respect to future transactions which should not be delegated.

Enclosures:

As stated.
Qn. 851 JWG:MRD

Respectfully yours,
Norman Armour

(TRANSLATION)

LA PRENSA, April 14, 1941.

THE CONGRESSIONAL BILL ON THE DOLLAR LOAN

To judge by the tone of the message which the Executive Power has sent to Congress and by its attitude, it was the importance of the two-credit operations aggregating \$10,000,000 concluded by the Central Bank with the promise of guarantee on the part of the Nation, and not an imperative constitutional matter, that influenced it to take the matter to the Legislative Power. Previously there could not be used a loan of \$20,000,000 which was without effect owing to the lack of authorization by our Congress, a requisite which it is believed was demanded by the United States officials.

It is a fact that the Central Bank does not have authority for contracting those loans, and the guarantee of the Nation can only be granted by virtue of a law.

If there is involved authority for contracting those loans, the law should establish the conditions of the contracts and the Executive Power could not depart from them. But as the case is one of contracts already signed, Congress cannot give them its approval without examining their text, because any other position would be to approve that which it does not have knowledge of.

However, the Executive Power is not seeking an approval of those operations, but much more, foreseeing that the difficulties of our foreign commerce will continue as long as the war lasts, and even during the period afterwards, it considers it prudent to obtain authorization for concluding similar operations in the future, with the same purpose as the aforementioned loans, for attenuating insofar as possible the effects of the changes in the currents of commerce. But this would signify the waiving by the Legislative Power for a number of years of its own powers in the matter of loans. The Executive inserted an article for the purpose of authorizing those operations without fixing any limitations or conditions in the Congressional budget bill for 1941, sent to Congress with the message of December 23 last, when the negotiations were almost over. Article 16 says: "The obligations or undertakings which the Central Bank contracts--it would be proper to say which it may contract--abroad for providing for the necessary foreign exchange for the more satisfactory functioning of the exchange market, with the authorization in each case of the Executive Power, shall be considered in each case as obligations of the Argentine Nation in the same conditions as those established in Article 10 of Law 4507. The product in national money of the aforementioned operations in foreign exchange, may be invested in Treasury bills of the Nation or deposited in the banks of financial institutions of the city on the terms which the Central Bank may arrange with them."

Article 10 of Law 4507 simply says that the nation is directly liable for the deposits and operations which the Bank of the Nation transacts, and as is seen, it does not make any conditions, for it goes so far as to confound the person of the Nation with that of the Bank by means of the adverb 'directly'.

In the Congressional bill regarding the presumed approval of the two dollar loans, that insert in the budget bill for 1941 is transformed into a body of law with seven articles, where the authorization for contracting with the Treasury of the United States, the Export-Import Bank of Washington and other credit entities abroad—that is, with whomever it wishes and wherever it wishes—operations having the purpose of obtaining foreign exchange for covering the deficit of foreign accounts and to facilitate the operations of monetary regulation, would be not only for those which the Central Bank might contract, which have the guarantees accorded in each case by the National Executive Power, but also for loans contracted directly by the Executive Power itself without any explanation being given concerning that banking function of obtaining foreign exchange which is attributed to it.

According to the second article of the same Congressional bill, the product in national money of the operations which the Central Bank conducts could be deposited in banks of the country or invested in treasury bills or in obligations which the national government may issue for financing the purchases of agricultural-livestock products; but there have not been established previously and in a definite way the authorization, conditions and purpose of such an issue.

These obligations would be vaguely authorized by the third article in which it is provided that they and the other credits which the banks may grant for the same purpose may not exceed 500,000,000 pesos without prejudice of, that is, without taking into account, the obligations which would be turned over to the Bank of the Nation in cancelling the debt existing in that connection. And it is provided in Article 4 that the interest and amortization of such obligations shall be served by the profit fund in foreign exchange.

The Executive would reserve for itself the power of fixing the amount of the loans and the forms of obligations, the real interest and the conditions of amortization of the loans, without the said loans appearing in the budget. And the system for placing such obligations would at least lead to a banking inflation owing to the operations, which would amount to a substantial alteration of the banking system. Except that the provisions of the law would be transitory and would end a year after the termination of the war and in no case would be valid for a period longer than three years.

It is a system which recalls the Congressional bill for economic recovery, which according to indications, will likely be abandoned, insofar as it relates to the double role of the Central Bank, to industrial rehabilitation, to the construction of cheap houses and to inflation, which in the new bill is monetary. And this abandonment will likely be for the simple reason that the money could not be obtained

for

for more than the financing of the crops, but it may be also because in the Executive Power there have already been dissipated the illusions of monetary magic.

JWG:MRD

bj:eh:copy

April 16, 1941.

MEMORANDUM FOR THE FILES:

There was a meeting in Secretary Morgenthau's office yesterday, attended by the Secretary, Mrs. Klotz, Mr. Foley and Mr. Bernstein to discuss the Anglo-Palestine Bank matter. Mr. Foley read the memorandum, a copy of which is attached, indicating the alternative proposals considered in connection with the Bank. The Secretary then read the draft of letter. The Secretary agreed with the point of view taken in the memorandum. It was also agreed that it would be unfair to send Istorik to the Export-Import Bank. The Secretary also stated that in lieu of his handing Istorik the letter which had been drafted, we would go over the matter with Istorik and if Istorik said that the letter would be helpful to him, we could tell Istorik we would see if the Secretary would sign it. After this preliminary discussion, Istorik came to the meeting and at the Secretary's request, Mr. Foley described the situation along the lines indicated in the memorandum. Mr. Foley also indicated that the Treasury does not ordinarily initiate matters with the Export-Import Bank or the Reconstruction Finance Corporation, that if Mr. Istorik wanted to go around and see these Government institutions that would be entirely his own problem to decide.

After the meeting in the Secretary's office, Foley and Bernstein talked to Istorik a little while about the possibility of writing a letter to Istorik. Thereafter, Istorik and Bernstein discussed the matter further in Bernstein's office. Bernstein is going to draft a letter from the Secretary to Istorik and will discuss the matter further with Istorik.

Attach.

April 15, 1941.

Secretary Morgenthau

Mr. Foley

Alternative Proposals Considered
re Anglo-Palestine Bank.

- (1) RFC or Export-Import Bank to lend \$8,000,000 to American branch of Palestine Fund to be secured by future donations to Palestine Fund and by additional stock in Anglo-Palestine Bank and by securities of Palestine enterprises owned by Anglo-Palestine Bank.

The dollars will be turned over to the British Treasury and the sterling will be divided between the Anglo-Palestine Bank and the Palestine Fund.

- (2) Export-Import Bank to finance exports to Palestine, the Palestine importer to pay for the imports by paying sterling to the Anglo-Palestine Bank. No dollars will be made available to the British Treasury. The Anglo-Palestine Bank and the American branch of the Palestine Fund would be obligated to repay the dollars to the Export-Import Bank.

Although there may be legal authority in the Export-Import Bank or the RFC to do either of the foregoing, I believe that the Treasury should not recommend that this Government enter into such transactions. I also believe that there is nothing substantial to be gained by referring Istoric to the Export-Import Bank for consideration of his proposals.

- (3) Moneys to be made available by private banking facilities in this country.

Although the information which we have obtained relative to the Anglo-Palestine Bank shows it to be the most important bank in Palestine and to have had a good earning record, I believe that in view of current

- 2 -

circumstances, there is no possibility whatever of any private bank in this country being interested in making the loan. Istorik concurs in this view.

- (4) Moneys to be obtained from a group of wealthy American Jews.

Istorik feels that it would hurt the Bank for him to attempt to go from person to person and make an appeal for funds. If a group of wealthy persons can be gotten together and were to subscribe money, that would be very helpful. Little hope is entertained for this possibility.

- (5) The Secretary to write a letter to Montague Norman thanking Norman for his interest in the matter and indicating that the extension of credit to the Anglo-Palestine Bank is a matter for the British Government and not the American Government.

Since Norman has not communicated directly with the Secretary on the proposal, there would seem to be no reason for the Secretary taking the initiative in writing to Norman about the matter. The Treasury has already advised the British Embassy of its unwillingness to approve the transaction.

- (6) The Secretary to write a letter to Istorik saying that the matter of extending credit to the Anglo-Palestine Bank has been given careful consideration; that this Government is not in a position to engage in any such transaction and that the problem presented by the Anglo-Palestine Bank appears to call for solution by obtaining sterling credits within the area of the British Empire.

Istorik would find such a letter very useful in going back to the British authorities and obtaining from them sterling credits to tide the Bank over in any difficult period.

11/1/41

Secretary Morgenthau

APR 16 1941

Mr. Foley

Mr. Fleming, President of the Riggs National Bank, phoned Bernstein about the status of the Danish Legation accounts at the Riggs Bank and the Danish Minister's authority to deal with them. Bernstein immediately communicated the advice to the State Department. Yesterday Fleming advised him that he had received a cable from the Danish Foreign Minister indicating that Kauffmann's authority to draw on the accounts had been withdrawn. Bernstein suggested to Fleming that he communicate with the State Department about the matter. Bernstein also talked to Berle, who is handling the matter for the State Department. Berle said that the State Department wanted to do everything possible to help the Minister and would take action under the recently enacted statute and recommended that the Treasury issue the appropriate license, which has been submitted to Mr. Bell for signature. The license covers all of the assets in the accounts, which amount to about \$240,000.

When the Danish Minister was in the Treasury this morning Pehle discussed the whole matter with him and indicated the line of action that was about to be taken.

It was also anticipated that within the next day or so we and the State Department will take comparable action covering Danish Government accounts amounting to about \$650,000 held at the Bank of New York.

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

BB:msu
4-16-41

APR 16 1941

My dear Mr. President:

To enable the Secretary of the Treasury to pay the expenses in connection with guarding and maintaining foreign vessels under possession and control of the Secretary of the Treasury pursuant to Section 1, Title 2, of the Espionage Act (U.S.C., Title 50, Section 191), it is requested that there be made immediately available to the Coast Guard the sum of \$90,500 from the Emergency Fund for the President, appropriated to provide, through appropriate agencies of the Government, for emergencies affecting national security and defense.

To date I have authorized expenditures totalling \$13,476 for the guarding and maintenance of 49 of the 64 foreign vessels taken into protective custody on March 30, 1941, and it is estimated that a further immediate expenditure of \$21,250 must be made. The recurring monthly expenditure in connection with the guarding and maintenance of these vessels is estimated at \$13,600. As it is the intention to maintain these foreign vessels under possession and control of the Secretary of the Treasury until final disposition is made of them, it is believed that provision should be made for funds necessary for maintenance for a period of four months, of \$54,720, in addition to the \$35,726 required for immediate expenditure. The total of the funds required to liquidate all the expenses in connection with the maintenance of these foreign vessels from the date they were taken into protective custody until July 30, 1941, is therefore \$90,446.

All costs in connection with pay, subsistence and travel of Coast Guard personnel engaged in the duties of guarding and maintaining these foreign vessels are, of course, absorbed by Coast Guard appropriations, but since no provision has been made in the Coast Guard appropriation "General Expenses" for the maintenance of these vessels, funds remaining in Coast Guard appropriations for general expenses are totally inadequate to assume this additional burden. It is believed that the most expeditious manner of settling

obligations which have already been incurred and expenditures which must be made during the next four months is by allotment to the Coast Guard from the Emergency Fund for the President, against which these expenditures are certainly appropriate charges. Of course any funds which may be allocated to the Coast Guard for this purpose and which remain unobligated at the date the vessels are released from custody of the Secretary of the Treasury will be returned to the Emergency Fund for the President.

In view of the fact that expenditures totalling approximately \$13,500 are now awaiting settlement, may I ask for your early decision in the premises?

Faithfully yours,

(Signed) H. Morgenthau, SR

Secretary of the Treasury.

The President,

The White House.

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By Messenger 3⁴⁵



THE COMMANDANT OF THE UNITED STATES COAST GUARD

WASHINGTON

15 April, 1941.

MEMORANDUM FOR THE SECRETARY OF THE TREASURY:

I am transmitting herewith a letter from the Secretary of the Treasury to the President requesting funds for the expense necessary in taking over and maintaining Italian, German and Danish vessels now in custody of the Coast Guard.

The appended statement of expenditures indicates for each vessel taken over the initial expense incident to such custody and also the estimated monthly expense for maintenance. These expenses are all in addition to expenses which can be paid from Coast Guard appropriations, such as subsistence, pay and travel of Coast Guard personnel, communications expense and supplies and services furnished by Coast Guard units.

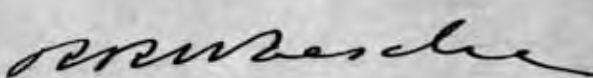
Illustrating the special nature of some of the expenditures incurred, the following instances are brought to your attention:

- (A) In New York, five Italian vessels were laid up at Port Newark where wharfage charges were involved. These vessels were towed to the United States Maritime Commission Piers at Hoboken, New Jersey, where facilities for guarding the vessels against fire or sabotage are better and where no wharfage is charged. Also in New York, eight Danish vessels were located at Bayonne Terminal and seven at other points in New York harbor. These scattered vessels were all towed to the Bayonne Terminal, now under Navy control, and are well cared for without expense to the Government other than maintaining Coast Guard personnel on board. The total cost of towage of five Italian and seven Danish vessels was estimated at \$3,500.00.
- (B) When the Italian vessel SAN GIUSEPPE was boarded by the Coast Guard at Norfolk on March 30, 1941, the vessel was hard aground on a mud flat, owing to the parting of her anchor chain. The Meritt-Chapman-Scott Co. submitted a bid of \$20,000.00 for floating the SAN GIUSEPPE, but the job was done by vessels of the Coast Guard with the assistance of small harbor tugs of the Wood Towing Corporation of Norfolk at an estimated expense of \$2,000.00.

-2-

- (C) The Italian vessel CONFIDENZA was anchored in the river off Jacksonville when taken over by the Coast Guard. Investigation by Coast Guard personnel revealed that spontaneous combustion had started in a bunker containing approximately 800 tons of coal. To save the vessel from threatened serious damage from fire the CONFIDENZA was taken to a wharf and the coal removed at an estimated cost of \$2,600.00.

The estimates in the appended list are considered necessary for the proper protection of the vessels while in custody of the Coast Guard. The principal initial expense was for towage incident to concentrating them in locations where they could be under convenient supervision of the Coast Guard, and a low cost for wharfage. The principal recurring charge is for wharfage. This varies greatly from one port to another, depending upon availability of space and the commercial charge where no Government wharves are available. In each case Coast Guard officers in control of the vessels have endeavored to find the most economical wharfage that afforded adequate protection.


R. R. WAESCHE,
Rear Admiral, U. S. Coast Guard,
Commandant.

FINANCIAL STATEMENT CONCERNING SEIZED GERMAN, ITALIAN AND DANISH VESSELS

IE - INITIAL ESTIMATED EXPENSE
 IC - INITIAL ESTIMATED RECURRING EXPENSE
 PR - PRO RATA SHARE

APRIL 14, 1941

VESSEL	NAT.	DESCRIPTION OF ARTICLE OR SERVICE	SPECIFIC AUTHORIZATIONS		ESTIMATES SUBMITTED			
			INITIAL EXP. AUTHORIZED	TOTAL INITIAL EXP. AUTHORIZED	IE	TOTAL IE TO DATE	IC	TOTAL IC TO DATE
1. DINO (Boston, Mass.)	IT.	HOBBING LINES - PR 2 VESSELS PR SUPPLIES-FLASHLIGHTS, FLASHLIGHTS BULBS & BATTERIES/ ELEC. SUPPLIES-INSTALLING TEMP. LIGHTING SYSTEM PR FIRE PROTECTION EQUIPT. PR - 2 VESSELS WARPAGE - MONTHLY BASIS - PR 2 VESSELS WATER - MONTHLY BASIS - PR 2 VESSELS ELECTRICITY - MONTHLY BASIS - 2 VESSELS COAL - MONTHLY BASIS - 2 VESSELS (PR) FUEL OIL - MONTHLY BASIS - PR 2 VESSELS MISC. SUPPLIES - MONTHLY BASIS - PR 2 VESSELS			267.50 29.00 105.00 328.00 540.00 30.00 65.00 90.00 395.00 30.00		540.00 30.00 65.00 90.00 395.00 30.00	1150.00
2. PAULINE FRIEDERICH (Boston)	GER.	HOBBING LINES - PR 2 VESSELS PR SUPPLIES-FLASHLIGHTS, FLASHLIGHTS BULBS & BATTERIES/ ELEC. SUPPLIES-INSTALLING TEMP. LIGHTING SYSTEM PR FIRE PROTECTION EQUIPT. PR - 2 VESSELS WARPAGE - MONTHLY BASIS - PR 2 VESSELS WATER - MONTHLY BASIS - PR 2 VESSELS ELECTRICITY - MONTHLY BASIS - 2 VESSELS COAL - MONTHLY BASIS - 2 VESSELS (PR) FUEL OIL - MONTHLY BASIS - PR 2 VESSELS MISC. SUPPLIES - MONTHLY BASIS PR 2 VESSELS			267.50 29.00 105.00 328.00 540.00 30.00 65.00 90.00 395.00 30.00		540.00 30.00 65.00 90.00 395.00 30.00	1150.00
3. BRENNERO (New York)	IT.	TOWAGE NY HARB. FROM NEWARK TO HOBOKEN PR 12 VESSELS	291.66	291.66				
4. ARDA (New York)	IT.	TOWAGE NY HARB. FROM NEWARK TO HOBOKEN PR 12 VESSELS	291.66	291.66				
5. SAN LEONARDO (New York)	IT.	TOWAGE NY HARB. FROM NEWARK TO HOBOKEN PR 12 VESSELS	291.66	291.66				
6. ALBERTA (New York)	IT.	TOWAGE NY HARB. FROM NEWARK TO HOBOKEN PR 12 VESSELS	291.67	291.66				
7. AUSSA (New York)	IT.	TOWAGE NY HARB. FROM NEWARK TO HOBOKEN PR 12 VESSELS	291.66	291.66				
8. BRICHOLM (New York)	DAN.	TOWAGE NY HARB. FROM NEWARK TO HOBOKEN PR 12 VESSELS	291.66	291.66				
9. GERTRUDE (New York)	DAN.	TOWAGE NY HARB. BROOKLYN TO BAYONNE TERN. PR 12 VES	291.66	291.66				

SHEET #1

FINANCIAL STATEMENT CONCERNING SEIZED GERMAN, ITALIAN AND DANISH VESSELS

APRIL 14, 1941

IE - INITIAL ESTIMATED EXPENSE
 RC - INITIAL ESTIMATED RECURRING EXPENSE
 PR - PRO RATA SHARE

VESSEL	NAT.	DESCRIPTION OF ARTICLE OR SERVICE	SPECIFIC AUTHORIZATIONS		ESTIMATES SUBMITTED			
			INITIAL EXP. AUTHORIZED	TOTAL INITIAL EXP. AUTHORIZED	IE	TOTAL IE TO DATE	RC	TOTAL RC TO DATE
GEORGIA (NEW YORK)	DAN.	TOWAGE-NYHBR. PORT JOHNSON TO BAYONNE TENN. PR 12 VES	291.66	291.66				
LINDBY (NEW YORK)	DAN.	TOWAGE-NYHBR. PORT JOHNSON TO BAYONNE TENN. PR 12 VES	291.66	291.66				
OLYMPIA (NEW YORK)	DAN.	TOWAGE DO DO DO DO	291.66	291.66				
SICILLEN (NEW YORK)	DAN.	TOWAGE DO DO DO DO	291.66	291.66				
TUNIS (NEW YORK)	DAN.	TOWAGE DO DO DO DO	291.66	291.66				
ANTONIETTA (PHILA)	IT.	TOWAGE - GLOUCESTER, NJ TO PHILA. PR 3 VESSELS	266.67	266.67	250.00		250.00	
		WHARFAGE - MONTHLY BASIS PR 6 VESSELS	250.00	250.00				
		TELEPHONE INSTALLATION PR 6 VESSELS	2.50	2.50	2.50		2.50	
		TELEPHONE CHARGE - MONTHLY BASIS PR 6 VESSELS	2.50	2.50				
		SUPPLIES (LOCKS, FLASHLIGHTS, BUCKETS, ETC.) PR 6 VES.			33.34		16.66	
		ELEC. MONTHLY BASIS PR 6 VES.			16.66		16.66	
		COAL FOR GALLEY - MONTHLY BASIS PR 6 VES.			4.16		4.16	
		FUEL FOR HEATING - DO DO PR 6 VESSELS			100.00	406.66	100.00	373.32
BELVEDERE (PHILA)	IT.	WHARFAGE - MONTHLY BASIS - 6 VESSELS PR	250.00		250.00		250.00	
		TELEPHONE INSTALLATION PR 6 VESSELS	2.50					
		TELEPHONE CHARGE - MONTHLY BASIS PR 6 VESSELS	2.50	255.00	2.50	252.50	2.50	252.50
		SUPPLIES (LOCKS, FLASHLIGHTS, BUCKETS, ETC.) PR 6 VES.			33.33		16.66	
		ELEC. MONTHLY BASIS - PR 6 VESSELS			16.66		16.66	
		COAL FOR GALLEY - MONTHLY BASIS - PR 6 VESSELS			4.16		4.16	
		FUEL FOR HEATING - DO DO PR 6 DO			100.00	154.15	100.00	120.82
MAR GLAUCO (PHILA)	IT.	TOWAGE - GLOUCESTER, NJ TO PHILA. PR 3 VESSELS	266.66		250.00		250.00	
		WHARFAGE - MONTHLY BASIS PR 6 VESSELS	250.00					
		TELEPHONE INSTALLATION PR 6 VESSELS	2.50					
		TELEPHONE CHARGE - MONTHLY BASIS PR 6 VESSELS	2.50	521.66	2.50		2.50	
		SUPPLIES (LOCKS, FLASHLIGHTS, BUCKETS, ETC.) PR 6 VES.			33.33		16.67	
		ELEC. MONTHLY BASIS PR 6 VESSELS			16.67		16.67	
		COAL FOR GALLEY - MONTHLY BASIS PR 6 VESSELS			4.17		4.17	
		FUEL FOR HEATING - DO DO PR 6 VESSELS			100.00	406.67	100.00	373.34

SHEET # 92

FINANCIAL STATEMENT CONCERNING SEIZED GERMAN, ITALIAN AND DANISH VESSELS

IE - INITIAL ESTIMATED EXPENSE
 RC - INITIAL ESTIMATED RECURRING EXPENSE
 PR - PRO RATA SHARE

VESSEL	NAT.	DESCRIPTION OF ARTICLE OR SERVICE	SPECIFIC AUTHORIZATIONS		ESTIMATES SUBMITTED			
			INITIAL EXP. AUTHORIZED	TOTAL INITIAL EXP. AUTHORIZED	IE	TOTAL IE TO DATE	RC	TOTAL RC TO DATE
SANTA ROSA (PHILA)	IT.	TOWAGE - GLOUCESTER, NJ TO PHILA PR 3 VESSELS WHARFAGE - MONTHLY BASIS - PR 6 VESSELS TELEPHONE INSTALLATION PR 6 VESSELS TELEPHONE CHARGE - MONTHLY BASIS PR 6 VESSELS SUPPLIES (LOCKS, FLASHLIGHTS, BUCKETS, ETC.) PR 6 VES. ELEC. MONTHLY BASIS PR 6 VESSELS COAL FOR GALLEY - MONTHLY BASIS PR 6 VESSELS FUEL FOR HEATING - DO DO PR 6 VESSELS	266.67 250.00 2.50 2.50	521.67	250.00 2.50 33.33 16.67 4.17 100.00	406.67	250.00 2.50 16.67 4.17 100.00	373.34
NORDEN (PHILADELPHIA)	DAN.	WHARFAGE - MONTHLY BASIS - 6 VESSELS PR TELEPHONE INSTALLATION PR 6 VESSELS TELEPHONE CHARGE - MO. BASIS PR 6 VESSELS SUPPLIES (LOCKS, FLASHLIGHTS, BUCKETS, ETC.) PR 6 VES. ELECTRICITY MO. BASIS PR 6 VESSELS COAL FOR GALLEY - MONTHLY BASIS PR 6 VESSELS FUEL FOR HEATING DO DO PR 6 VESSELS	250.00 2.50 2.50	255.00	250.00 2.50 33.33 16.67 4.17 100.00	406.67	250.00 2.50 16.67 4.17 100.00	373.34
P. N. DAMN (PHILA)	DAN.	WHARFAGE - MONTHLY BASIS - 6 VESSELS PR TELEPHONE INSTALLATION PR 6 VESSELS TELEPHONE CHARGE - MO. BASIS PR 6 VESSELS SUPPLIES (LOCKS, FLASHLIGHTS, BUCKETS, ETC.) PR 6 VES. ELECTRICITY MO. BASIS PR 6 VESSELS COAL FOR GALLEY - MO. BASIS PR 6 VESSELS FUEL FOR HEATING DO DO PR 6 VESSELS	250.00 2.50 2.50	255.00	250.00 2.50 33.33 16.67 4.17 100.00	406.67	250.00 2.50 16.67 4.17 100.00	373.34
BROSUARD (BALTIMORE)	DAN.	FRESH WATER DIESEL FUEL MO. BASIS PR 10 VESSELS COAL MO. BASIS PR 10 VESSELS WATER MO. BASIS PR 10 VESSELS MAINTENANCE SUPPLIES MO. BASIS PR 10 VESSELS	50.00	50.00	110.00 39.00 37.50 100.00	286.50	110.00 39.00 37.50 100.00	286.50
ALSSIND (BALTIMORE)	DAN.	FRESH WATER PR 7 VESSELS DIESEL OIL MO. BASIS PR 10 VESSELS COAL MO. BASIS PR 10 VESSELS WATER MO. BASIS PR 10 VESSELS MAINTENANCE SUPPLIES MO. BASIS PR 10 VESSELS	10.72	10.72	110.00 39.00 37.50 100.00	286.50	110.00 39.00 37.50 100.00	286.50

FINANCIAL STATEMENT CONCERNING SEIZED GERMAN, ITALIAN AND DANISH VESSELS

IE - INITIAL ESTIMATED EXPENSE
 RC - INITIAL ESTIMATED RECURRING EXPENSE
 PR - PRO RATA SHARE

APRIL 14, 1941

VESSEL	NAT.	DESCRIPTION OF ARTICLE OR SERVICE	SPECIFIC AUTHORIZATIONS		ESTIMATES SUBMITTED			
			INITIAL EXP. AUTHORIZED	TOTAL INITIAL EXP. AUTHORIZED	IE	TOTAL IE TO DATE	RC	TOTAL RC TO DATE
LEXA MAERSK (BALTIMORE)	DAN.	FRESH WATER PR 7 VESSELS DIESEL OIL MO. BASIS PR 10 VESSELS COAL MO. BASIS PR 10 VESSELS WATER MO. BASIS PR 10 VESSELS MAINTENANCE SUPPLIES MO. BASIS PR 10 VESSELS	10.72	10.72	110.00 39.00 37.50 100.00	286.50	110.00 39.00 37.50 100.00	286.50
RAGHILD (BALTIMORE)	DAN.	FRESH WATER PR 7 VESSELS DIESEL OIL MO. BASIS PR 10 VESSELS COAL MO. BASIS PR 10 VESSELS WATER MO. BASIS PR 10 VESSELS MAINTENANCE SUPPLIES MO. BASIS PR 10 VESSELS	10.72	10.72	110.00 39.00 37.50 100.00	286.50	110.00 39.00 37.50 100.00	286.50
COLUMBIA (BALTIMORE)	DAN.	FRESH WATER PR 7 VESSELS DIESEL OIL MO. BASIS PR 10 VESSELS COAL MO. BASIS PR 10 VESSELS WATER MO. BASIS PR 10 VESSELS MAINTENANCE SUPPLIES MO. BASIS PR 10 VESSELS	10.72	10.72	110.00 39.00 37.50 100.00	286.50	110.00 39.00 37.50 100.00	286.50
ANNA MAERSK (BALTIMORE)	DAN.	FRESH WATER PR 7 VESSELS DIESEL OIL MO. BASIS PR 10 VESSELS COAL MO. BASIS PR 10 VESSELS WATER MO. BASIS PR 10 VESSELS MAINTENANCE SUPPLIES MO. BASIS PR 10 VESSELS	10.71	10.71	110.00 39.00 37.50 100.00	286.50	110.00 39.00 37.50 100.00	286.50
NIEL MAERSK (BALTIMORE)	DAN.	FRESH WATER PR 7 VESSELS DIESEL OIL MO. BASIS PR 10 VESSELS COAL MO. BASIS PR 10 VESSELS WATER MO. BASIS PR 10 VESSELS MAINTENANCE SUPPLIES MO. BASIS PR 10 VESSELS	10.71	10.71	110.00 39.00 37.50 100.00	286.50	110.00 39.00 37.50 100.00	286.50
LAURA MAERSK (BALTIMORE)	DAN.	FRESH WATER PR 7 VESSELS DIESEL OIL MO. BASIS PR 10 VESSELS COAL MO. BASIS PR 10 VESSELS WATER MO. BASIS PR 10 VESSELS MAINTENANCE SUPPLIES MO. BASIS PR 10 VESSELS	10.71	10.71	110.00 39.00 37.50 100.00	286.50	110.00 39.00 37.50 100.00	286.50

SHEET # 4

FINANCIAL STATEMENT CONCERNING SEIZED GERMAN, ITALIAN AND DANISH VESSELS

IE - INITIAL ESTIMATED EXPENSE
 RC - INITIAL ESTIMATED RECURRING EXPENSE
 PR - PRO RATA SHARE

APRIL 1st, 1941

VESSEL	NAT.	DESCRIPTION OF ARTICLE OR SERVICE	SPECIFIC AUTHORIZATIONS		ESTIMATES SUBMITTED			
			INITIAL EXP. AUTHORIZED	TOTAL INITIAL EXP. AUTHORIZED	IE	TOTAL IE TO DATE	RC	TOTAL RC TO DATE
EURO (BALTIMORE)	IT.	FIREFIGHTING EQUIPMENT & ELEC. LANTERNS PR 2 VES. DIESEL FUEL MO. BASIS PR 10 VESSELS COAL MO. BASIS PR 10 VESSELS WATER MO. BASIS PR 10 VESSELS MAINTENANCE SUPPLIES MO. BASIS PR 10 VESSELS	275.00	275.00	110.00 39.00 37.50 100.00	286.50	110.00 39.00 37.50 100.00	286.50
PIETRO CAMPANELLA (BALTIMORE)	IT.	FIREFIGHTING EQUIPMENT & ELEC. LANTERNS PR 2 VES. DIESEL FUEL MO. BASIS PR 10 VESSELS COAL MO. BASIS PR 10 VESSELS WATER MO. BASIS PR 10 VESSELS MAINTENANCE SUPPLIES MO. BASIS PR 10 VESSELS	275.00	275.00	110.00 39.00 37.50 100.00	286.50	110.00 39.00 37.50 100.00	286.50
GUIAN (NORFOLK)	IT.	TOWAGE PR. ANCH. TO JAMES RIVER PR 2 VESSELS DAILY INCIDENTAL CHARGES JAMES RIVER PR 2 VESSELS FRESH WATER PR 7 VESSELS	400.00 150.00 142.85	692.85	150.00	150.00	150.00	150.00
GILDONIA (NORFOLK)	IT.	TOWAGE PR 3 VESSELS DAILY WHARFAGE & OTHER SERVICES, INCLDG. F. WATER PR 3 VES. MAINTENANCE SUPPLIES PR 3 VESSELS FRESH WATER PR 7 VESSELS	142.86	142.86	666.66 400.00 133.33 133.33	1,199.99	400.00 133.33	533.33
SAN GIUSEPPE (NORFOLK)	IT.	TOWAGE PR 3 VESSELS DAILY WHARFAGE & OTHER SERVICES, INCLDG. F. WATER PR 3 VES. MAINTENANCE SUPPLIES PR 3 VESSELS FRESH WATER PR 7 VESSELS	142.86	142.86	666.67 400.00 133.34	1,200.01	400.00 133.34	533.34
VITTORIN (NEWPORT NEWS)	IT.	TOWAGE PR 3 VESSELS DAILY WHARFAGE & OTHER SERVICES, INCLDG. F. WATER PR 3 VES. MAINTENANCE SUPPLIES PR 3 VESSELS FRESH WATER PR 7 VESSELS	142.86	142.86	666.67 400.00 133.34	1,200.01	400.00 133.34	533.34
LACONIA (NEWPORT NEWS)	IT.	TOWAGE PR. ANCH. TO JAMES RIV. AND. PR 2 VESSELS DAILY INCIDENTAL CHARGES JAMES RIVER PR 2 VESSELS FRESH WATER PR 7 VESSELS	400.00 150.00 142.85	692.85	150.00	150.00	150.00	150.00
E M BALGAS (NORFOLK)	DAN.	FRESH WATER PR 7 VESSELS	142.86	142.86				
FRODE (NORFOLK)	DAN.	FRESH WATER PR 7 VESSELS	142.86	142.86				

SHEET #5

FINANCIAL STATEMENT CONCERNING SEIZED GERMAN, ITALIAN AND DANISH VESSELS

APRIL 14, 1941

IE - INITIAL ESTIMATED EXPENSE
 IC - INITIAL ESTIMATED RECURRING EXPENSE
 PR - PRO RATA SHARE

VESSEL	NAT.	DESCRIPTION OF ARTICLE OR SERVICE	SPECIFIC AUTHORIZATIONS		ESTIMATES SUBMITTED			
			INITIAL EXP. AUTHORIZED	TOTAL INITIAL EXP. AUTHORIZED	IE	TOTAL IE TO DATE	IC	TOTAL IC TO DATE
VILLARPEROSA (WILMINGTON NC)	IT.	WATER & FUEL MO. BASIS PR 1 VESSEL SUBSISTENCE PROVIDED BY CHARLESTON C.G. BASE TOWAGE - WILMINGTON, N.C. (PRIOR TO SEIZURE) TOWAGE (ESTIMATE FOR TOWING FROM WILMINGTON NC)			10.00 52.00 500.00 550.00		10.00	10.00
CLARA (SAVANNAH, GA.)	IT.	WHARFAGE MO. BASIS PR 1 VESSEL WATER MO. BASIS PR 1 VESSEL ELECTRICITY MO. BASIS PR 1 VESSEL SUBSISTENCE PROVIDED BY COAST GUARD TOWAGE - FROM SAVANNAH	300.00	300.00	300.00 1.00 60.00 39.60 550.00	1,112.80	300.00 1.00 60.00	361.00
CONFIDENZA (JACKSONVILLE)	IT.	EXPENSE CONNECTION EXTINGUISHING FIRE ON BOARD WHARFAGE, MO. BASIS PR 1 VESSEL TOWAGE MAINTENANCE SUPPLIES PR 1 VESSEL ELECTRICITY, WATER, MO. BASIS PR 1 VESSEL	2,600.00 180.00	2,700.00	100.00 250.00 50.00 18.00		100.00 50.00 18.00	168.00
INCANIA (JACKSONVILLE)	IT.	TOWAGE WHARFAGE, MO. BASIS PR 1 VESSEL MAINTENANCE SUPPLIES PR 1 VESSEL ELECTRICITY, WATER, MO. BASIS PR 1 VESSEL			250.00 100.00 50.00 18.00		100.00 50.00 18.00	168.00
ARIACA (PORT EVERGLADES FLA.)	GER.	WHARFAGE MO. BASIS PR 1 VESSEL TOWAGE (ESTIMATE TO JACKSONVILLE) TELEPHONE SERVICE MO. BASIS PR 1 VESSEL TELEPHONE INSTALLATION PR 1 VESSEL REMOVAL OF CARGO, STEVEDORES ETC. ELECTRICITY MO. BASIS PR 1 VESSEL MAINTENANCE SUPPLIES MO. BASIS 1 VESSEL PR	600.00	600.00	600.00 1,500.00 7.00 10.00 1,200.00 25.00 100.00		600.00 7.00	732.00
IDA 20 (MOBILE)	IT.	TOWAGE (MOBILE HARBOR)	100.00	100.00				

SHEET #6

FINANCIAL STATEMENT CONCERNING SEIZED GERMAN, ITALIAN AND DANISH VESSELS

IE - INITIAL ESTIMATED EXPENSE
 RC - INITIAL ESTIMATED RECURRING EXPENSE
 PR - PRO RATA SHARE

APRIL 14, 1941

VESSEL	NAT.	DESCRIPTION OF ARTICLE OR SERVICE	SPECIFIC AUTHORIZATIONS		ESTIMATES SUBMITTED			
			INITIAL EXP. AUTHORIZED	TOTAL INITIAL EXP. AUTHORIZED	IE	TOTAL IE TO DATE	RC	TOTAL RC TO DATE
MONFICRE (NEW ORLEANS)	IV.	TOWAGE (NEW ORLEANS HARBOR) SERVICES, SALVAGE TUG (BREAK OUT ANCHOR) PR 2 VES. FIREFIGHTING EQUIPMENT PR 2 VESSELS	45.00 62.50 37.00	144.50				
ADA O (NEW ORLEANS)	IV.	TOWAGE (NEW ORLEANS HARBOR) SERVICES, SALVAGE TUG (BREAK OUT ANCHOR) PR 2 VES. FIREFIGHTING EQUIPMENT PR 2 VESSELS	45.00 62.50 37.00	144.50				
COLORADO (SAN JUAN)	IV.	ELECTRICITY MO. BASIS PR 1 VESSEL	25.00		25.00	25.00	25.00	25.00
NORDVAL (LOS ANGELES)	DAN.	WHARFAGE MO. BASIS PR 2 VESSELS MAINTENANCE SUPPLIES MO. BASIS PR 2 VESSELS			1,055.00 250.00	1,305.00	1,055.00 250.00	1,305.00
NORDPOL (LOS ANGELES)	DAN.	WHARFAGE MO. BASIS PR 2 VESSELS MAINTENANCE SUPPLIES MO. BASIS PR 2 VESSELS			1,055.00 250.00	1,305.00	1,055.00 250.00	1,305.00
LENE (PORTLAND, ORE.)	IV.	TOWAGE AND PILOTAGE WHARFAGE MO. BASIS MAINTENANCE SUPPLIES FUEL, WATER AND ELECTRICITY MO. BASIS PILOTS,	92.50 100.00 50.00 100.00 540.00	882.50	100.00 100.00 100.00	300.00	100.00 100.00 100.00	300.00
				13,476.43		22,250.40		13,679.01

SHEET # 7

NAVY DEPARTMENT
OFFICE OF THE PAYMASTER GENERAL
WASHINGTON, D.C.

16 April 1941

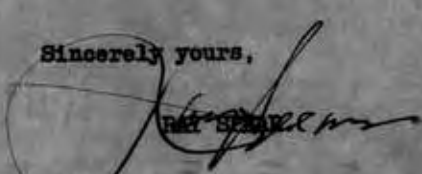
Dear Mr. Secretary:

I appreciate greatly your kind note of April the 15th, together with the enclosure from the President abolishing the Liaison Committee for reasons that are quite understandable.

It has been a great pleasure to have been associated with you, and more directly with Mr. Philip Young, in the work of the Committee; and, while the Committee may now be abolished, I daresay that we will still be more or less associated in problems that are bound to arise in connection with the entire National Defense Program.

May I assure you of my entire willingness to be of any further assistance to you within my power.

Sincerely yours,



HENRY MORGENTHAU, JR.

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

APR 16 1941

My dear Mr. Secretary:

Now that the work of the Liaison Committee appointed by the President on December 6, 1939, to coordinate foreign purchases has come to an end, I want to express to you my feeling of appreciation for the work of Admiral Ray Spear as a member of that committee since its inception.

Admiral Spear rendered a high order of service as a member of the committee and it is a pleasure for me to so inform you.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The Honorable

The Secretary of the Navy.

HT:mas

HT

By Messenger

Copy to Mr. Thompson

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 16, 1941

TO Mrs. Klotz
FROM Mr. Morgenthau

Please have Norman Thompson prepare a letter for me to the Secretary of War complimenting Major General Burns on the work which he did on the Liaison Committee. I also want to write a letter to the Secretary of the Navy complimenting Admiral Spear on the work which he has done on the Liaison Committee.

(Letters sent on 4/16/41)

APR 16 1941

My dear Mr. Secretary:

Now that the work of the Liaison Committee appointed by the President on December 6, 1939, to coordinate foreign purchases has come to an end, I want to express to you my feeling of appreciation for the work of Major General James H. Burns as a member of that committee during the past ten months.

General Burns was untiring and particularly helpful in the work of the committee and it is a pleasure for me to so inform you.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The Honorable

The Secretary of War.

ackd by
Seymour Steinman
4/23 and filed
that date

ENTRANCE

you

Copy to Mr. Thompson

By Messenger

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE April 16, 1941.

TO Secretary Morgenthau
FROM Mr. Kuhn

This is the second story on William Green's visit to you. The first was released on the day that Mr. Green came, but did not get a good play in the papers, perhaps because it went out late in the afternoon. The United Press sent a story on it throughout the country, and the Washington Star and New York Journal of Commerce printed stories of their own from Washington.

I attach a copy of the original release on the Green visit, in case you did not see it.

F. K.

Attachment.

TREASURY DEPARTMENT
Washington

258

FOR IMMEDIATE RELEASE,
Wednesday, April 9, 1941.

Press Service
No. 24-51

William F. Green, president of the American Federation of Labor, this afternoon promised Secretary Morgenthau that his organization would put its whole-hearted support behind the sale of Defense Savings Bonds and Stamps. The new bonds and stamps will be ready for distribution and sale on May 1.

Mr. Green said that he intended to issue an endorsement of the Defense Savings program to all the A. F. of L. unions, and through them to their 4,000,000 members. In addition, he offered to distribute pamphlets, posters and other information to all A. F. of L. members, and to include news of the Defense Savings program in A. F. of L. publications. Mr. Green told the Secretary that he considered the financing of the defense program a "noble cause" which would appeal to the workmen of America.

"Nothing could be finer for national psychology at this time," Mr. Green said to the Secretary. He added that he was sure the A. F. of L. unions would wish to buy Savings Bonds with their union funds and would also encourage their members to buy as individuals.

Secretary Morgenthau assured Mr. Green that none of the pressures exerted by employers on employees during the 1917-1918 Liberty Loan sales would be used in the present Defense Savings effort. The buying of Defense Bonds and Stamps, he said, must be entirely voluntary.

At the end of their fifteen-minute talk, Mr. Morgenthau said that he thought Mr. Green's offer was highly encouraging for the success of the Defense Savings program.

- 2 -

Today's meeting was the first time that Mr. Green had ever visited any Secretary of the Treasury.

-oOo-

Defense Savings Bonds

260

THE TREASURY IS DEPENDING HEAVILY ON LABOR UNIONS TO ENCOURAGE WORKING PEOPLE TO INVEST IN THE NEW DEFENSE FINANCING PROGRAM, IT WAS LEARNED TODAY.

GOVERNMENT PRINTING PRESSES ARE ROLLING OUT DEFENSE SAVINGS STAMPS AND BONDS BY THE MILLION IN PREPARATION FOR THE FIRST DAY SALE ON MAY 1.

OFFICIALS RESPONSIBLE FOR THE DEFENSE MONEY CAMPAIGN SAID THE FIRST APPEAL WOULD BE MADE TO THE WORKING PEOPLE THEMSELVES, AND NOT THROUGH THEIR EMPLOYERS, TO ELIMINATE ANY TINGE OF COERCION.

PRESIDENT WILLIAM GREEN OF THE AMERICAN FEDERATION OF LABOR HAS PROMISED SECRETARY OF THE TREASURY HENRY MORGENTHAU, JR., THAT HIS ORGANIZATION WILL SUPPORT THE DEFENSE SAVINGS CAMPAIGN.

GREEN TOLD MORGENTHAU, IT WAS LEARNED, THAT AFL UNIONS WOULD INVEST THEIR FUNDS UP TO THE LEGAL LIMIT OF \$50,000 IN DEFENSE BONDS, IN ADDITION TO ENCOURAGING THE RANK AND FILE MEMBERSHIP TO PARTICIPATE INDIVIDUALLY.

4/16--22909A

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE April 16, 1941

CONFIDENTIAL

TO Secretary Morgenthau
FROM Mr. Cochran

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£37,000
Purchased from commercial concerns	£11,000

The Federal Reserve Bank of New York purchased £2,000 in registered sterling from Thos. Cook & Son.

Continuing its downward movement, open market sterling eased from an initial quotation of 4.02 to 4.01 by mid-afternoon, the lowest level since last August. It subsequently returned to 4.01-1/2 and closed at that level. According to the New York banks, there is now very little interest shown in this type of sterling, except for the purpose of making minor remittances. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£2,000
Purchased from commercial concerns	-0-

The Canadian dollar, which improved yesterday from 12-3/4% discount to a current high of 11-1/8%, reacted today. The closing quotation was 11-5/8%.

The Argentine free peso, which closed at .2335 last night, advanced steadily to a final quotation of .2374 today. It was reported that several orders to purchase pesos appeared in this market, one of which was for 300,000 pesos to be bought for the Banca Commerciale Italiana; other orders were placed by Swiss banks, possibly for Italian account. Coming into a market which ordinarily has been very inactive, these orders had the effect of advancing the quotation, especially since the available supply of free peso balances is quite limited.

The Cuban peso improved to 3-15/16% discount, as compared with yesterday's rate of 4-1/4%. One New York bank reported that it had received advice from Havana that sugar operators were heavy buyers in that city.

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

Swiss franc (commercial)	.2321-1/2
Swedish krona	.2384
Denmark	.4005
Lira	.0505
Brazilian milreis (free)	.0505
Mexican peso	.2066

-2-

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

We purchased \$5,000,000 in gold from the earmarked account of the Bank of Java.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$1,927,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

The London silver price was again 23-1/2d for both spot and forward silver, equivalent to 42.67¢.

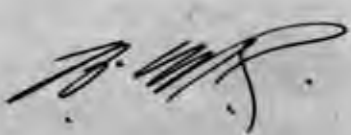
The Treasury's purchase price for foreign silver was unchanged at 35¢. Handy and Harman's settlement price for foreign silver was also unchanged at 34-3/4¢.

There were no silver purchases made by us today.

The Federal Reserve Bank's report of April 9, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled \$104,890,000, an increase of \$4,853,000 since April 2. 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 9:

	April 9	Change from April 2
Liabilities: Deposits for Japan and Manchuria.....	\$65,001,000	+ \$13,395,000
Deposits for China.....	30,984,000	- 8,893,000
: U.S.Treas.Bills, comm. paper, etc.....	22,569,000	- 676,000
Claims : Loans.....	\$59,085,000	+ \$ 2,027,000
: Other - mainly Jap. import bills.....	7,957,000	+ 236,000

A transfer of about \$9,000,000 on the Agency's books from the account of the Tientsin branch of the Yokohama Specie Bank to that of the head office explains the decline in deposits for China and most of the increase in Japanese bank deposits. New loans by the Agency accounted for another \$2,000,000 of the expansion in Japanese deposits.



CONFIDENTIAL

April 18, 1941

Dear Mr. Spruill:

I want to acknowledge your letter of April 8th, enclosing the memorandum on the corporate bond market. Thank you for preparing this for me.

Sincerely,

(Signed) H. Morganthau, Jr.

Mr. Allan Spruill,
President,
Federal Reserve Bank of New York,
New York, New York.

SW/jha

FEDERAL RESERVE BANK
of New York

April 3, 1941

Dear Secretary Morgenthau:

You will recall that just before you went away you asked Mr. Rouse and me to look into the state of the corporate bond market. We have done so, supplementing our own observations with information which we have obtained in a series of interviews with representatives of the principal factors in the market, that is, leading underwriters, insurance companies, savings banks and commercial banks. The enclosed memorandum will give you the summarized results of our inquiries.

Yours faithfully,

(Sgd) Allan Sproul,

Allan Sproul,
President.

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

CORPORATE BOND MARKET

The present corporate bond market can only be understood in the light of developments in that market during the latter half of 1940. During that period there was comparatively little new money borrowing and a very substantial amount of refunding of outstanding securities at steadily lower rates. There was also no new supply, after July 1940, of longer term Treasury securities available for investment. The amount of money available for investment meanwhile was increasing, and investors in general, and large investing institutions in particular, found it necessary to invest increasing amounts to retain the same amount of income. In these circumstances, prices advanced and yields fell. Moody's average of Aaa corporate bond yields declined from 2.89% early in July to 2.70% about the middle of December 1940, which is equivalent to a price in a thirty-year 3% bond of about four points. There was a lesser advance in Aa bonds and a more pronounced rise in Baa bonds.

All through this period the market had reservations about the rise in corporate bond prices and there was a feeling that such prices were moving too high in relation to prices of Treasury bonds. The situation developed,

- 2 -

however, and the market now attributes it largely to the pressure of investors who needed income and to whom tax exemption was not a major consideration.

At about the time the peak in corporate bond prices was reached late in 1940, the Treasury made concrete and specific its plans to issue only taxable securities in the future. At the end of the year the Federal Reserve System made its report to the Congress which raised doubts about the continuance of the existing credit situation. Early in 1941 the budget message of the President to Congress made clear the probable magnitude of future Treasury financing. These developments confirmed the feeling of the market that the long period of declining interest rates was probably over and that a readjustment in the relation of corporate bond prices to Treasury bond prices was overdue and would become clearer when comparable taxable Treasury issues were offered for sale.

Fundamentally, it has been the anticipated and the actual need for this readjustment which has been the dominant factor in the declining trend of high grade corporate bond prices during the present year. Since the lowest yield levels were reached near the close of 1940, average yields

- 3 -

of Aaa bonds have risen from 2.70% to 2.84%, and of Aa bonds from 2.90% to 3.05%. The average yield of Baa bonds meanwhile has declined further from 4.42% to 4.33%. This contrary movement the market believes has been due primarily to the improving credit position of this grade of securities, plus the fact that the higher income available has tended to maintain buyer interest of investors able to take the risks involved.

The readjustment of high grade corporate bond prices has taken place haltingly, because it was not easy for the market to determine what the relationship to Treasury bond prices should be, and the Treasury's needs and program only gradually assumed form. After the issuance of the taxable Treasury 2's of 1948-50 there was some adjustment in prices of outstanding corporate securities of about the same term. A much more substantial adjustment took place with the issuance of the 2 1/2's of 1952-54. High grade corporate issues maturing within the period covered by the two Treasury issues then sold down to a yield of about 2 1/2% before reaching an area of support which gave any stability to the price structure. Actually, the supply of such

- 4 -

securities has been small and holders have not pressed them on the market, but on the other hand the principal buyers have been sitting back waiting for the movement to run further in its course.

The market appears to anticipate some further adjustment to be effected by a further decline in prices of high grade corporate securities, particularly at long term, if and when the Treasury issues a long term obligation. Some indication of the probable coupon such an offering is believed to have been given by the rates fixed for the savings bonds to be sold beginning May 1st. Hope looks toward a 3% rate, expectation leans to a somewhat lower figure. It seems to be generally believed that such a development would be healthy and desirable, and that further price adjustments in the corporate security market would in no case be of such magnitude as to cause difficult situations. The larger holders of the securities whose prices would decline are not deemed to be vulnerable to such a market development.

Aside from this fundamental cause of readjustment in prices of corporate securities, certain other reasons for

- 5 -

the state of the corporate security market were put forth by underwriters and investors. First, the market has, to a degree, created its own bad psychology by a succession of relatively unsuccessful offerings, during the first quarter of the year. In almost every case the apparent reason for the poor reception accorded these issues has been pricing. Compared with outstanding issues they may have appeared to be in line, but they were not attractive to buyers who, all through this period have been anticipating higher yields on such securities. Under these circumstances, the traditionally successful way of testing the market, and of helping to create a better psychology has been to price one or two new issues on the low side rather than the high side, in the hope that their attractiveness will stimulate buyer interest and clear the atmosphere as to the current level of yields. (This is approximately what the Treasury accomplished with its recent issue of 2 1/2% bonds of 1952-54. According to the market, this is not now possible when pricing is done under the shadow of the Securities and Exchange Commission, with pressure, actual or imagined, to obtain for the borrower the highest possible price which might be squeezed from the market.

- 6 -

Also related to this question of pricing was the criticism of the practice of the Securities and Exchange Commission of requesting an indication of the final price amendments to registration statement three or four days prior to public offering, which involves at least a moral commitment on the part of underwriters to go through with the deal at the prices named, even though market conditions change in the interval. A third criticism of Commission practice, which it was claimed interfered with successful offering and marketing of securities, was the occasional demand for last minute substantial changes in offerings, which could have been made days earlier. This has caused delays and alterations in offerings which took the steam out of selling groups.

The market also believes that the dominant part played by the insurance companies as purchasers of corporate securities makes, more likely than might ordinarily be the case, the existence of a general and accepted attitude toward such obligations. In the case of large issues, particularly, it is probably fair to say that as the insurance companies go so goes the market, and they have been holding back from purchasing corporate securities at existing yields.

- 7 -

The presently resist buying any such securities below a 3% yield because they say the greater part of their outstanding insurance contracts are based on the calculation that their income will be at the rate of 3% per annum or higher, and they anticipate that the level of yields in the corporate security market is working up at least to this figure.

It is not believed by the market that its difficulties during the past three months have held back a large amount of financing which should have been done and must now be done. It is generally believed that with the checking of the downward trend of interest rates, the recent era of large scale refinancing is over. This is not of particular concern to the general economy, at present. New money financing has not been sought in large volume and it is market opinion that only a relatively small amount of new money financing is in prospect, particularly through the issuance of non-equity securities. Some need for new money financing by public utilities was mentioned and some continuing applications for working capital loans, in one and two million dollar amounts for periods up to ten and fifteen years, were reported by insurance companies and banks.

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In conclusion, it might fairly be said that this canvass of informed opinion indicated that there is nothing fundamentally wrong with the corporate bond market which some further moderate price adjustment and a little time would not cure; and that such adjustments as are contemplated would not be injurious to the business and credit situation.

There is a general belief that the Treasury's fiscal policy and financing operations are now the most important influence in the corporate securities markets, with secondary emphasis on the credit supply and credit policy. Earlier in the year there appears to have been a fairly widespread opinion that the large volume of Treasury financing in prospect would require progressively higher rates in succeeding issues of securities, and that rates in the corporate security market would have to go up correspondingly. This opinion has been pretty well dissipated as parts of the Treasury's program have become known and as the recent financing policies of other countries have been studied. It is now believed that the necessary further adjustment in the corporate bond market would be forthcoming fairly promptly if the Treasury were to issue a bond at long term (20 to 30

- 9 -

years) and thus to set the yield on a taxable Treasury obligation of such maturity. (Subsequent changes in the tax structure would, of course, affect whatever level of security prices and yields might now be established.) The speed and ease of this further adjustment would be facilitated, it was uniformly felt, if the Treasury could give some clearer indication of its approximate need of funds from the market during the next fiscal year and of the approximate spacing of the issues it would offer to the market. It is realized, of course, that this involves consideration of the amount of tax returns under existing and new tax legislation, and of the amount to be realized through special issues and through sales of Savings Bonds, but there is hope, nevertheless, that the Treasury will give a lead to the market.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE April 16, 1941

TO Secretary Morgenthau
FROM Mr. Wiley

FBI reports:

April 11. As of March 21, 1941, Soviet balances at the Chase in New York were \$33,422,223.

April 11. As further evidence that dollar balances deriving from interests of German beneficiaries of American estates are being used for the support of the German Consular service in this country is a report that Fritz Wiedemann used \$41,000 of such money, after consultation with the German Embassy, for the purchase of a building in San Francisco for the use of the German Consulate. The arrangements were made by Wiedemann through Mayor Rossi and an Italian garage contractor and political figure, presumably Sylvester Andriano, former Police Commissioner; the building is said to be situated in an area where consulates are not permitted.

April 12. The Japanese are buying from \$300,000 to \$500,000 worth of lard from one of the large packing houses in Chicago, probably Cudahy. The Pacific Vegetable Oil Company in San Francisco has recently received \$100,000 from the Japanese against a sale of 9,000 barrels of lard.

ONI reports:

April 7. Soviet naval bases in the Pacific are only potential threats, having been used to date chiefly for summer maneuvers and being visited only occasionally in winter by flying patrols; an exception is the base at Anadyr, which is at the eastern end of the new air line to Moscow and parallels the Northern Sea Route; at Anadyr a permanent military airdrome is being erected and it is said to be the new center for a far northern defense area. (Anadyr is quite close to the Alaskan Coast on the Bering Sea.)

Wiley

BRITISH EMBASSY,
WASHINGTON, D.C.

16th April, 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,

Wendell Butler

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

TELEGRAM RECEIVED FROM LONDON DATED APRIL 14TH, 1941

Naval

RAJPUTANA torpedoed 150 miles independently N. W. Reykjavik 0625/13. One hour later again torpedoed. Abandoned 0750. Two hundred and seventy-seven survivors known safe.

Tigress sank 10,000 ton northbound tanker in the Bay of Biscay night of 2nd/3rd April.

At 19.48/13 British ship reported being chased by U boat 400 miles south of Newfoundland.

Military Libya

6.0 a.m. on 13th April Navy reported brisk fighting at Sollum and 2.0 p.m. enemy occupied Capuzzo. Water supply has been oiled.

Greece

Northern Front - April 11th enemy infantry and tanks of S. S. Hitler division attacked positions held by our forces. Our artillery accurately engaged the enemy who were ultimately driven back by our infantry with heavy losses.

Yugoslavia

To 5.0 p.m. April 13th German occupied Belgrade developing pressure towards the south west and also in Brod and Karlovac areas in the direction of Sarajevo and Mostar confused fighting between Belgrade and Nis and the Germans hold Kragujevac.

Royal Air Force

Two reports received ONEISENAU hit by bombs recently.

-2-

Night of April 13th/14th.

Twenty-nine aircraft sent to attack aerodromes and submarine bases at Bordeaux. All returned safely.

Libya - April 12th.

Having been warned of impending ground attack on Tobruk our aircraft bombed 60 enemy tanks and M. T. causing them to disperse in confusion. Transport in the area also attacked, two Hurricanes shot down by enemy A.A. (1 pilot safe but captured.) Enemy bomber destroyed north of Alexandria.

Enemy sea communications. Night of 12th/13th. Eight fleet air-arm aircraft unsuccessfully attacked an escorted enemy convoy of five large merchant vessels southward bound, N.W. of Tellaria. Two aircraft failed to return.

German Air Force. 13th April

Enemy activity slight - one destroyed and another damaged.

Night of 13th/14th only few isolated raids took place.

Malta

In enemy raids on two aerodromes during night of 12th/13th which caused no damage or casualties. one enemy fighter shot down and one hurricane lost, pilot safe.

RESTRICTED

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, April 16, 1941

TENTATIVE LESSONS BULLETIN
No. 92
G-2/2657-235

NOTICE

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

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction, see Letter TAG 350.05 (9-19-40) M-B-M.

GERMAN PRINCIPLES OF ORGANIZATIONSOURCE

Information contained in this bulletin was compiled by an American official observer in Berlin in 1938. It is published because of its continued applicability as a summary of German principles.

CONTENTS

1. PRINCIPLES
2. COMMENT OF OBSERVER

RESTRICTED

RESTRICTEDGERMAN PRINCIPLES OF ORGANIZATION1. PRINCIPLES

A careful analysis of German organization leads to the conclusion that there exist certain fundamental principles upon which all German organization is based; that these principles have a direct bearing on German tactical doctrines; that through the application of these principles, rigid adherence to tables of organization becomes unnecessary, and tactical and administrative flexibility is achieved.

These principles may be classified as follows:

a. The Einheit Principle of Organization

Under the Einheit principle, a standard unit group with standard organization, training, and equipment is taken as a basic unit to be included in all organizations of the Army where its use is applicable. It is found in the basic group, the signal Trupp, the combat and field train, and in the standard light column.

b. The Principle of Tactical Self-Sufficiency of Combat Units

According to this principle, each combat unit of the German Army - from the basic infantry group to the complete infantry division - is so organized and equipped as to be tactically self-sufficient for the purpose of accomplishing its local combat mission. A corollary to this principle is that each combat unit shall contain, as organic armament, all supporting weapons which it habitually requires to accomplish its local combat mission; conversely, the unit shall contain as organic armament no weapon which is not habitually required for its local combat.

c. The Principle of Administrative Self-Sufficiency of Combat Units

This principle requires that each tactical unit responsible for administration be so organized as to be independent of the personnel and transportation of the next higher unit.

d. The Principle of the March-Combat Group

Under this principle, each division or similar unit is so organized that it can be broken up into two or more basic march-combat groups.

RESTRICTED

RESTRICTEDe. The Use of Triangular and Square Formations

All units whose tactical employment is based upon fire and movement are organized in triangular formation, while all units whose tactical employment is based on shock action alone are organized in square formation.

2. COMMENT OF OBSERVER

Since all armies are by their very nature organized along similar lines, it is a difficult matter to set down isolated principles of organization for a particular army. It is also difficult to say that one army differs from all others or that it is superior because of adherence to a principle or a set of principles. These difficulties are particularly great in the case of the German Army, where organization is apparently bound by no set rules and where a table of organization is no more than a temporary memorandum.

The German mind, however, is essentially logical, and German organization has naturally followed a clear-cut line based upon generations of sound military thinking. Careful analysis and thorough study of past and present German organization lead to the very definite conclusion that there exist certain fundamental principles upon which all German organization is based; that these principles have a direct bearing on German tactical doctrines, and that a study of these principles reveals the organizational means by which certain features of German tactics are made possible.

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G-2/2657-220; No. 367 M.I.D., W.D. 12:00 M. April 16, 1941.

SITUATION REPORTI. Western Theater of War.

Air: German. Last night strong attacks were made over northwest and northeast England and over northern Ireland, where Belfast was heavily raided. Estimated total scale of activity 250-300 bombers.

British. Normal night offensive activity focussing on Kiel.

II. Balkan Theater of War.

Ground: Italo-Greek Front. Italian forces have occupied Koritza and Erseke, 20 miles to the southwest. Yugoslav actions in the Skutari region of northern Albania appear to be of a minor nature.

German-Allied Front. German troops have reached the western end of Siatista pass to the southwest of Kozani. Greek and British forces hold a line from the Aegean Sea near Mt. Olympus westward through Servea. This line has not yet been seriously attacked.

Yugoslav Front. Yugoslav resistance appears to be diminishing rapidly. German troops have occupied Serajevo. Italian troops of the Second Army have occupied Spalato. It is believed that organized Yugoslav resistance can be maintained for some time longer, but only in the area Cattaro-Montenegro.

Air: German. Strong close support of ground forces throughout the theater. Considerable strategic bombing.

Allied. Attacks, probably in small force, directed against troops and communications in the Greek combat zone.

III. Mediterranean and African Theaters of War.

Ground: North Africa. The German High Command announces that British armored forces supported by warships have been repulsed in an assault on Axis positions at Sollum. There is considerable evidence to suggest that the German advance east from Sollum has been stalled. The British defense lines at Tobruk still hold.

Air: Axis planes bombed Tobruk heavily. Sharp air fighting ensued.

RESTRICTED

JI

GRAY

Berlin

Dated April 16, 1941

Rec'd 5:58 p.m.

Secretary of State

Washington

RUSH.

1450, April 16, 4 p.m.

By order of the German authorities the Dutch Finance Ministry has announced that beginning May 1, American shares listed on the Dutch stock exchange are to be considered as foreign funds in the sense of the foreign exchange regulations. This means that after May 1 American shares may no longer be dealt in on the Dutch stock exchanges, will no longer be quoted, and can be bought and sold only with permission of the Foreign Exchange Institute. It was provided that in the interim period from April 4, the date of the order, to May 1 trade in American securities could be carried on as follows: from April 4 to April 8 inclusive trade permitted but no official quotations; from April 9 to May 1 trade and official quotations permitted. Persons still possessing American securities on May 1 will have

no

JI-2-#1450, April 16, 4 p.m. from Berlin

no legal means of disposing of them until after the war unless special permit is obtained from the Foreign Exchange Institute.

INFORM TREASURY.

MORRIS

JRL:LMS

Paraphrase of Code Calligram
Received at the War Department
at 11:04, April 16, 1941.

London, filed 15:30, April 16, 1941.

1. British Air Activity over the Continent.

a. Harflicht, April 15.

Four different raids by pursuit squadrons attacked German airfields in Occupied France. Two Axis freighters were sunk by medium bombers off the French coast, and a third in the port of Bremen.

b. Waltz, April 14-15.

A direct hit was scored with a heavy bomb from 5,000 feet altitude on one of the two German battleships in the port of Brest. The scale of the attack was 94 planes.

2. German Air Activity over Britain.

a. Waltz of April 15-16.

Bombing on a heavy scale was resumed throughout Britain. While no reports of damage are yet available, attacks were especially heavy on all of England west of the line between Portsmouth and Bournemouth, as well as the harbor of Liverpool, Belfast, and airfields at Glasgow and in Suffolk and Norfolk.

b. Harflicht, April 15.

Only minor destruction is reported after scattered raids by single bombers over Lincolnshire, Lancashire, and Devon. Pursuit units attacked airfields in Kent.

3. Air Losses, British Bombers.

a. British.

No reports.

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3. German Night April 15-16.

One and perhaps three planes were shot down by pursuit ships and one by antiaircraft guns.

4. British Air Activity Middle East Theater.

a. Crete.

(1) Dawnlight April 15.

The R.A.F. attacked ground troops near Messara and Ptolemais. Other activities were limited to observation of German forces.

b. Lily.

(1) Dawnlight April 15.

British planes harassed motorized foot troops and supply convoys advancing on Tobruk and inflicted serious casualties. Raids were also made on forward German airfields at El Adem and Derna.

(2) Fires were observed on a ship and on shore after the bombing of Tripoli harbor by British planes based at Malta.

5. Air Losses Middle East Theater.

a. British.

(1) Crete Dawnlight April 15.

Six planes failed to return after raids in the Messara and Ptolemais sectors in which eight German planes were shot down.

b. German.

(1) Lily.

a. Dawnlight April 15.

In various British attacks on German airfields, seven German planes were destroyed on the ground and five were shot down in the air.

b. Harlick. April 14.

In the German attacks on Tetrach, four low-flying bombers were destroyed by artillery fire and nine brought down by British pursuit planes.

(2) Grass. Harlick. April 14.

One German plane was shot down in addition to the eight already reported above.

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Distributions

Secretary of War
State Department
Secretary of Treasury
Under Secretary of War
Assistant Chief of Staff, G-3
War Plans Division
Office of Naval Intelligence
Air Corps
G-3

286
SECRET

By authority A. C. of S., G-2
Date **APR 17 1941** (E7H)
Initials

Paraphrase of Code Radiogram
Received at the War Department
at 11:13, April 16, 1941

London, filed April 16, 1941.

Following is a summary of British Military Intelligence
information to 7 A.M., April 16.

1. Italian East Africa.

On April 15 the Duke of Aosta sent an envoy to British
authorities at Khartoum for terms of an armistice. The British stated
that they could not be responsible for the safety of civilians in
Ethiopia unless the Italian Army laid down its arms. An answer was
demanded before 6 P.M., Egyptian time, April 17.

2. Yugoslavia.

The Government of Yugoslavia fled the country by air after
capitulating the afternoon of April 15. The terms of the armistice
are not yet available. General Simovic from Greece expressed his
confidence that the Army would carry on the war.

3. Greece.

a. It is reported that the Ankara Government has agreed to per-
mit the evacuation of the Greek troops in Thrace by way of Rodosto.

b. Koriton has been captured by the Germans and the Greeks have
withdrawn to positions to the southeast.

c. German columns have reached positions south of Lake Kastoria
and have advanced through the Kleisoura defile. German mechanised
vehicles have been observed on the north bank of the Alliakum river.

SECRET

SECRET

The Greek Army has retired from their positions on the heights southeast of Florina to a new line on the west bank of the upper Alliakmen. British forces are south of the Alliakmen with Greek elements on their left.

4. Albania.

The Greeks have successfully withdrawn from the Eastern Front. Local attacks by Italian forces in the central sector were thrown back.

5. Libya.

a. British Imperial forces are beginning to arrive in Egypt from Eritrea.

b. Estimated casualties in the German attack on Tobruk attain a figure of at least 15 tanks, 100 men killed and 200 captured. British casualties total 100.

c. On April 14 the British counterattacked the German rear in the vicinity of Capuzzo. In the attack a number of German tanks were destroyed. On the same day in the vicinity of Sollum a German advanced post was captured with a number of Germans killed and taken prisoner.

LEN

Distribution:

Secretary of War
State Department
Secretary of Treasury
Under Secretary of War
Assistant Chief of Staff, G-2
War Plans Division
Office of Naval Intelligence
G-3

-3-

SECRET

April 17, 1941

The Secretary called the President at 10:30 today and the following is the Secretary's end of the conversation:

"We had the first and second meetings on taxes. The first one was secret and was held at my house yesterday, and this morning we had the second. The men just left. I had George, Walsh, Vandenburg, Doughton, Cooper, Crowther, Treadway and Cullen.

"They all agree on the over-all that we should go after 3½ billions. As to the method there is an argument. Each one has his pet.

"Yesterday, George and the others thought that you should hold your fire on the message and wait and see how it went. Vandenburg and Treadway were very emphatic. You told the story to the people on National Defense on everything except the money and if they are going to carry the ball they feel that you should break the ice.

"I am going to have a press conference in a few minutes and it all got down to how little I should tell the press. Should I say that they adopted the two-thirds and one-third? Then they will say 'What will it mean in new taxes?'."

"Oh!

"Say it means 3½ billions and then stop there?

"Can I say that you will make your views clear at the proper time and in your own way?

"We had a very good meeting.

"How are the German measles?

-2-

"My father is giving us a party on Saturday and then we will go to the Farm on Sunday.

"Oh, I didn't know that! I may ask for a ride. I'll see."

* * *

At the conclusion of the conversation, the Secretary dictated: "The President said that I should say how much it will mean in dollars, because they will guess the wrong way; that I should tell them it will cost 3½ billions, and that the President, himself, in his own way and at the proper time will have something to say on this subject."

W.J.S.V., 10:45 P.M.

A plan for higher taxes and a move to step up defense production came out of Washington tonight. The plan asks for a 37% increase in taxes. If it goes through it will mean that every man, woman and child will have to pay about \$26.00 more to help Uncle Sam.

11:00 P.M., W.M.A.L.

The announcement that all existing tax rates will be increased from 25 to 50 percent was made today. Secretary Morgenthau announced the tax program after a conference with Senate and Congressional leaders. The President is to make a talk to the people on the subject. It is said that \$2 out of ^{every} \$3 spent for national defense will be ~~from~~ ^{from} tax, the other dollar will be borrowed. Excise levying was also mentioned as part of the proposals drafted by the Treasury. Disclosure of the proposals will be withheld pending hearings by the Ways and Means Committee. The present tax structure will be used as a base. Many new methods are suggested by the conferees. The conferees are in full agreement with Mr. Morgenthau's suggestions and the amounts. --- Two-thirds will amount to \$12 billion plus, which leaves the Treasury \$3 billion plus short of its goal on Budget estimates. In addition Secretary Morgenthau hints that personal exemptions will be reduced. Exemptions will be so low that many persons who have never paid taxes will be included. The 10% defense tax also

may be raised from 30 to 50 percent and a general sales tax may be levied. Doughton says, if necessary, a general sales tax and a tax on payrolls may be resorted to. Doughton also said hearings might start next week. The hearings will be delayed in order to give the President time to prepare his message to the people. Secretary Morgenthau discloses that the program also has designs to prevent inflation by taking the money from the people in order to keep them from spending it.

0 0 0 0 0

MR.L

WOL — 7:00 Thursday, April 17, 1941.

Fulton Lewis

Secretary Morgenthau met with Congressional leaders in secret, closed session and announced an advance story on tax revenue. Quite a story it was! The total revenue needed will be \$19 billion; 2/3 of it will be on "pay as you go" basis and the other 1/3 will be borrowed. \$12½ billion in tax revenue is the goal, with \$9 billion now on the books. Congress is to provide \$3½ billion in taxes. No details were given as to the additional taxes. Everything was discussed even a sales tax. Mr. Morgenthau was opposed to the sales tax. He stated that a 2 percent sales tax would produce \$400 million a year in revenue. This would be a sales tax with fuel, clothing and medicine exempt. The income level might be lowered to include more taxpayers and the surtax rate might be changed so, instead of waiting until the \$4000 mark was reached, it should be applied at the bottom starting at zero. This would bring in over a billion dollars. An increase in taxes on gasoline, cosmetics, beer, etc. was proposed. Next Monday Mr. Morgenthau will appear before the Ways and Means Committee together with Mr. Sullivan of the Treasury.

—O—

WRC — 7:15

The cost of this defense business is coming home to us. The new tax plan, if enacted, will be the largest in history. The plan provides for two dollars in cash for every three dollars spent next year. It plans an increase in all existing taxes. Several million more taxpayers will be brought in to the taxpaying brackets. It will mean \$26 more a year for the "man on the street". This seven billion dollars business will be small change before this is over.

—O—

EW

WOL - 8 p.m. Nothing

WOL - 9 p.m. Heater

Mr. Morgenthau talked taxation today indicating that an increase of nearly 3-1/2 billions would be raised in new taxes, a 25 to 50 percent increase in higher income taxes. Talk of a Federal sales tax or maybe even a payroll tax. Every source of revenue is to be taxed.

WINX - 10:00 p.m. Locke and Lee Davis

Mr. Morgenthau disclosed that the new tax program would undoubtedly dip into the pockets of people who had heretofore never paid anything up to this time. The present \$800 exemption for single people and \$2000 exemption for married couples will be lowered. Congressional leaders conferred with Treasury officials but no details of the new tax program were disclosed. Informed quarters expected sharp increases in the income tax rates.

WJSV - 8:45 P.M., April 17, 1941.

This is not verbatim.

The Secretary of the Treasury disclosed that the new program would undoubtedly dip into the pockets of people who have not paid anything, up to the present time, and that the present \$800 exemption for single persons and the \$2,000 exemption for married persons will be lowered.

WINX - 9:00 Nothing

WINX - 10:00 p.m.

Legislators are preparing a new tax bill that will impose 3-1/2 billion dollars of additional taxes. Secretary Morgenthau disclosed that the new program undoubtedly would dip into the pockets of people who had never paid anything up to this time. Present \$800 exemption for single people and \$2000 for married couples will be lowered. -----but no details of the new tax program are being made public at this time. --- expected increases in income tax rates.

WINX - 11:00 Nothing

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 17, 1941

TO Secretary Morgenthau
FROM Mr. ~~Bohrman~~ ^{Miss Chas. E. Bohrer}

Mr. Jay Crane called on Mr. Philip Young today at 2:30 p.m. and then came to the Treasury at 3:20. Since the Secretary had been obliged to cancel Mr. Crane's 3:30 appointment because of the Cabinet Meeting, I received Mr. Crane. The latter handed to me three copies of a memorandum entitled: "Reasons for Continuing to take Petroleum Requirements for Great Britain from Existing Sources in the Event the British Government Requests Petroleum or its Products under the Lease-Lend Bill". The original of this memorandum is provided for the Secretary separately, and one copy is being given to Under Secretary Bell. Mr. Crane had a good talk with Mr. Young, and hopes to come down again next week. At that time he would appreciate the opportunity of seeing the Secretary for a few minutes.

WML

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 17, 1941

TO D. W. Bell
FROM Secretary Morgenthau

In the last day or two there has been a statement in the papers by the Economy League analyzing the agricultural appropriations. Would you please get a copy of this statement and bring it to my attention at 9:30 tomorrow morning.

RECEIVED

APR 18 1941

Office of the Director
Treasury Department

'PARITY' DISPUTED- AS FARM AID BASIS

Use of Prosperous Period 25
Years Ago as Norm Assailed
by National Economy League

RISE IN INCOME RECITED

Trebling of Benefits Meantime
Reported—Curb on Subsidies
Asked for Sake of Defense

Special to The New York Times.

WASHINGTON, April 14.—Farmers have no case for seeking increased Federal subsidies, the National Economy League contended today, on a theory of parity which assumes that the nation should restore agriculture to the position it occupied in an abnormally prosperous period more than a quarter century ago.

Ernest Angell, chairman of the league, said that "while it is sound policy for the government to help farmers conserve the soil and give other aid when necessary, taxpayers at this time expect economies in non-defense items, not handouts superimposed on already generous subsidies."

The league's statement, based on a study of farm parity by Willard D. Arant, its research director, came as the House has under consideration Senate amendments to the agricultural supply bill providing \$450,000,000 in parity payments instead of the \$112,000,000 voted by the House.

The study stated that the Federal farm program already had cost over \$7,000,000,000 and that the cost of farm subsidies this fiscal year, evenly distributed, would add \$2.50 to the monthly food bill of each household.

Cash income from farm marketings in 1931-35, it was said, was at an average level of \$3,900,000,000 and rose in 1936-40 to \$8,200,000,000, and yet in 1940 agricultural aid was more than three times as great as at the beginning of the "emergency" programs.

The acceptance as normal of the five pre-war years when, as Henry A. Wallace, former Secretary of Agriculture, was quoted as saying, "there was much talk of farm product prices being higher than the wages of labor," was held to be unwarranted.

"If the Department of Agriculture should develop an index which gave proper weight to the commodities which have been steadily increasing in importance in the farmer's budget," the study said, "it would find that most farm products were at parity in the 1920's and during most of the period since 1935."

The objective of farm aid, according to the league, should be neither price parity nor income parity, but equality or parity between the rate of remuneration of capital and labor as applied to agriculture and as applied to other economic pursuits.

"If subsidies are necessary," the report said, they should probably be applied at the consumption end, as in the food stamp plan, rather than at the production end. Any direct subsidies to farmers should be designed to provide relief to low-income groups in place of present methods which give extra income to wealthy as well as to poor farmers.

THE FARM "PARITY" SLOGAN

The National Economy League is to be commended for its vigorous analysis of the fallacies and pretenses which lurk behind the notion that there was something sacrosanct about the relationship of farm to other prices in the five years from 1909 to 1914, and that the Government owes it to the farmers to make up to them out of the taxpayers' pocket whatever they fail to get below this so-called "parity" ratio.

The League points out, among other things, that the five-year period selected, though it is cited by the "parity" advocates as normal, was close to if not actually the most prosperous period farmers ever enjoyed in this country. Wholly apart from this, the "parity" calculations make no allowance whatever for radical changes in productive technique during the last quarter century, which are reflected in greatly improved crop yields. Although "parity" is expressed in apparently precise mathematical terms, actually it is a pseudo-scientific excuse for demands which have no economic justification. "Parity" payments go to the wealthy as well as to the poor farmers. One interesting point to which the League calls attention is that, though spokesmen for these farm bonuses insist on payments from the Treasury to make up in "simple justice" for farm prices below "parity," these spokesmen say nothing whatever about several commodities which are already above even the high "parity" prices established by the Department of Agriculture. Wouldn't the same sort of "simple justice" require the farmers who got these high prices to make return payments to the Treasury because of them?

The "parity" pretense is one of the chief reasons for the tremendous and inexcusable farm subsidy of \$1,340,000,000—the largest in our history—passed by the Senate at a time when, because of the terrific and unavoidable burden of defense, it is of the utmost importance that nondefense expenditures be reduced drastically. If so many votes were not involved, it is a fair assumption that the idea that the Government owes to any group of producers the particular relative prices that they enjoyed twenty-five years ago would never have been seriously put forward.

From: The National Economy League
280 Madison Avenue
New York, New York

WASHINGTON, April 14—The National Economy League declared today that farmers have no case whatever for seeking increased subsidies from a federal treasury already under the strain of a prodigious armament program.

"The current effort of the farmers' political leaders to boost parity payments and commodity loan rates is an assault upon the good faith of a public asked by its government, in a time of crisis, to bear special defense taxes and to save for the purchase of defense bonds," said Ernest Angell, chairman of the League. "While it is sound policy for the government to help farmers conserve the soil, and to give other aid when necessary, taxpayers at this time expect economies in non-defense items, not handouts superimposed on already generous subsidies."

The League's statement, based upon a study entitled "Farm Parity Fallacy," by Willard D. Arant, its research director, came at a time when the House has under consideration the Senate amendments to the record agricultural supply bill, providing \$ 450,000,000 in parity payments as compared with the budget figure of \$212,000,000, which the House had previously voted.

Summarizing the trend of agricultural aid from 1933 to 1940, the study pointed out that federal farm programs had cost the treasury over \$7,000,000,000, and had slightly exceeded all expenditures for each of the following purposes: national defense, public works, veterans' benefits, and interest on the public debt.

"If the burden of farm subsidies during the current fiscal year were distributed equally among the families of the United States, roughly \$2.50 would be added to the monthly food bill of each household. This is a burden that cannot be supported indefinitely, whether the country be at peace or war.

"Underlying many of the features of the agricultural program is a theory of parity which assumes that the nation should restore farmers to the same relative position they enjoyed in an abnormally prosperous period more than a quarter of a century ago.

"Although parity is expressed in apparently precise mathematical terms, analysis reveals it to be only a pseudo-scientific vehicle for pressing demands which have no economic justification whatever.

"The indexes now in use fail to take adequate account of important commodities which the farmer buys. The effect of this is to make the published parity prices too high by the amount of the statistical bias.

"It is clear that if the Department of Agriculture should develop an index which gave proper weight to the commodities which have been steadily increasing in importance in the farmer's budget, it would find that most farm

products were at parity in the 1920's and during much of the period since 1939.

"Indexes covering the entire country obscure important regional differences in farm conditions, with the result that some regions benefit most who need it least. Parity payments go to the wealthy as well as to the poor farmers."

"The business boom stimulated by the war and our defense program is the occasion for the reversal of most of the arguments farmers have used in recent years, the League said.

"Farmers have said they were burdened with surpluses. Now, after several years of crop storage under government loans, they say they have 'contributed to national defense a two years' surplus of food and fiber' and should therefore 'in the name of fair play and simple justice' receive increased subsidies from the public treasury.

"Farm leaders have said there was a surplus of people on the farms; that not all could make a living; there was 'hidden unemployment.' Now, when defense work is attracting some rural labor, they claim the government should compensate them for whatever increases in farm wages may ensue.

"Farmers have said the effect of industrial activity on consumer buying power was the key to farm recovery. Now, when the defense program is increasing industrial employment and payrolls, they say there is an 'increasing disparity' between farm and industrial prices -- a statement which is directly contradicted by the rise in the 'parity ratio' from 77 to 84 since our defense program started last June."

Quoting Department of Agriculture statistics and forecasts, the League said the outlook for farm-marketing income was definitely favorable. "Most of the principal crops except tobacco, fruits, and sugarcane yielded more cash income in 1940 than in 1939. Income from grains was the largest since 1929; cotton yielded slightly more than in 1939."

The study pointed out that government subsidies to agriculture have recently been increased by a provision in the "lend-lease" appropriation which sets aside \$1,350 million for "farm and industrial commodities." Of this amount, probably \$500 million will be used to purchase farm products. "The question may be raised whether it would not be 'simple justice' to reduce other farm subsidies by an equal amount."

April 17, 1941
4:38 p.m.

General
Watson:

Yeah.

H.M.Jr:

I brought up the question at Cabinet about Speaker Rayburn and this group on the agricultural appropriation and the President said - I gathered that he had talked to the Speaker.

W:

What?

H.M.Jr:

That he had talked to the Speaker and he was waiting for

W:

Yes. They haven't even appointed the conferees.

H.M.Jr:

So he's going to see five members of the Appropriations Committee?

W:

Yes, when they appoint them. It's the five members of the Agricultural Subcommittee of the Appropriations Committee.

H.M.Jr:

I see. Well, is that all in good order and I needn't worry about it?

W:

Well, the only point is that Cannon is not in town. He's going to be chairman. He's not in much order - they can't get him.

H.M.Jr:

They can't get him.

W:

I've been after him all day; he's not in town.

H.M.Jr:

But I mean as between Rayburn and the President is everything all right?

W:

Well, yes. I'm trying to get Rayburn now, but the point is, I called his secretary and I told him that they haven't appointed those fellows.

H.M.Jr:

I see. Well, you know, I'm the instigator of it and I just wanted to follow it.

- 2 -

W: Yeah. Well, there's where it is.

H.M.Jr: I'm trying to save some money, Pa, so I don't have to raise your taxes so much.

W: Well, the only thing is that I've been trying to get that group and I can't get them.

H.M.Jr: O.K. But you're after it?

W: I'm after it, but you might help. You might help Rayburn. Do you want to do that?

H.M.Jr: Well, let's both of us do it.

W: All right. I'm after him too.

H.M.Jr: Atta boy!

W: All right.

H.M.Jr: He'd better take care if we're both after him.

W: All right. Well, I tell you, he's out right at the minute.

H.M.Jr: All right. H.M., Jr. signing off.

W: E.M.W. E.M.W.

H.M.Jr: O.K.

W: All right.

April 17, 1941
5:05 p.m.

H.M.Jr: Hello.

Operator: Mr. Sloan.

Alfred Sloan, Jr.: This is Alfred Sloan, Mr. Secretary.

H.M.Jr: How-do-you-do.

S: I was trying to get you last night but you got away, but anyway I had the dope on the estimated production of "E" and "F" jobs, Mr. Secretary, for the next three months. Here it is:

H.M.Jr: Go ahead.

S: March 31st we had completed 51 jobs. Mr. Secretary, I'm not talking about the "C's" because they're going along independent of this. I'm talking about the "E" and "F" that involve the Bell job.

H.M.Jr: That's right.

S: April and May, 200.

H.M.Jr: You mean the two months together.

S: Yes. I put the two months together because - this is a very conservative estimate - and I put the two months together, Mr. Secretary, because of the tooling situation. We're developing our tools and therefore I put them together, so I say April and May, 200, and I say June, 300 at least.

H.M.Jr: Well, here is the figure that I've got. Bell has 157 airframes waiting. Hello?

S: Yes.

H.M.Jr: And through July they need 690 engines.

S: Wait a minute, now. Let me get that. Through July - how many planes will they have through July?

- 2 -

H.M.Jr: Well, I'm just - including what they've got finished.

S: Mr. Secretary, are you talking about the type of plane where the engine is in the back with a propeller shaft?

H.M.Jr: Well, this is a Bell P-39.

S: All right. I guess that's it.

H.M.Jr: What?

S: I think so. I don't know the Bell 39, I don't know the number but I imagine it is the same job.

H.M.Jr: Well, they only take the engine with the shaft.

S: That's right, but it's an entirely new construction though. The engine goes back and we have a propeller shaft and then the cannon shoots through the hub of the propeller. All right.

H.M.Jr: Well, these figures run through July; 690 engines is what they need.

S: 690 engines through July. Well, now, on this schedule, there'd be no question but what they'd get more than that.

H.M.Jr: Well, supposing I give you the total for Bell, Curtiss, Lockheed and North American. See?

S: Yes, I understand.

H.M.Jr: For Bell, Curtiss, Lockheed and North American, they told me for the "E" and "F" engines they need 1,527 engines.

S: 1,527. Is that to August 1st?

H.M.Jr: Yes, and that's what they need.

S: That's for all of them?

- 3 -

H.M.Jr: That's the "E" and "F" engines they need for Bell, Curtiss, Lockheed and North American.

S: I don't see, Mr. Secretary - I wouldn't believe that possible. I would say that as of the 1st of August we might be behind - of course, I'm taking it out of the air now. I'm just judging by the way that these things normally develop. Another thing - before I say this - before I say what I was going to, let me say this that a good deal of the machinery involved in the "E" and "F" job we have not been able to get yet. Now we've got priorities on that of course and we're doing everything we possibly can, but of course that handicaps the production. But I would say this - that it's certain that on the 1st of August there would not be enough engines for all the planes, but I would think that by the first of August that we ought to have shipped about 1,000 engines.

H.M.Jr: Yeah.

S: That's approximately 500 - say, 1100 engines. That's approximately 500 for July. 551, Mr. Secretary, to the 1st of July and I think that is conservative. I'd say 500 would be reasonable for July. Now that would give us 1051, and on your estimate we'd be about 450 behind as of August 1st.

H.M.Jr: General Echols is meeting with Mr. Hunt today, I understand.

S: Tuesday, Mr. Secretary.

H.M.Jr: And after they've met I'm going to get a report on the conversation and then I may call you again.

S: Glad to have you do so. Now, you've got those figures, haven't you?

H.M.Jr: I've got the figures.

- 4 -

S: 551 to July 1st

H.M.Jr: They're not good enough.

S: I know they're not. I appreciate that. Nothing is good enough for the situation right now. I feel that just as much as you do. At the same time, of course, unfortunately these things have to take a course that is rather - sometimes out of harmony with the needs of the case no matter how anxious you are to meet the needs.

H.M.Jr: O.K.

S: All right, thanks.

O
P
CY
(Handed by Mr. Jay Crane of the Standard Oil Company to
Mr. Cochran in the Treasury at 3:45 p.m., April 17, 1940)

308

Reasons for Continuing to take Petroleum Requirements For Great
Britain from Existing Sources in the Event the British Government
Requests Petroleum or its Products under the Lease-Lend Bill.

Exact information as to Britain's requirements is not available, but it is estimated that during 1941 there will be required total imports of between 70 and 75 million barrels, equivalent to approximately 200,000 barrels daily of crude and products. These requirements are being supplied from Venezuela and the Netherlands West Indies, Trinidad, the Near East, and by United States exports. Trinidad and Venezuela and the Netherlands West Indies refineries (which operate almost entirely on Venezuelan crude) may be grouped together as South American sources which supply about four-fifths of the total requirements.

The Standard Oil Company of New Jersey supplies approximately one-third of the total British requirements from Venezuela and the Netherlands West Indies and receives payment in U. S. dollars for these supplies. Payment in dollars is also made for supplies from the United States. All supplies from British-owned companies operating in these countries are not paid for entirely in British pounds, as some dollar payments are necessary to cover operating expenses. It is estimated that, for the year 1941 the British requirements for dollars for payment of petroleum supplies on an f.o.b. basis will be approximately \$110,000,000.

Of the South American sources, Trinidad supplies are more or less fixed at existing capacity, and thus Venezuela and the Netherlands West Indies refineries have been carrying the major part of the load, and are the closest sources to England from which supplies can be readily made available as needed, as ample capacity exists both in crude oil production and refining. It is believed that Venezuela and the Netherlands West Indies refineries should be maintained as the primary source of supply to the United Kingdom for the following reasons:-

(1) Since Venezuela and the Netherlands West Indies are 800 miles closer to the United Kingdom than the United States Gulf, they afford a saving in tanker tonnage for British supplies. On the import requirement of approximately 160,000 barrels per day from South American sources, this corresponds to a current saving of some 150,000 deadweight tons of tanker tonnage, equivalent to 15 ships of 10,000

- 2 -

deadweight tons capacity each. The necessity of assembling tanker convoys at other points tends to detract from this normal transportation advantage, but an offsetting factor to this is the saving in tonnage due to the fact that arrangements have already been established for coordinated supply from these sources. The Netherlands West Indies refineries have available stocks of all specifications required by the British, so that ships can be readily loaded with a variety of products with minimum delay. The supplying organizations are familiar with British requirements and are in a position to dispatch loadings quickly and effectively. Convoy arrangements have been worked out for movement from these sources. The Netherlands West Indies refineries have available stocks of all specifications required by the British, so that ships can be readily loaded with a variety of products with minimum delay. The supplying organizations are familiar with British requirements and are in a position to dispatch loadings quickly and effectively. Convoy arrangements have been worked out for movement from these sources, and diversion of such supplies to the United States Gulf would doubtless occasion delays and complications. The maintenance of shipping from Venezuela to Canada or the United Kingdom does not involve the protection of additional sea lanes. That the British recognize a saving in tanker tonnage when drawing supplies from the Netherlands West Indies is indicated by their payment of a differential of 85 cents per ton to cover the transportation advantage of this source over the United States Gulf.

(2) Diversion of supplies from Venezuela/Netherlands West Indies sources to the United States would impose an added load on the United States petroleum industry, already stepped up to meet defense requirements. While the United States industry has adequate capacity to meet such requirements (an exception is 100 octane aviation gasoline, where additional refinery construction will be necessary later on to meet anticipated requirements), the imposition of a portion of British requirements on the already large defense demand would make for higher prices in the United States. The requirements occasioned by national defense are stimulating United States demands considerably beyond normal peacetime levels and any additional demand over any period of time would occasion the installation of additional equipment and facilities beyond peacetime requirements. Thus the supply of more British requirements out

- 3 -

of the United States would tend to further upset the economic balance between productive capacity and normal demand. The additional equipment required by the United States petroleum industry to meet further British requirements would divert construction materials from the defense effort.

While reserves of crude oil in the United States are at present adequate to meet domestic requirements, it should be pointed out that this country is consuming 63% of the world's consumption of petroleum products and has only 47% of the present proven oil reserves in the world. Under these conditions the United States will ultimately have to rely for part of its petroleum supplies on the resources of foreign countries. Venezuelan petroleum reserves, from a practical standpoint, are much greater than are needed for the protection of Venezuelan internal requirements. The great bulk of foreign requirements are diesel and heavy fuel oil. On the whole, United States crudes are suitable to supply only limited quantities of these products. The East Coast of the United States has to rely on foreign sources for part of its supplies of heavy fuel oil. Under these circumstances it would seem to the interest of the United States that the British supplies should come to the maximum extent possible from Venezuela, thus conserving U. S. supplies.

(3) Any appreciable reduction in petroleum outlet to Latin American countries would mean a serious reaction on the economies of these countries. For example, Venezuelan production is estimated as 190,000,000 barrels during 1941, so that anticipated supplies to the British Empire correspond to approximately 26% of this production. The oil industry is the most important factor in the economy of Venezuela and any reduction in oil production means a serious diminution in government revenue and income to the country as a whole. The foreign exchange derived from its oil industry enables Venezuela to finance its essential imports, largely, under present circumstances, from the United States. In view of the importance of preserving Western Hemisphere solidarity, it would seem desirable that the economies of such Latin American countries be protected to the fullest extent. If the Venezuelan economy should be seriously upset by the loss of petroleum outlet to Great Britain, financial aid from the United States might be needed, in which case our government would be faced not only with helping the British, but also assisting Venezuela.

- 4 -

(4) The Standard Oil Company of New Jersey has made large capital investments both in crude oil production and refining in Venezuela and the Netherlands West Indies to supply the United Kingdom, and such facilities are capable of meeting any additional British requirements that may materialize. The company has turned over its distribution facilities in England, including a large amount of tankage, to the British Pool Board. All of its British flag tankers, numbering 25, have been requisitioned and put at the disposal of the Pool Board to aid in supplying the British requirements.

April 14, 1941.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE April 17, 1941

TO Secretary Morgenthau
FROM Oscar Cox

For your information:

We have just cleared the legal underbrush so that, if he wishes, the President, as a matter of policy, can let the British Overseas Airways Corporation immediately start operating from La Guardia Field to the British Isles.

OSC



OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

April 17, 1941

MEMORANDUM TO THE SECRETARY:

The President's letter of April 3, 1941, addressed to you authorized commitments for certain articles to be paid for from the appropriation provided by the "Defense Aid Supplemental Appropriation Act, 1941". Authority is now requested to deliver the following items to the proper representative of the United Kingdom:

200 L.T. Butyl Acetate	\$48,400.00
200 L.T. Butanol	48,400.00
500 Longine Second-Setting Wrist Watches	20,000.00
600 L.T. Filter Powder	<u>112,000.00</u>
Total	\$228,800.00

Representatives of the British Government have advised the Procurement Division that the first two items for which purchase contract has been made should be delivered for loading into cargo vessels not later than April 20, 1941, and have requested prompt shipment on the last two items for which negotiations to purchase are now in process.

Clinton E. Mack
 Clinton E. Mack,
 Director of Procurement.

*Original sent to
 Mr. Chase Young
 of Mr. Thompson
 4/17/41.*



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PROCUREMENT DIVISION

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Clinton E. Mack,
Director of Procurement.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 17, 1941

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Restriction of Capital Issues Competing with
Government Securities

SUMMARY

- (1) The problem of restricting capital issues competing with Government securities is a twofold problem. On the financial level it is a problem of allocating the available supply of funds between defense and non-defense uses. On the physical level it is a problem of utilizing the available supply of labor and materials in the manner most conducive to the defense effort.
- (2) Restriction of capital issues during the World War was undertaken early in 1918 by an informal Capital Issues Committee, under the general supervision of the Federal Reserve Board of which the Secretary of the Treasury was then *ex officio* chairman. This Committee was supplanted after about four months by a new Capital Issues Committee established by Congress. Neither committee had any authority, even to require that it be notified of proposed capital issues; but both were reasonably successful, due largely to the patriotic cooperation of the financial and business community.
- (3) Restriction of new capital flotations does not seem to be either necessary or desirable at this time. The volume of new money financing in competition with Government securities has been negligible for some years past and as yet shows no signs of an appreciable increase. In view of the fact that the defense program may soon absorb the entire annual savings of the nation, however, it might be desirable for the Treasury to set up suitable machinery to be used when and if it becomes necessary.

Secretary Morgenthau - 2

I. General Character of Problem

The problem of restricting security flotations entering into competition with Government borrowing presents itself on two levels — the financial and the physical. On the financial level, the problem is that of competition between the Government and other borrowers for the available supply of funds. If the competition is not intense the problem may be merely one of timing. If the competition is more intense, however, the Government may have to choose between the alternatives of either restricting new capital issues for purposes not essential to the defense effort or of competing with them on a price basis for a limited supply of funds. The latter course would be clearly undesirable, especially in view of the fact that price competition would not tend to increase materially the supply of capital available for distribution between essential and non-essential uses.

On the physical level the problem is one of the conservation of labor and materials. Here the question is not merely how much money is proposed to be raised, but how it is proposed to be spent. It may be desirable, for example, to restrict new capital issues for purposes not essential to the defense effort if they are likely to absorb labor and materials needed for defense purposes; but to leave untrammelled other issues, the purposes of which are equally non-essential, if their proceeds are not likely to be expended for goods and services necessary for defense.

II. Control of Capital Issues During the World War

Restriction of capital issues during the World War was undertaken with both the financial and the physical problems in mind. On the financial level the problem was one of so limiting the supply of investment securities that the cost of Government borrowing might be kept down, and that the market value of bank portfolios — at that time savings banks were the principal class of bank holding bonds in substantial amounts — might be maintained insofar as possible in the face of competition from Liberty bonds bearing coupon rates in excess of 4 percent. On the physical level the problem was, as stated above, to conserve labor and materials for essential war uses.

Recognition of the immediacy of the problem came in the latter part of 1917 when the Secretary of the Treasury made a public request that all organizations or persons contemplating new capital flotations submit their proposals to him and

Secretary Morgenthau - 3

secure his opinion as to whether they were in the public interest. This task of passing on proposed capital issues was subsequently turned over to a Capital Issues Committee, organized in January 1918 under the Federal Reserve Board of which the Secretary of the Treasury was then ex officio chairman. The Committee was composed of three members* of the Board with an advisory staff. It had no powers of compulsion. Nevertheless for a period of about four months until the War Finance Corporation Act took effect, it succeeded, with the cooperation of banking organizations, in maintaining a fairly effective control of new capital flotations.

Originally the Committee passed only on flotations of \$250,000 or more, but this limit was subsequently reduced, with respect to both municipals and corporates, to \$100,000. Despite the success of this Committee it was felt that it should be given legal status. For that purpose provision was included in the War Finance Corporation Act (Title II), approved April 5, 1918, for the establishment of a new Capital Issues Committee. As originally written in accordance with the recommendation of the Secretary of the Treasury, the bill provided for a formally organized and salaried committee with carefully defined powers. Due to objections on the part of the Investment Bankers' Association and others, however, the Act as finally passed merely set up a new Capital Issues Committee of seven members* which, while it had definite statutory recognition, had no more authority than the old -- i.e., it did not have the power to require that new issues be submitted to it or even that it be notified of them.

The new Committee functioned from May 17, 1918 until shortly after the signing of the Armistice. Sub-committees -- composed principally of bankers serving without compensation -- were organized in each Federal Reserve district and the plan as a whole worked reasonably well until the Armistice. The Committee discontinued operations in December 1918. The results of the work of the two Capital Issues Committees are indicated in the following table:

* The members of the first Committee were Paul M. Warburg, Charles S. Hamlin, and Frederick A. Delano, all of the Federal Reserve Board. The second Committee consisted of Messrs. Hamlin and Delano; Comptroller of the Currency John S. Williams; James B. Brown, President of the National Bank of Commerce of Louisville; John S. Drum, President of the Savings Union Bank and Trust Company of San Francisco; Henry C. Flower, President of the Fidelity Trust Company of Kansas City; and Frederick H. Goff, President of the Cleveland Trust Company.

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Operations of the First Capital Issues Committee
January 12 - May 17, 1918*

(Millions of dollars)

	: Municipal :	Public : Utility :	Industrial :	Total
Amount applied for	87	172	220	478
Amount approved				
Refunding	21	126	111	258
New issues	<u>46</u>	<u>40</u>	<u>68</u>	<u>154</u>
Total	67	166	179	413

Operations of the Second Capital Issues Committee
May 17 - December 31, 1918*

(Millions of dollars)

	: Municipal :	Public : Utility :	Industrial :	Total
Amount applied for	245	810	2,722	3,777
Amount approved				
Refunding	37	279	429	745
New issues	<u>139</u>	<u>504</u>	<u>1,473</u>	<u>2,114</u>
Total	176	783	1,902	2,860

* The reports of the two committees do not show separately the amounts of new money and refunding involved in the rejected applications. It is difficult, therefore, to obtain a clear idea of the amount of new money financing which was obviated by the operations of the committees.

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III. The Need for Restricting Capital Issues

Under ordinary conditions any restriction of capital issues, by preventing the investment of savings, would tend to depress business and to increase unemployment. With the defense effort in full swing, however, it might be a matter of essential and non-essential employments competing for a limited labor supply. In the latter case, of course, restriction of capital issues would be clearly desirable. It should be borne in mind, however, that until the ability of the defense effort to absorb the unemployed labor supply can be demonstrated, it would be premature to undertake restriction of capital issues.

It may be necessary, of course, to engage in selective measures of restriction before the total volume of unemployment is absorbed. Particular materials and particular types of labor skill will become scarce before others. As far as materials are concerned, however, all necessary restriction can probably be adequately handled by the direct application of priorities. Shortages of particular types of labor are, of course, more difficult to deal with in this way, but such shortages as now exist, or are likely to occur in the immediate future, do not seem to be aggravated to any important extent by demands created by new capital issues for non-essential purposes.

On the financial level the competition between Government and all other issues does not appear yet to be intense. As the table on the following page, showing new money raised by security offerings during the years 1933-40, inclusive, indicates, this competition has been negligible during the past eight years. As a matter of fact while the United States Government and its agencies raised \$26.2 billions of new money (net) during this period, all other issuers effected a net retirement of securities to the extent of \$0.2 billion.

The data with respect to new issues during this period are presented from a somewhat different point of view for bond issues only in the attached chart which shows total domestic bond flotations, monthly, for the period 1929 to the present, classified according as they are new capital or refunding, and corporate or municipal. This chart shows

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New Money Raised by Security Offerings ^{1/}
1933-1940

Year	U. S. Government and its agencies issuing guaranteed obligations ^{2/}	All other issuers	Total new money raised
(In billions of dollars)			
1933	2.4	-0.6	1.8
1934	5.7	-0.6	5.1
1935	2.0	-0.1	1.9
1936	4.1	+0.9	5.0
1937	2.9	-0.1	2.8
1938	2.6	+0.5	3.1
1939	3.2	-0.3	2.9
1940	<u>3.3</u>	<u>+0.1</u>	<u>3.4</u>
Total	26.2	-0.2	26.0

^{1/} Data from SEC releases; 1940 partly estimated. Negative figures denote excess of retirements over proceeds of new issues. New money is defined to mean proceeds of new securities issues less the amount of outstanding securities retired.

^{2/} Excludes securities issued in exchange for previously outstanding farm and home mortgages. Includes borrowings represented by special Treasury issues made to Government agencies and trust funds. Total increase in the direct and guaranteed interest-bearing public debt of the United States during this period amounted to \$29.9 billions.

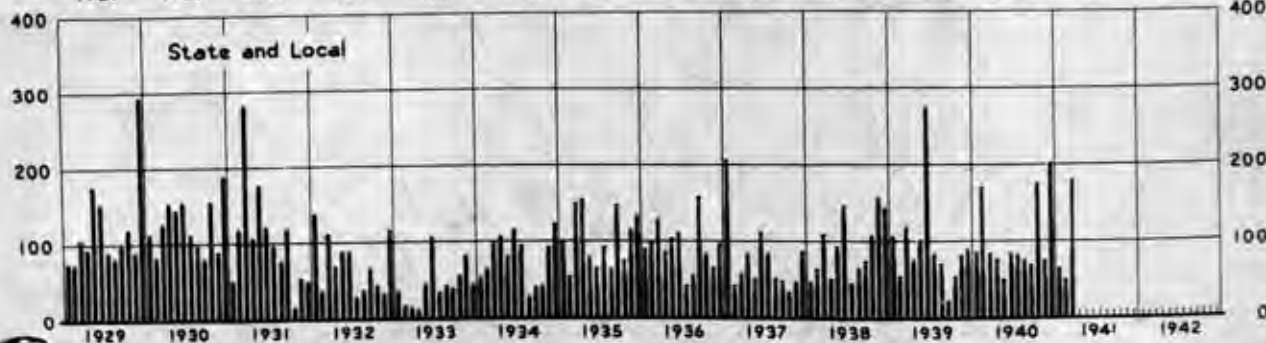
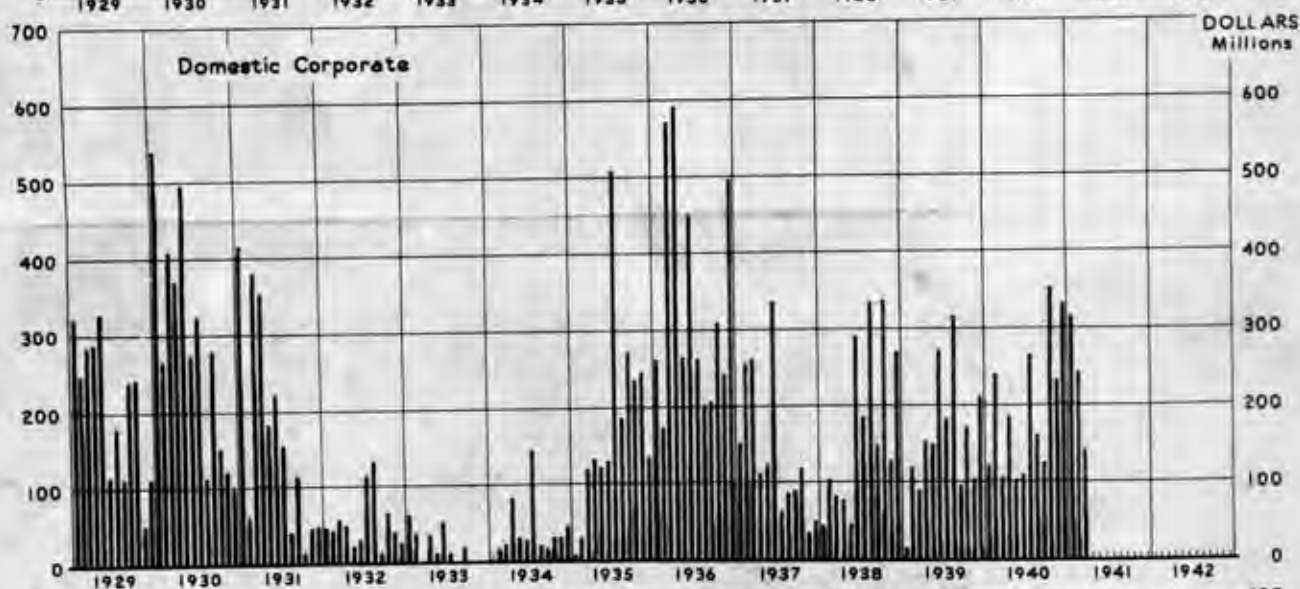
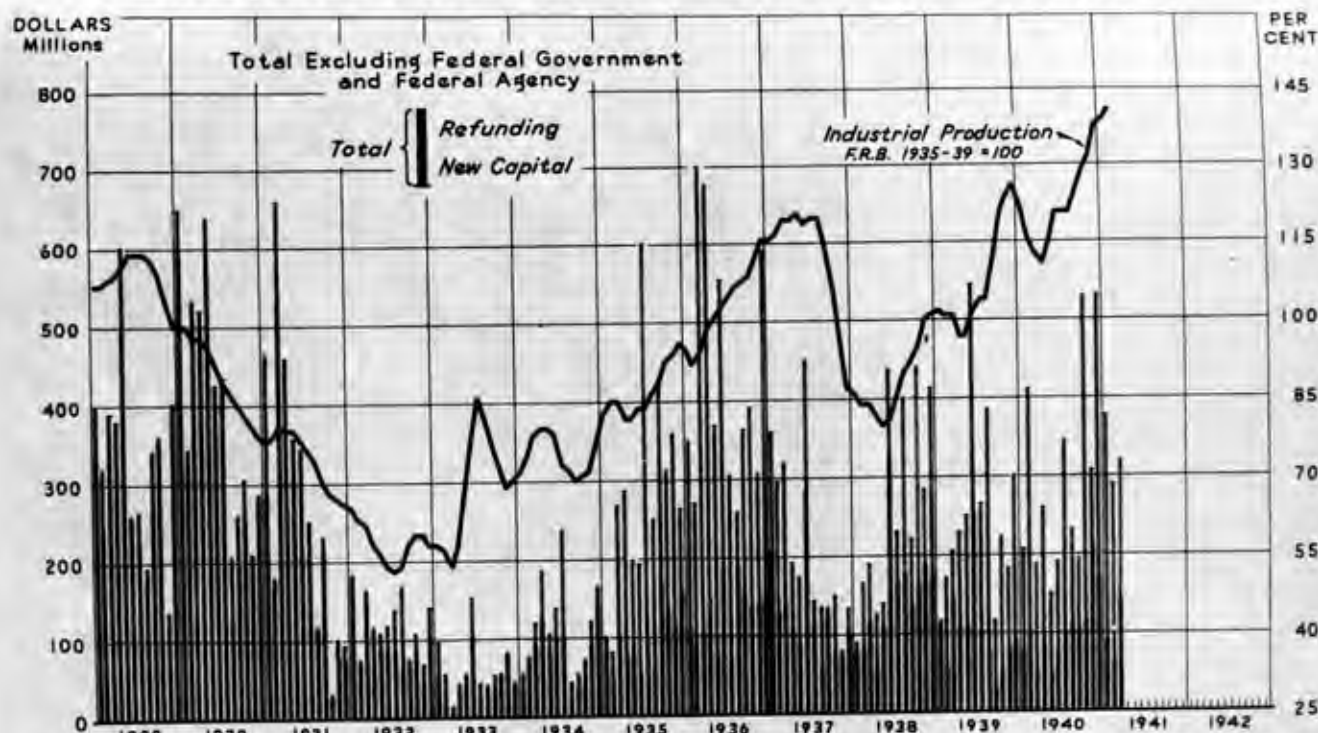
Secretary Morgenthau - 7

a total amount of "new capital" of \$10.1 billions raised by bond flotations during the period 1933-40, but, as indicated in the table, more than the whole of this amount plus the whole of the amount raised by stock issues was offset by retirements of outstanding securities by other issuers. The chart also compares the fluctuations of bond flotations with those of industrial production and shows only a fair relationship.

How soon the situation indicated by the table and chart may change, and bond flotations by issuers other than the Federal Government may present a substantial obstacle to the financing of the defense program, is a matter of some doubt. While the funds needed for private capital expansion in connection with the program itself are largely supplied by the Government, the expansion of consumer income incident to the program might result in a substantial increase in capital issues. Such an increase might be undesirable, particularly in view of the fact that current estimates indicate that practically the whole savings of the country for the next fiscal year will be required in financing the defense program. It would appear, therefore, that it might be advisable for the Treasury at the present time to set up suitable machinery for the restriction of capital issues, to be used when and if it becomes necessary.

Attachment

TOTAL DOMESTIC BOND FLOTATIONS (EXCLUDING FEDERAL) AND INDUSTRIAL PRODUCTION



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April 17, 1941

Files

Mr. Cushman

STRICTLY CONFIDENTIAL

At 4:30 yesterday afternoon Mr. Schwarz informed me that the International News Service had telephoned him a report that gold was being unloaded from the U.S.S. Vincennes at Brooklyn Navy Yard. At 4:55 I gave this information to Secretary Mergenthau. I told him that I had spoken with Mr. Knake at 3:45 and that the latter had expected all of the gold to be discharged by 7 or 8 o'clock last night. The Secretary approved the release of the second alternative draft at approximately one hour after all of the gold had reached the Assay Office. The alternate drafts read as follows:

Joint Release

Treasury Department
Navy Department

Immediate Release

Some time ago the United States purchased a sum of gold in the Union of South Africa. It was transported to the United States by the U. S. S. Vincennes which had been operating in South Atlantic waters.

Draft No. 2

The Treasury and Navy Departments announce the arrival in New York of the U. S. S. Vincennes bringing \$132,000,000 of gold for delivery to the United States Assay Office. This newly produced gold was purchased in South Africa by the United States Treasury Stabilization Fund from the British Treasury, and the proceeds of the sale replenish the dollar exchange resources of the British Government on the American market.²

After obtaining the Secretary's approval of the release of the second draft, I talked with Admiral Byrd. The latter had submitted the draft text of the joint communique to Secretary of Navy Knox, through their Press Section, since it was felt that the revealing of movements of an American cruiser would be contrary to the recently established policy of the Navy to hide movements of Americans as well as British war vessels. I explained that a news service had already obtained certain information on this shipment and asked whether this would alter the Navy's position. Admiral Byrd promised to get this word to Secretary Knox. Admiral Byrd called me back at 6 o'clock to say that the Navy Department still felt that there should be no mention of the Navy's part in the shipment, and that the release should be solely from the Treasury. The Admiral said that Secretary Knox had endeavored to speak directly with Secretary Mergenthau on this, but upon telephoning his home had

learned that the Secretary could not be reached until 6:30, by which hour Mr. Egan himself would not be in a position to call back the Secretary of the Treasury. When I arrived home at 6:30 I telephoned the Secretary but learned that he had left to dine with Justice Stone. I then telephoned Commander Thurber of the Navy Press Service, who told me that two more press services had the information. He had asked them to kill any story involving the Navy. He thought, however, that the Treasury should go ahead with its release. I spoke by telephone with Mr. Dietrich twice before leaving my home at 7:40 p.m. Mr. Dietrich, in turn, had been in touch with the New York Federal and with Mr. Schwarz. Mr. Schwarz was being pressed by the newspaper correspondents, and hoped we would release something shortly. I told Mr. Dietrich that I would call him back shortly after 8 o'clock, since I desired to consult Under Secretary Bell. At 8:25 I telephoned Mr. Dietrich from Mr. Bell's house to the effect that Mr. Bell agreed that the communique should be released in the following form:

"The Treasury Department announced last night the arrival in New York of \$132,000,000 of gold for delivery to the United States Assay Office. This newly-produced gold was purchased in South Africa by the United States Treasury Stabilization Fund from the British Treasury, and the proceeds of the sale replenish the dollar exchange resources of the British Government on the American market."

I asked Mr. Dietrich to pass this word on to Mr. Schwarz for immediate action, since Mr. Dietrich let me know that the last truck load of gold had just reached the Assay Office. Upon my arrival in the Treasury this morning I asked Lieutenant Stephens for an appointment to see the Secretary for a moment before his press conference in order to let him know how the communique on gold had been altered, upon the request of the Navy Department, to constitute a Treasury Department release, rather than a joint communique, and to avoid any mention of the Navy or its vessels. Since I had not been called to the Secretary's office by 10:25, I reached Mr. Schwarz in the Secretary's outer office by telephone, and asked him to explain the situation to the Secretary prior to the latter receiving the press. Mr. Schwarz was fully familiar with the situation.

J.M.P.

TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE April 17, 1941.

TO Mr. Cochran
FROM Mr. Dietrich

At 7:10 p.m. last night Mr. Schwarz called me at my home and said that he understood the Navy Department had got in touch with several of the news services and told them that the Treasury would give out a story on British gold from South Africa, but that the news services in writing up their stories should make no mention of the Navy Department or the USS Vincennes. I told Mr. Schwarz that due to certain delays which the Navy Department had requested the Treasury to make in its press release that it had been decided not to issue a statement to the Press. Mr. Schwarz said that he was fearful that some reference may be made to the shipment on the radio before we could get out a press release. I told Mr. Schwarz that I would communicate with Mr. Cochran immediately and that Mr. Schwarz was to do nothing further until he heard from me.

At 7:20 p.m. I got in touch with Mr. Cochran and related to him what Mr. Schwarz had told me with respect to the Navy Department. Both Mr. Cochran and Mr. Dietrich discussed certain angles of the press release and Mr. Cochran said that he wished to talk to Mr. Bell regarding the inclusion of the value of the gold in the release and that he would call me back later.

At 8:10 p.m. Mr. Schwarz again called and said that as he was desirous of going out he had phoned the press statement to his Mr. Shaeffer and requested that I get in touch with Mr. Shaeffer when the time arrived to give out the press release. I told Mr. Schwarz that I was expecting a call from Mr. Cochran momentarily and asked him to delay his departure for ten or fifteen minutes, to which he agreed.

At 8:15 p.m. Mr. Cameron of the Federal Reserve Bank of New York called and said that all of the gold had been delivered to the Assay Office. He also stated that the Federal held the Assay Office receipt for the delivery of 4,696 boxes.

At 8:20 p.m. Mr. Cochran spoke to Mr. Dietrich and said that Mr. Bell felt that the value of the gold should be included in the press release. I then read to Mr. Cochran the following press release which he approved:

"The Treasury Department announces the arrival in New York of \$132,000,000 of gold for delivery to the United States Assay Office. This newly produced gold was purchased in South Africa by the United States Treasury Stabilization Fund from the British Treasury, and the proceeds of the sale replenish the dollar exchange resources of the British Government on the American market."

At 8:25 I called Mr. Schwarz and read to him the above press release and he said that he would see that it reached the various news services.



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 17, 1941.

TO Mr. Cochran
FROM Mr. Dietrich

This morning Mr. Cochran informed Mr. Dietrich that he had received a communication from Mr. Playfair which indicated that the number of 9,360 bars in the 4,690 boxes representing part of the gold shipment may not be correct by a difference of two bars. Mr. Playfair did not indicate which way the two bars would be. I immediately called Mr. Lang at the Federal and informed him accordingly. At 4:05 p.m. today Mr. Lang said that the number of bars in the above cases had been counted and were 9,360. Mr. Lang also mentioned that the gross weight of these bars was 3,789,848.90 ounces. He then said that the boxes were loaded on three trucks of the U.S. Trucking Company which were held in the Assay Office courtyard pending a release from the Treasury as to whether the number of bars were correct or not. Mr. Dietrich conferred with Mr. Cochran about this matter and they both felt that inasmuch as the number of bars counted by the Federal was the same as the number given to us by the British that it was reasonably safe to release the boxes tonight if the Federal was certain that there were no bars left in any of the boxes.

Mr. Lang also said that the sawdust had been sifted for chips, then burned, and the ashes sifted again, but no chips were found.

A

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 17, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Knobe telephoned me at 4:45 this evening in regard to the gold tally. I then spoke with Mr. Playfair, who told me that the message received from London, which he quoted in his letter to me of April 17, was entirely clear without any error in coding. The question as to the possible error of two bars was at London. He said that he had already cabled London requesting the correct figure. He will send a tracer message this evening for a reply over night or for a telephone call the first thing tomorrow morning. He agreed that the boxes should be held by the Assay Office tonight. If the message from London is received in the morning confirming the figure 9,360, they should be released. If no message is received early tomorrow, or if the figure coming from London is not 9,360, then the boxes should be reexamined. I explained to Playfair that demurrage charges on the trucks and any expense of reexamination of the boxes were to be to the charge of the British Treasury. He agreed to this. I telephoned the above information to Mr. Knobe at 5:10 p.m.

April 18, 1941

Mr. Playfair telephoned me this morning, and Mrs. Keith took the call in my absence, to report that 9,360 constituted the correct count, and that no further checking or search was necessary. Mr. Dietrich gave this information to Mr. Cameron by telephone. I also spoke with Messrs. Cameron and Knobe on this point, giving the Federal a definite clearance to have the boxes in the Assay Office immediately removed. In agreement with the Federal, we also sent an official telegram to them, confirming the correct number of bars in the boxes.



The Treasury Department announces the arrival in New York of \$132,000,000 of gold for delivery to the United States Assay Office. This newly produced gold was purchased in South Africa by the United States Treasury Stabilization Fund from the British Treasury, and the proceeds of the sale replenish the dollar exchange resources of the British Government on the American market.

**FEDERAL RESERVE BANK
OF NEW YORK**

Noted
F. Dietrich

Noted
R. Hawkey

April 17, 1941.

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. E. Carlo Cochran

I am enclosing herewith our compilation for the week ended April 9, 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,

/s/ L. W. Eades

L. W. Eades,
Vice President.

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

Enclosure

COPY FOR OFFICE FILES

Distributed by Mr. Cochran to

Secretary	Mr. Upham
Mr. Bell	Mr. White
Mr. Barnston	Mr. Wiley
Mr. Pehle	

CCY:mg; 4.18.41

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

Week Ended April 3, 1941

Strictly
Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE							
	DEBITS				CREDITS				DEBITS				CREDITS			
	Total Debits	Gov't Expenditures (a)	Other Debits	Total Credits	Proceeds of Sales of Gold	Securities Official (b)	Other Credits (c)	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Gov't Expenditures (d)	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance	
1939																
Aug. 31 - Sept. 27	94.3	3.6	90.7	207.8	185.4	-	22.4	+113.5	19.4	6.0	13.4	11.3	-	11.3	- 6.1	
Sept. 28 - Nov. 1	106.7	5.8	100.9	142.0	3.2	-	138.8	+ 33.3	80.6	-	61.8	76.3	35.0	41.2	- 10.4	
Nov. 2 - 29	191.7	2.9	188.8	105.8	57.8	-	48.0	- 83.9	78.6	-	-	82.9	55.1	27.8	+ 4.3	
Nov. 30 - Jan. 3	97.7	6.7	91.0	79.2	50.6	-	24.6	- 23.5	86.8	20.1	58.7	102.2	53.9	15.3	+ 22.4	
1940																
Jan. 4 - 31	94.8	16.8	78.0	43.4	20.8	-	22.8	- 11.4	21.5	31.5	30.0	55.9	50.1	5.8	- 5.6	
Feb. 1 - 28	124.2	10.4	113.8	162.3	56.7	-	51.6	- 15.3	72.7	32.8	39.9	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	23.2	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	64.8	29.4	55.4	78.7	60.7	18.0	- 6.1	
May 2 - 29	100.9	23.6	77.3	156.2	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	145.2	137.9	310.3	301.3	3.0	15.0	+ 36.1	155.7 (e)	127.3 (e)	28.4	345.1 (e)	338.6	6.5 (e)	+106.4	
July 5 - 31	249.7	156.7	93.0	225.0	112.2	2.0	10.8	- 24.7	7.3	3.3	1.0	3.2	3.0	0.2	- 4.1	
Aug. 1 - 26	261.1	180.2	80.9	254.8	207.4	1.0	26.4	+ 33.7	8.2	0.5	3.4	10.9	10.4	0.5	+ 2.0	
First year of war	1,793.2	645.5	1,147.7	1,258.2	1,386.1	52.0	420.1	+ 35.0	865.3	416.6	449.7	1,095.3	900.2	195.1	+295.0	
Aug. 29 - Oct. 2	316.8	244.3	72.5	308.9	271.5	6.0	31.4	- 7.9	2.6	3.4	4.2	1.3	-	1.3	- 7.2	
Oct. 3 - 30	196.7	167.8	28.9	190.5	160.5	6.0	32.0	+ 1.8	0.5	0.5	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	0.6	0.1	0.7	0.7	-	0.7	- 0.1	
Nov. 28 - Dec. 31	234.6	206.8	27.8	198.0	111.4	26.0	60.6	- 36.6	2.1	-	2.1	0.6	-	0.6	- 1.5	
War period through Dec. 2	2,782.3	1,435.6	1,346.7	2,793.1	2,109.5	108.0	578.6	+ 10.8	878.3	421.4	456.9	1,088.2	900.2	188.0	+387.1	
Jan. 3 - 26	197.4	152.7	44.7	253.5	175.2	52.0	31.7	+ 22.5	1.7	-	1.7	0.5	-	0.5	- 1.2	
Jan. 27 - Feb. 26	124.6	137.8	25.8	101.4	26.6	26.0	48.5	- 63.2	0.2	-	0.2	0.2	-	0.2	-	
Feb. 27 - Apr. 2	229.7	197.6	32.1	237.9	103.7	72.0	62.2	+ 8.2	0.7	-	0.7	1.6	-	1.6	+ 0.9	
WEEK ENDED:																
March 19	45.5	37.1	8.4	32.3	-	14.0	18.3	-13.2	-	-	-	-	-	-	-	
26	35.3	28.5	6.9	29.2	2.1	13.0	14.1	- 6.1	0.6	-	0.6	0.6	-	0.6	-	
April 2	47.6	41.5	6.1	30.9	-	14.0	16.9	- 16.7	-	-	-	0.7	-	0.7	+ 0.7	
9	32.6	24.8	7.8	138.3	125.6	6.0	6.7 (f)	+105.7	0.1	-	0.1	0.1	-	0.1	-	

Average Weekly Expenditures Since Outbreak of War
France (through June 19) \$19.8 million

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

(See footnotes on reverse side)

England (through June 19) 27.6 million
England (since June 19) 53.5 million

Week ended April 9 \$ 0.5 million
Cumulation from July 6 \$ 152.2 million

- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Purchasing Commission, 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 26 and returned the following day.
- (f) Includes about \$1.2 million apparently representing the proceeds of wool exports.

STATEMENTS OF RECEIPTS AND DISBURSMENTS ACCOUNTS
(in Millions of Dollars)

Week Ended April 9, 1944

Continued

PERIOD	BANK OF CANADA								COMMONWEALTH BANK OF CANADA							
	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 Inar. (+) or Debit. (-) in Balance	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Inar. (+) or Debit. (-) in Balance	
1939																
Aug. 31 - Sept. 27	17.5	0.6	16.9	31.8	15.1	0.8	-	5.9 + 4.3	-	-	-	-	-	-	-	
Sept. 28 - Nov. 1	9.6	0.3	9.3	16.7	7.3	2.1	-	7.3 + 7.1	-	-	-	-	-	-	-	
Nov. 2 - 29	9.9	0.7	9.2	14.4	15.3	-	-	1.1 + 4.5	-	-	-	1.9	1.9	-	+ 1.9	
Nov. 30 - Jan. 3	30.0	-	30.0	22.8	13.3	3.0	-	6.5 - 7.2	2.5	-	2.5	5.8	5.8	-	+ 3.3	
1940																
Jan. 4 - 31	23.5	-	23.5	35.7	21.1	-	-	4.6 + 2.2	5.2	0.3	4.9	3.3	3.0	0.3	- 1.9	
Feb. 1 - 28	23.1	-	23.1	17.0	16.1	-	-	0.9 - 5.1	3.3	0.1	3.2	2.4	2.2	0.2	- 0.9	
Feb. 29 - Apr. 3	42.3	-	42.3	29.5	29.3	-	-	0.2 - 12.8	5.0	0.3	2.7	2.2	1.6	0.6	- 0.8	
Apr. 4 - May 1	38.2	-	38.2	42.9	24.8	15.0	-	3.1 + 4.7	2.3	-	2.3	2.0	1.8	0.2	- 0.3	
May 2 - 29	37.9	15.0	37.9	50.2	50.0	-	-	0.2 + 12.3	1.2	0.2	1.0	2.6	1.7	0.9	+ 1.4	
May 30 - July 3	44.1	-	44.1	72.8	72.2	-	-	0.3 + 28.4	2.3	-	2.3	5.9	4.4	1.5	+ 3.6	
July 4 - 31	26.2	-	26.2	117.6	96.3	-	19.2	2.1 + 89.4	4.6	-	4.6	5.0	4.2	0.8	+ 0.4	
Aug. 1 - 28	18.7	-	18.7	73.6	53.9	-	19.5	0.2 + 24.9	5.8	5.0	5.8	5.0	5.4	1.6	- 1.8	
First year of war	523.0	16.6	306.4	504.7	412.7	20.9	36.7	32.4 + 181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9	
Aug. 29 - Oct. 2	44.3	-	44.3	43.9	16.4	-	27.3	0.2 - 0.4	9.7	2.5	6.2	8.0	6.7	1.3	- 0.7	
Oct. 3 - 30	26.7	-	26.7	23.8	14.0	-	14.3	0.3 + 1.9	10.1	7.5	2.6	7.9	6.5	1.4	- 2.2	
Oct. 31 - Nov. 27	35.2	-	35.2	69.6	49.2	-	18.7	5.7 + 34.4	5.1	0.6	2.5	3.6	2.1	1.5	+ 0.6	
Nov. 28 - Dec. 31	48.0	-	48.0	50.6	42.5	-	13.7	4.4 + 12.6	4.8	-	4.8	6.8	4.8	2.0	+ 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	12.3	+ 4.9	
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	1.7	+ 2.1	
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	2.6	- 1.8	
Feb. 27 - Apr. 3	60.9	-	60.9	46.0	23.1	-	19.1	3.6 - 14.9	5.8	0.6	5.0	13.7	12.5	1.2	+ 7.9	
WEEK ENDED;																
Mar. 19	8.2	-	8.2	15.7	9.2	-	6.0	0.5 + 7.5	0.6	-	0.6	0.1	-	0.1	- 0.5	
26	12.5	-	12.5	4.4	3.6	-	0.6	0.2 - 8.1	1.1	-	1.1	0.1	-	0.1	- 1.0	
April 2	18.1	-	18.1	3.8	3.4	-	0.1	0.3 - 14.3	0.3	-	0.3	6.3	5.9	0.4	+ 6.0	
9	2.3	-	2.3	6.5	0.1	-	0.5	5.9(a) + 4.2	1.2	-	1.2	0.4	-	0.4	- 0.6	

Weekly Average of Total Debits Since Outbreak of War
Through April 9 \$ 7.2 million

(a) Transferred from accounts of Canadian banks with New York banks.

April 17, 1941

Mr. White

Secretary Morgenthau

I would like to have you give me the following information as soon as possible:

1. What raw materials might Germany get if she conquers the Balkans?
2. What raw materials might Germany secure if she is successful in the whole of the Mediterranean base?

*Memo received from Mr. White
4/29/41*

April 17, 1941

My dear Mr. President:

I am sending you herewith a tabulated statement showing deliveries of airplanes by purchases and by types of planes, for the period January 1, 1940, to April 12, 1941.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

Enclosure

By *Morgenthau* / *JS*

STRICTLY CONFIDENTIAL

DELIVERABLES OF STOCKS, OF PURCHASERS AND BY TYPES OF PLACES
January 1, 1940 - April 12, 1941

	Boobars	Furcuits	Trains	Other Military Plans	Commercial Plans	Total
TOTAL ALL PURCHASERS						
Jan. 1 - June 22	554	500	808	100	379	2,341
June 23 - July 20	103	196	234	14	81	628
July 21 - Aug. 17	111	170	270	10	105	666
Aug. 18 - Sept. 14	70	146	103	20	98	617
Sept. 15 - Oct. 12	51	220	177	17	141	808
Oct. 13 - Nov. 9	66	158	343	17	61	647
Nov. 10 - Dec. 7	100	211	275	16	56	648
Dec. 8 - Jan. 4	158	247	315	6	58	824
Subtotal June 23 - Jan. 4	659	1,350	2,117	100	542	4,868
Jan. 5 - Jan. 18	80	97	186	5	16	406
Jan. 19 - Feb. 1	75	151	321	14	22	504
Feb. 2 - Feb. 15	75	113	155	19	31	391
Feb. 16 - Mar. 1	175	102	304	17	11	627
Mar. 2 - Mar. 15	100	101	223	16	14	454
Mar. 16 - Mar. 29	155	114	326	16	32	642
Mar. 30 - Apr. 12	149	110	249	16	32	556
Total Jan. 1, 1940 - Apr. 12, 1941	2,026	2,636	4,693	319	1,216	10,892
NAVY						
Jan. 1 - June 22	28	31	461	61	-	581
June 23 - July 20	14	40	131	6	-	191
July 21 - Aug. 17	18	69	156	5	-	248
Aug. 18 - Sept. 14	12	54	161	7	-	234
Sept. 15 - Oct. 12	10	86	173	-	-	269
Oct. 13 - Nov. 9	12	30	159	-	-	191
Nov. 10 - Dec. 7	4	14	129	-	-	153
Dec. 8 - Jan. 4	4	19	75	-	-	98
Subtotal June 23 - Jan. 4	78	302	984	20	-	1,384
Jan. 5 - Jan. 18	6	6	85	-	-	97
Jan. 19 - Feb. 1	1	2	156	-	-	159
Feb. 2 - Feb. 15	11	3	74	-	-	100
Feb. 16 - Mar. 1	43	33	153	7	-	236
Mar. 2 - Mar. 15	25	64	120	5	-	214
Mar. 16 - Mar. 29	29	67	185	6	-	287
Mar. 30 - Apr. 12	35	61	168	6	-	290
Total Jan. 1, 1940 - Apr. 12, 1941	258	595	2,397	109	-	3,359
ARMY						
Jan. 1 - June 22	42	1	78	35	-	156
June 23 - July 20	5	2	25	6	-	38
July 21 - Aug. 17	10	9	17	13	-	49
Aug. 18 - Sept. 14	16	13	49	17	-	95
Sept. 15 - Oct. 12	22	23	35	17	-	97
Oct. 13 - Nov. 9	17	11	82	14	-	124
Nov. 10 - Dec. 7	16	18	76	6	-	116
Dec. 8 - Jan. 4	86	76	299	78	-	539
Jan. 5 - Jan. 18	17	14	79	5	-	115
Jan. 19 - Feb. 1	31	11	113	33	-	188
Feb. 2 - Feb. 15	21	17	41	8	-	87
Feb. 16 - Mar. 1	30	12	35	12	-	85
Mar. 2 - Mar. 15	23	15	61	10	-	70
Mar. 16 - Mar. 29	37	19	60	10	-	143
Mar. 30 - Apr. 12	30	19	60	10	-	119
Total Jan. 1, 1940 - Apr. 12, 1941	317	165	618	203	-	1,503
BRITISH EMPIRE AND FRANCE*						
Jan. 1 - June 22	469	289	164	2	9	933
June 23 - July 20	88	139	56	2	1	286
July 21 - Aug. 17	86	95	69	-	1	251
Aug. 18 - Sept. 14	30	61	52	-	1	144
Sept. 15 - Oct. 12	24	121	50	-	10	205
Oct. 13 - Nov. 9	26	99	67	-	3	185
Nov. 10 - Dec. 7	75	147	48	-	8	278
Dec. 8 - Jan. 4	128	194	144	-	-	466
Subtotal June 23 - Jan. 4	455	678	476	3	27	1,638
Jan. 5 - Jan. 18	57	69	9	-	5	140
Jan. 19 - Feb. 1	53	126	40	-	-	209
Feb. 2 - Feb. 15	44	67	25	1	10	168
Feb. 16 - Mar. 1	72	57	95	-	2	227
Mar. 2 - Mar. 15	62	33	68	-	2	143
Mar. 16 - Mar. 29	73	12	46	-	2	133
Mar. 30 - Apr. 12	84	6	19	-	2	111
Total Jan. 1, 1940 - Apr. 12, 1941	1,349	1,557	934	5	57	3,902
OTHER						
Jan. 1 - June 22	15	179	105	2	370	671
June 23 - July 20	1	17	21	-	80	119
July 21 - Aug. 17	2	8	31	-	101	142
Aug. 18 - Sept. 14	18	-	77	-	97	188
Sept. 15 - Oct. 12	3	-	109	-	131	243
Oct. 13 - Nov. 9	5	16	98	-	60	174
Nov. 10 - Dec. 7	10	39	16	-	48	103
Dec. 8 - Jan. 4	10	16	22	-	98	146
Subtotal June 23 - Dec. 4	40	94	396	-	615	1,107
Jan. 5 - Jan. 18	-	6	14	-	31	51
Jan. 19 - Feb. 1	-	12	4	-	22	38
Feb. 2 - Feb. 15	1	-	14	-	21	36
Feb. 16 - Mar. 1	30	-	23	-	19	72
Mar. 2 - Mar. 15	16	20	14	-	32	82
Mar. 16 - Mar. 29	-	4	2	-	30	36
Mar. 30 - Apr. 12	-	-	-	-	-	-
Total Jan. 1, 1940 - Apr. 12, 1941	105	211	644	2	1,159	2,121

Office of the Secretary of War, Division of Research and Statistics

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

April 16, 1941

Regraded Unclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 17, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£41,000
Purchased from commercial concerns	£13,000

The Federal Reserve Bank of New York sold £2,200 in registered sterling to J. S. Bachs & Co.

Open market sterling was first quoted at 4.01-1/2. Around noontime, it eased to 4.01 and remained at that level throughout the afternoon. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 8,000
Purchased from commercial concerns	£ 5,000

The Swiss franc, which has been quoted for some time between .2322 and .2321-1/2, had a weak tendency today. It touched a low of .2320-1/2 this afternoon and closed at that level. We understand that one New York bank yesterday received an order from Portugal to sell 500,000 Swiss francs at best, only half of which was executed by last night's close. This same bank also received an order from Shanghai this morning to sell 200,000 Swiss francs at best. While it executed the second half of the Portuguese order in today's trading, the bank took no action on the Shanghai order, owing to the scarcity of buyers. Late this afternoon, a second order to sell 500,000 Swiss francs was received from Portugal.

The Argentine free peso reacted to close at .2355, as compared with the high and final quotation of .2374 reached in yesterday's advance.

Further improvement took place in the Cuban peso. The final quotation was 3-3/4% discount as against 3-15/16% last night.

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

Canadian dollar	11-5/8% discount
Swedish krona	.2384
Reichsmark	.4005
Lira	.0505
Brasilian milreis (free)	.0505
Mexican peso	.2066

In Shanghai, the yuan in terms of our currency was quoted at 5-7/32¢, off 1/16¢. Sterling was 2¢ lower at 3.90-1/2. The decline in the yuan-dollar rate apparently was associated with reports that the Shanghai branches of four Chungking-controlled banks had closed for an indefinite period as a result of renewed terrorism.

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

No new gold engagements were reported.

The Bureau of Foreign and Domestic Commerce reported on April 16 a shipment of 16,000 ounces of refined silver bullion, sent from New York to an unnamed consignee in Lisbon, Portugal. The shipper was Handy and Harman.

In London, a price of 23-1/2d was again fixed for both spot and forward silver, equivalent to 42.67¢.

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

We made four purchases of silver totaling 400,000 ounces under the Silver Purchase Act, all for forward delivery. Of this amount, 300,000 ounces represented new production from Peru, and the remaining 100,000 ounces consisted of new production from various other foreign countries.

The report of April 9 received from the Federal Reserve Bank of New York giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$6,836,000, a decrease of \$192,000 in the short position. Net changes were as follows:

Country	Short Position April 2	Short Position April 9	Change in Short Position*
England**	\$ 450,000	\$ 477,000	+ \$ 27,000
Europe	3,438,000	3,341,000	- 97,000
Canada	342,000 (Long)	180,000 (Long)	+ 162,000
Latin America	350,000	358,000	+ 8,000
Japan	1,700,000	1,253,000	- 447,000
Other Asia	1,411,000	1,570,000	+ 159,000
All others	21,000	17,000	- 4,000
Total	\$7,028,000	\$6,836,000	- \$192,000

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

**Combined position in registered and open market sterling.


CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

PERSONAL AND CONFIDENTIAL

DATE April 17, 1941

TO Secretary Morgenthau
FROM John Wiley

(2w)P

Mr. Raymond E. Murphy, of the European Division of the State Department, telephoned me yesterday regarding the case of Baron Wolfgang su Putlitz, which was brought to your attention some months ago by the Governor of Jamaica. He told me that Isaac Don Levine has been in Jamaica to see the Baron and has arranged to ghost-write a book for him — presumably some sort of a companion piece to "Out of the Night". Mr. Murphy stated that Mr. Levine was going to approach you in the matter of getting Putlitz into the United States.

Mr. Murphy indicated that the attitude of the British authorities was not particularly clear. Putlitz is a protege of Van Sittart and the Governor of Jamaica. The British security authorities, however, look upon Putlitz with considerable suspicion. He has extensive family connections in Germany and large estates. They do not believe that Putlitz can be entirely a free agent. Mr. Murphy added that he and Mr. Dunn would be very much against Putlitz coming into the United States on a quota visa on a permanent basis. If, however, the British authorities would be willing to arrange for Putlitz to receive a Canadian visa there would be no objection to his entering the United States on a visitor's visa good for six months only.

I told Mr. Murphy that I did not believe that you had any special interest in the case of Putlitz and that, so far as I knew, you did not contemplate intervening on his behalf. I therefore asked why Mr. Murphy was raising the question. He answered that he hoped that when Levine approached you in the matter you would discourage him from pursuing the question of a quota visa and lead his mind into the channel of temporary entry for Putlitz.



*M-45
On-1*

News Item from Late City Edition of
New York Herald Tribune of April 17

Shanghai - April 17 (From NYHT Bureau) - Four Chinese banks with branches here, the Central Bank, Bank of China, Bank of Communications, and the Farmers Bank, closed today and threatened to remain closed permanently as a result of the latest terrorism directed against employees of banks affiliated with the Chungking government.

News Item from Late City Edition
of New York Times of April 17

Shanghai - April 17 - Three employees of the Chungking-Controlled Bank of China were shot and killed today and nine others kidnapped in what police feared was a new outbreak of terrorism that last March resulted in at least seventeen deaths from bombings and gunfire. The Bank of China and three other Chungking-affiliated banks closed for an indefinite period. The Chinese dollar immediately slumped to 5-1/4¢ from yesterday's 5-3/8¢, but later recovered. Reliable sources said the closings were a result of threats of the Japanese-controlled Nanking Government to "kill ten for one" for any violation of the truce that halted the terrorism last March.

BRITISH EMBASSY,
WASHINGTON, D. C.

17th April, 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 received from London, dated
April 18th, 1941

Naval Red Sea

North of Massawa Channel found heavily mined and sweeping operations in progress.

Norway

Herring oil factory near Hammerfest destroyed by Norwegians from Norwegian Destroyer "Hansfield" April 18th.

Military Libya

Early on April 14th enemy infantry supported by machine gun fire and later tanks penetrated our defenses at Tobruk. Our armoured forces counter-attacked and drove back enemy tanks, six being destroyed. Between 200 and 300 German prisoners captured. Situations completely restored. Prisoners' morale appeared low and they stated that they were short of food and water and had been badly shaken by our artillery fire.

Yugoslavia Northern Front

Reported that owing to mutinies in Croatian units three Northern Yugoslav armies have practically ceased to exist. Italians reported to have taken Enin and advancing on Split south west of Belgrade. Yugoslavs withdrawing from Uzice and the Germans advancing on Valjevo.

Greece /

-2-

Greece Northern Front

Large German motorized column reached Ptolemais 6.45 p.m. April 13th.

General Wilson's forces have been swung back to meet the German thrust from Bitolj. During the withdrawal our covering troops inflicted severe casualties on the enemy. Some of our units also suffered casualties.

Royal Air Force. April 14th.

Successful daylight attacks made on two ships off the Dutch coast and two electric power stations in Holland.

Night of April 14th/15th. Ninety-four aircraft sent to Brest, majority attacked battle cruisers. All returned safely.

Greece

During April 13th and 14th our bomber formations attacked military concentrations on Bitolj - Prilep and Veve-Ptolemais roads. In these operations four enemy aircraft destroyed and 11 others probably destroyed by our fighters two of which lost; six Blenheims also missing.

German Air Force

During April 14th and night of April 14th/15th activity over the British Isles slight.

Libya

On April 14th, formations of enemy aircraft heavily attacked Tobruk. Hurricanes destroyed nine and anti-aircraft shot down four.

Malta attacked by about forty enemy aircraft during the night of April 13th and 14th causing damage to military and civilian property.

Greece.. 20 enemy aircraft bombed Veleo harbour on April 13th and hit two ships.

RESTRICTED

G-2/2657-220; No. 368

M.I.D., W.D.

12:00 M. April 17, 1941.

SITUATION REPORTI. Western Theater of War

Air: German. Last night London was attacked by an estimated minimum of 500 planes. Widespread damage was caused.

British. Normal night operations over northwestern Germany.

II. Balkan Theater of War.

Ground: Yugoslav Front. The First, Second, Third, Fourth and Fifth Yugoslav armies are reported by Berlin to have surrendered.

The German communique of April 17th reports that the remaining action in Yugoslavia will be merely of a police nature.

Italian troops advancing northward from Albania on both sides of Lake Skutari have captured Cetinje, the former capital of Montenegro. Italian forces are advancing from Spalato and Cetinje upon Ragusa and Cattaro, the two remaining seaports of Yugoslavia.

Greek-Albanian Front. German troops have captured Servia, south of the Aliakmon river and west of Mount Olympus.

A German column has occupied Grevena, southwest of Servia and is reported by Athens to be advancing in the direction Kalabaaka--Trikkala.

Italian forces are advancing southward from Koriza in the eastern portion of Albania.

Air: Close support operations continued by both sides. Considerable German strategic bombing in Central Greece.

III. North African and Mediterranean Theaters.

Ground: The British forces enclosed in Tobruk have made a series of successful counterattacks and have captured prisoners and booty.

The Axis forces in North Africa have made no further advance to the east of Sollum. Axis mechanized reinforcements are reported moving eastward from Benghazi in the direction of Derna. British reinforcements from Abyssinia have begun to arrive in Egypt.

Air: Strategic bombing by the R.A.F.

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Forwared of Code Indication
Received at the War Department
at 6:11, April 17, 1941.

Athens, filed April 15, 1941.

According to reports turned in by Major Guro, the situation in air operations in the Greek campaign is as follows:

Close support for all operations by Army has been supplied with intensity and efficiency by the German Air Force. During the first phase of the operations (April 6-14), this was confined to efforts of a major strategic nature, and to operations with night mines against harbors and channels. Attacks were delivered from high altitudes in waves, the planes coming down to about 500 feet before they let go their mines. In a single night of fighting, as many as 100 ME-110's were employed.

The second phase of air operations began April 14. The Germans made determined dive-bombing attacks against shipping, airbases, and harbors, employing single planes acting individually from medium altitudes down to 1000 feet or less. Attacks were delivered by as many as 40 JU-88's in a single effort. German air losses in these night operations were small. For the most part they were caused by anti-aircraft artillery of medium size. Their loss in day operations was heavier and was caused by pursuit planes. The pursuit planes are not now attempting to intercept the enemy but meet him above the targets he is attacking. Forward airbases have already had to be moved to intermediate positions of unsatisfactory nature, because of the advance of the German army and the counter-air operations conducted by the Germans.

CONFIDENTIAL

The strength of the Royal Air Force here is less than 75 planes, and British replacements are not large enough to replace the losses caused in combat.

For night attacks on targets of a strategic nature, the British are using Wellingtons. For command and close support Heinkelns are used. The fighter planes are kept for use in defense entirely.

BAKER

Distribution:

Secretary of War
State Department
Secretary of Treasury
Under Secretary of War
Assistant Chief of Staff, G-2
War Plans Division
Office of Naval Intelligence
Air Corps

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Paraphrase of Code Radiogram
Received at the War Department
at 11:03, April 17, 1941

London, filed 15:45, April 16.

The following information is a summary of a conference with General Kennedy, Director of Operations, War Office, April 15:

1. General Kennedy stated that the English had expected much bad news this summer but are getting more and earlier than anticipated.

2. Greece. Decision to reinforce the Greek Army was primarily political, but viewed from a strategic viewpoint, it offered the possibility of large returns from a small investment and before coming to a decision it had been carefully considered by all concerned. He gave the strength of Empire troops in Greece as one British mechanized brigade, two Amc division, antiaircraft detachments, and Engineer troops to be utilized in demolition work. It would be regarded as very unfortunate, if the Expeditionary Forces were lost, that there was such a small proportion of British as against Colonial troops, but he added that all the Governments had been fully informed and had approved the use of their forces in the Balkans. He expressed little hope of any immediate success, especially in regard to the Yugoslavian Army. Nevertheless, he hoped that it would be possible for them to continue their defense for a minimum of 30 days. He stressed the difficulty in maintaining any organized military operations when the supply installations were in enemy hands.

3. Libya. General Kennedy anticipates that British planes may prove embarrassing to German supply and retard their movements, but he stressed the fact that one could hope for nothing more from them than harassing action against ground troops. It is not possible to counteract enemy armored forces with slow-moving divisions which can be run around.

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He reported that mechanized vehicles are being supplied to the British forces in Libya and their own being rapidly reconditioned. He estimated that the German forces in Libya consisted of three armored divisions: One in advance, another further to the rear, and a third being landed at Tripoli. The principal obstacle to holding them was the condition of British tanks and vehicles owing to the excessive wear and tear under desert conditions during the rapid pursuit of the Italians.

LEE

Distribution:

Secretary of War
State Department
Secretary of Treasury
Under Secretary of War
Assistant Chief of Staff, G-2
War Plans Division
Office of Naval Intelligence

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Paraphrase of Code Radiogram
Received at the War Department
at 11:03, April 17, 1941

London, filed 15:25, April 16.

EXTRACT

Recommend serious study by our Armored Force people of the new German 8-wheel tank which has made its appearance in Libya. It is a very powerful, heavy armored car and can travel long distances across the desert without track difficulty.

LXX

Distribution:

Secretary of War
State Department
Secretary of Treasury
Under Secretary of War
Assistant Chief of Staff, G-3
War Plans Division
Office of Naval Intelligence
G-5
G-4
Ordnance
Armored Force
Cavalry

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Paraphrase of Code Radiogram
Received at the War Department
at 13:04, April 17, 1941.

London, filed 13:45, April 17, 1941.

The following is a summary of British Military Intelligence to 11:00 A.M., April 17:

1. There is evidence that the German staff is again planning invasion of Great Britain which British Military Intelligence estimates will be about the first of May. The Germans anticipate that they will be able to withdraw ground and air forces from the Balkans for this operation.

2. There are also reports that Germany plans an invasion of Spain. They do not anticipate resistance.

3. British Consular authorities have information of increased Japanese military activity in South Formosa.

4. Albania. Nothing new is reported.

5. Greece. On the Macedonia Front there are three German armored divisions occupying positions of equal frontage. Reconnaissance elements picked up German columns marching south from Lake Doirida, Jugra and Grevithia. Damage to supply lines due to British bombing is thought to be the reason for the lack of activity in other sectors.

6. Romania. There is nothing new to report.

7. Lithuania. On the night of April 15-16 heavy casualties were suffered by the Germans near Rellum in major raids by British forces.

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8. Latest report of committee from an attack on Tobruk on April 14 put the number of German tanks destroyed at 20 and gave the number of German troops captured as 10 officers and 250 men.

9. The atmosphere of higher military headquarters seems somewhat more cheerful today.

END

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Secretary of War
State Department
Secretary of Treasury
Under Secretary of War
Assistant Chief of Staff, G-2
War Plans Division
Office of Naval Intelligence
Air Corps
G-3

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SECRET

By authority A. C. of S., G-3

Date APR 18 1941

Initials

Paraphrase of Code Callaghan
Received at the War Department
at 15:40, April 17, 1941

Cairo, filed 19:56, April 18, 1941.

1. The proposed Rhodes expeditionary force has been postponed on account of the situation in Libya.

2. The mobile reserve being built up at Matruh includes the 11th Hussars (mechanized Cavalry), 4th Infantry Tank Regiment and the 6th Division. The greatest shortages suffered by the British in their Libyan campaign are air and motor transport and cruiser tanks.

3. A squadron of 18 tow-tow transport planes operating at extremely low altitudes is being utilized for Axis supply in Libya. Caution is exercised to prevent the landing of more than one plane at any one locality.

WILLIAMS**Distribution:**

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Paraphrase of Code Cables
Received at the War Department
at 16:32, April 17, 1941.

Cairo, filed 18:14, April 17, 1941.

1. THURSDAY. British authorities have anticipated a complete collapse of resistance. Later reports seem to indicate that this has taken place and the terms for an armistice are under negotiation. Six divisions, or possibly eight, out of a total of thirty are still in action, but four out of a total of seven armies have laid down their arms.

2. FRIDAY. The British sector of the Allied line extends from Entewini to Haouai with the Australian Division on the West and the New Zealand Division on the East. Contact has been established with the 9th and 21 German Armored Divisions.

3. SATURDAY. This office does not anticipate any additional German advance unless their forces in the vicinity of Tobruk are strengthened.

ENDING

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Paraphrase of Code Cablegram
Received at the War Department
at 17:36, April 17, 1941

Cairo, filed 18:15, April 16, 1941.

British Headquarters have stated to the Duke of Aosta,
Viceroy of Italian East Africa, that unless all Italian forces in that
territory cease operations, they will not be responsible for the safety
of civilians after 6:15 A.M., April 17.

FELLERS

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Assistant Chief of Staff, G-2
War Plans Division
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Paraphrase of Code Cables
Received at the War Department
at 14:17, April 17, 1941.

London, filed 18:16, April 17, 1941.

1. In reference to your cable of April 16 requesting information on reports by the British that there had been uprisings in Russian Turkestan, the only military intelligence information applicable to this is contained in a radio broadcast from station WHE, monitored in London at 15:00, April 14, which in substance stated that the Soviet press reported a band of armed intruders on the Central Asian border had been destroyed by Russian guards and that the source of the news was apparently Russian Turkestan.

2. The British Military Intelligence reports itself unable to identify "general state" cited in your telegram.

END

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Preceding report stated 76 divisions were in the West. The figure of 12 divisions in North Africa appears to be a considerable overstatement.

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Paraphrase of Code Radiogram
Received at the War Department
at 14:53, April 17, 1941

Berlin, filed 17:00, April 17, 1941.

1. The distribution of the German Army on April 17 is reported to be as follows:

North

Scandinavia	12		
		Total	12

West

English Channel	44		
Rest of France	19		
		Total	63

East

Finland	3 (?)		
East Prussia	22		
Poland	52		
Bohemia	12		
		Total	89

Balkan Front

Yugoslavia, Roumania, Bulgaria,			
Hungary, Greece			
		Total	66

Mediterranean Theatre

North Africa	12		
Italy	8		
		Total	20

Reserve

Germany	10		
		Total	10
		Grand Total	260

CONFIDENTIAL

2. There are many indications that German troop movements are taking place from REUOATT into Finland.

3. The Fourth Air Fleet under General of Flyers LOEHR is in Bulgaria.

4. The Sixth Air Fleet at half strength is operating against Yugoslavia.

5. The headquarters of the First Air Fleet is at KOMMUNISM. It is commanded by (KELPAKPU). G-2 Note: (This is probably a garbled name).

6. Some observers here believe the next major German push will be against Russia and that it will take place soon after the completion of the present Balkan operations.

FRYTON

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Assistant Chief of Staff, G-2
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CONFIDENTIAL

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE April 18, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Walter Fessler, General Manager of the Credit Suisse, called on me at 10:05 yesterday morning. Mr. George Lindsay had telephoned me from New York earlier in the week for this appointment. Upon terminating his visit with me, I took Mr. Fessler to introduce him to Mr. Bernstein. Mr. Lindsay had written Mr. Foley about Mr. Fessler, but when I got in touch with Mr. Foley for an appointment, following Fessler's visit to me, Mr. Foley was occupied and suggested that Mr. Bernstein receive him. Mr. Fessler had arrived in this country, accompanied by his son who is remaining here to learn American banking business, a few days ago, after tedious travel from Switzerland via Spain and Portugal, and then by the S. S. Exeter. Mr. Fessler reported that the bus route from Switzerland to the Spanish border was no longer running, since rail connection had been reestablished and a fairly satisfactory train is running from Switzerland to Port Bou on the Spanish frontier. At this boundary station the passengers are usually held for a customs and passport examination requiring four or five hours. Consequently they miss the train connection and must remain overnight in this little border town. Anticipating this forced stopover, Mr. Fessler had arranged for a motor car to come up from Barcelona to meet him. Even travel by this dilapidated Buick was not easy, since it had difficulty in making several of the hills between the border and Barcelona. Mr. Fessler reported that conditions in Barcelona were not too bad, since much of the debris of the civil war had been cleaned up, and certain foodstuffs were available. As he traveled by train toward Madrid, however, the situation became much worse, and in the capital he pictured an appalling situation of starvation. He said that foreigners going to the Grand or Ritz Hotel were fairly well taken care of, but that the soup kitchens giving very meager rations were surrounded by lines of Spaniards so weak that they were not even able to stand up. He said that the sidewalks were covered with men, women and children begging for a crust or a bone, as he put it. Mr. Fessler regrets it very much that no adequate assistance has been given Spain in the way of food supplies. He believes the country is so deprived of supplies that the Germans would find it a liability rather than an asset if they attempted to come into the country. Any army entering Spain would have to bring all food supplies along, and would be called upon to look after the civil population to some extent in the occupied areas. He thinks that a control over food distribution could be exercised in such a fashion as to prevent any imports passing from Spain to Germany, or to the benefit of the German military forces.

Mr. Fessler stressed the difficulties which Switzerland is experiencing as a result of inability to obtain necessary materials from abroad, both for her own consumption and for utilization in her manufactures. Negotiations are constantly carried on with the British toward obtaining greater entries under navicerts. Moreover, it is becoming increasingly difficult to obtain materials from the United States, especially if there is the slightest risk that the Swiss importers may have

any business dealings with Germany. Since Switzerland is necessarily still in business contact with Germany, it is difficult to find a concern capable of carrying on trade with the United States which does not actually have some interchange of business with Germany. Swiss industry is now working principally for provisioning and supplying the Swiss army. The latter has not been kept at its full mobilization strength, but is still a very costly burden to the country. Out of the twelve hundred men employed in the Zurich office of the Credit Suisse, at least four hundred are constantly absent on military service. The fuel problem has become quite serious in Switzerland. The coal received from Germany permits only the partial heating of homes and business offices, obliges many of the residents of the cities like Zurich and Basle to go to one of the local hotels for a warm bath on a specified day of the week. The food situation is not yet as bad as it became toward the end of the last war, but supplies are rationed very carefully. The Swiss are determined to maintain their independence, and look to us as a friendly democracy not to do anything which might weaken their position vis-a-vis the totalitarian states.

Mr. Fessler had not been in Germany for a long while. He received reports that there was no great enthusiasm for the war, but still the people were being much encouraged by the successes which Hitler had achieved, and there was certainly no move of dissension within the country which might cause any trouble within the foreseeable future. Provisions captured in invaded countries have permitted a distribution of foodstuffs sufficient to improve the German rations above the level obtaining at the beginning of the war. Mr. Fessler had no definite information in regard to German supplies of metals, etc., but believes the military machine is a tremendous force and that Germany is bound to make an all-out attack against England during the good weather season this year.

Mr. Fessler described in some detail the thorough examination which is made of passengers on the Export Line ships when they arrive at Bermuda. He said that all passengers are thoroughly searched. Their papers are taken away from them, even address books, put in a sack, and not returned for several hours. In some instances, the passengers' personal papers are not returned in time for the passengers to receive them before the ship sails, and may follow later, or not at all.

B. M. P.

April 18, 1941
9:23 a.m.

Arthur
Purvis: Thank you, I went away for three days over the weekend - feeling a new man.

H.M.Jr: Wonderful. Arthur, I wondered if - whatever the most recent date you have is - if I could have some idea how much goods you have on our docks waiting for shipment. You know you did give it to me on steel.

P: I didn't quite hear that - as to how much goods we have awaiting shipment?

H.M.Jr: Yes, on our docks.

P: Yes, apart from steel.

H.M.Jr: No, I'd like a fresh figure.

P: A fresh figure on steel.....

H.M.Jr: And on everything. How many tons of merchandise, and some kind of classification.

P: Yes, I'll get that. I'll get Salter who is up in New York to check that with Sparks. Actually, when I inquired the last time, steel represented so large a proportion of the total tonnage that it seemed ridiculous to go into the other. But I'll ask him whether he can get today a classified statement of that. Steel up to date

H.M.Jr: And anything else, the most recent figure he has. And I wonder if I couldn't have that until we get the thing cleared up say once a week?

P: A weekly statement.

H.M.Jr: Yes. They must make one for themselves.

P: Yes, I imagine they do have that and by the way if they don't have it, Henry, it's a good thing for them to have. Sometimes when you ask for a statement like that it

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- H.M.Jr: Of course if they could include North America it would be very nice. By that I mean Montreal as well.
- P: Canada. That may be difficult - a little more difficult because there - well, anyway let me find out.
- H.M.Jr: What?
- P: I'll find out. That may be a little more difficult to do quickly.
- H.M.Jr: If you have any trouble about it, Clark is coming in and the Prime Minister has asked me to do a lot of things for Canada which sort of tie into this.
- P: Yes, yes, quite.
- H.M.Jr: I mean MacKenzie King. So if Canada at all hesitates, I could go right to the Prime Minister to get
- P: Oh, there won't be any question of that. It would be merely availability - ease of availability that's all. The head of the Ministry of Shipping up there, Sir Edward Beatty, you know is a pretty sick man just now and their organization is a little shot I found when I was up there on Monday.
- H.M.Jr: Gosh, they ought to.
- P: Yes, and as a matter of fact I think the tonnage waiting at Halifax would probably be important. Of course, the port of Montreal is just about opening. I suppose it has opened in the last day or two or will open in the next few days, and probably at the moment the figures for Canada in the east would give a peculiar effect because tonnage accumulates just before the port opens each year.
- H.M.Jr: Well, don't forget the west coast too.
- P: No. I'll see what I can do to get a picture, Henry.

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H.M.Jr: We get a picture here from the Railway Administration of all the ports weekly. That's all tonnage.

P: You get that from the Railway?

H.M.Jr: Yeah, but it doesn't distinguish between English and anything else.

P: No, naturally.

H.M.Jr: But the New York port I get every day, and the rest of the United States I get weekly. If you ever want to see them I'll show them to you.

P: Yes. Let me try and see - it would be very interesting to mate the two because it would quickly show probably the extent to which our shipping is really the trouble.

H.M.Jr: See what I have in mind, Arthur - this isn't just you know. I always have something in mind.

P: I know you do.

H.M.Jr: And I've been talking about this shipping thing and outside of the ten Coast Guard cutters and these other four ships, if you people have gotten anything, I don't know anything about it.

P: No, we haven't. I think that's the answer.

H.M.Jr: And the only way I can dramatize it you see is to take it and put it right on the President's desk.

P: Yes, quite.

H.M.Jr: I did that with airplanes this week.

P: Oh, you did, did you?

H.M.Jr: Oh, yes, I did.

P: Good.

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H.M.Jr: And I started something. Morris Wilson and Sir Henry Self came down to see me.

P: Yes. Self told me he had been down.

H.M.Jr: Right.

P: By the way, can Harriman check into information on that air thing, of the type - as to where they are being used? I think Harriman would have a much better chance, knowing the Beaver as I do

H.M.Jr: Are you having trouble there?

P: Well, no. I no longer have any because I got him in the position where he suggested the Council, you see, so we don't have any trouble any longer in that sense of the word. Nevertheless, the fact remains that on information like that, just strictly between you and me, I never feel that our fellows can have confidence in what comes back. If it comes from Portal - if it came from Portal or Sinclair it would be another matter but when you get operational figures from the Beaver, I, frankly, just between you and me, am suspicious. And, therefore, it seems to me that Harriman would be in a very strong position relatively to even open it directly with Sinclair, who is head after all of the operational end, and it is operational information rather than supply information.

H.M.Jr: Well, since asking you the Army has asked Arnold to get it.

P: Well, that should be all right.

H.M.Jr: So if you people can't get it, I'll get it through General Arnold.

P: Yes. I think what will happen with Arnold is that he'll get while he's there a pretty good picture because

H.M.Jr: So he has been asked specifically the question that I asked.

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P: Yes.

H.M.Jr: Why in the hell don't they use those - they've got over 500 Curtiss P-40's in England and as far as we know not one has been flown in battle.

P: No. Well, he'll come back with that picture. For continuing information I would suggest very strongly that if Arnold can break through the difficulty that he ought to leave it in some way so that somebody can periodically receive over there afterwards the thing that he's forced his way into. Otherwise, it will die with his trip.

H.M.Jr: But, Arthur, here we're asking more planes, more planes and there are over 500 Curtiss P-40's over in England that have never seen battle. Now it is pretty hard to press for more planes when you can't get the answer of why don't they fly these.

P: Yes, of course you see, Henry, any sane person appreciates that thoroughly but when you're dealing with the Beaver, you're dealing with something which is quite peculiar. (Laughs).

H.M.Jr: Well, all right.

P: And he really is a problem for all of us in handling things like that. You see the point is that constitutionally and fundamentally he does not believe in giving out information and, therefore, as one senior War Cabinet member said to me - he was sitting next to the Beaver around the table one day and the Beaver was asked for some figures and he had been warned he was going to do it, and he dragged out a little sheet and put the figures on the table and they were passed around. When they came to this man, this man you know as a matter of fact, said "Well, those figures are very different from the ones you gave me last week in that confidential statement you prepared for me." And the Beaver said, "Yes, and they'll be different from any figures that I'll give

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you next week or the week after. I never give two sets of figures that connect because it might cause trouble." (Laughs).

H.M.Jr:

Right.

P:

You see, it's another world. I mean, we don't get that from any other section except him. Now if Arnold if he can pierce through that, the important thing is for him to leave a trail when he has blasted it which will automatically work and then that's the only way we find in which we get anything from the Beaver that is reliable and sound. Get some machinery going which disappears from his view and then it works automatically.

H.M.Jr:

O.K. Thank you.

P:

All right. Thank you, Henry.

April 18, 1941
9:30 a.m.

GROUP MEETING

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

H.M.Jr: I want to thank the nine thirty group on behalf of my wife and myself for the lovely flowers.

We got two presents yesterday. We got the flowers, and we got three and a half billion dollars worth of taxes on my wedding anniversary. Both presents are appreciated.

I have been talking - I don't know whether - well, I can come to that a little bit later. This (folder) was given to me this morning by Miss Chauncey, which is the personal and confidential information for the Secretary of the Treasury, transcripts of His Britannic Majesty's Government special account, Federal Reserve. This used to go to Philip Young. Then it went from Philip Young, I believe,

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to White and from White to Cochran and so on and so forth, and my only purpose of this is, Norman, I would like you to get hold of Philip and find out what other strictly Treasury business he is getting.

I don't know why this ever went to Philip. Do you know, Merle, why it ever went to him?

Cochran: I understand you. He wanted to follow it there for awhile. It was your suggestion, Mr. Secretary, that he see it first.

H.M.Jr: Was it?

Cochran: It was ordered here in a nine thirty meeting, as I recall.

H.M.Jr: Well, where would it go, normally?

Cochran: It came to me first, before that, and you switched it to Phil.

H.M.Jr: I think it ought to go back then, don't you?

Cochran: All right.

Thompson: Yes.

Cochran: I think so.

H.M.Jr: But as a result of getting that, would you send for him and go over the things which he gets which should be redistributed?

Thompson: Yes.

H.M.Jr: This is a minor thing. You were saying you had shortages of Assistants to the Secretary. Is he still Assistant to the Secretary?

(Mr. White entered the conference.)

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Thompson: Yes, he is still Assistant to the Secretary. They are still fussing about the allotments. I don't think they are going to give us an allotment. They will probably give it to the Office of Emergency Management, and we will have to transfer this force over to them.

In the meantime, I don't see anything we can do except carry them on our rolls.

H.M.Jr: Will that allotment go back?

Thompson: No, it will be current.

H.M.Jr: Well, who is holding it up?

Thompson: The Bureau of the Budget, as I understand it - Mr. Hopkins won't agree to have the Office of Emergency Management handle that.

H.M.Jr: Maybe he will feel differently - a little gossip in the room here. The Secretary of the Office of Emergency Management from now on will be Mr. Coy, Wayne Coy. So if Wayne Coy is there, maybe Hopkins will feel differently about it.

Thompson: That is the logical thing to do.

H.M.Jr: Well, this was transferred as of the fifteenth of March. I would like to get it off the Treasury payroll.

Thompson: I will keep poking at it.

H.M.Jr: The other thing, George, I just cannot believe my eyes on this stuff that you have given me now on tanks.

This is all very much in the room here. I asked George to get me some figures. I got

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rid of my - combat cars produced last month, one.

Haas: They are not really a tank, but they are a good heavy car. They call them combat cars.

H.M.Jr: Is that that little thing that you see with the four-wheel drive going all over the lot?

Haas: I am not sure what it is. I think that is it. On the large tanks, they made up a table for me and they were going to make a chart, but they had all zeros and I said there was no use doing it.

H.M.Jr: George, do you mind standing in front of me? I would like you to go back and find out when was the appropriation passed for combat cars, you see.

Haas: All right.

H.M.Jr: And then when was the contract let and for how much. If Bell has any suggestions, you can talk to him. How much is the appropriation, when was it passed, and when was the contract let.

I mean, maybe they only ordered - you see, they have only received thirty-four combat cars all together. This is all in the room. I just want to give you this stuff.

Now, maybe they have only ordered thirty, but I want to know why and I want to know Monday. If you have any trouble --

Haas: Ayres felt very badly about it.

H.M.Jr: Well, he doesn't feel half as bad as I do.

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Now, light tanks - this is the one - total deliveries, three hundred sixty-five. They delivered fifteen last month. Last October they delivered sixty-eight.

Now, the same thing. What is the appropriation, for how many light tanks, and what companies have got it, and the contracts are how much, you see.

Haas: I will get that.

H.M.Jr: Can you add any suggestions, Bell?

Bell: No, I was just going to say there was some comment in the paper last night about the American Car and Foundry. I think they have a contract for about three thousand cars, and it showed a picture of the lines of them. I think it was about seven million dollars.

H.M.Jr: Yes. Have you anything to add as to that method? When Congress passed it, when the contract was signed, and who got it and how many and how much.

Sullivan: I think you might also want to know whether there were any schedules in the contracts as to the date of delivery.

H.M.Jr: That is right. That is a good point.

Medium tanks. Now, mind you, I don't see why you add Army and Navy, because Navy has nothing to do with it. It just complicates the picture.

Haas: These figures include Army and Navy, but Navy wouldn't have any tanks.

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Bell: Marine Corps might be in the Navy.

H.M.Jr: Medium tanks. Phil Young said General Marshall promised a hundred and sixty-five in May, and I said he was crazy, because in December they produced none, in February, seven; March, six; total medium tanks, twenty-five.

He promised them to the English. I swear - and then when you ask them, does that mean the tank is complete and ready to go into battle, has it got machine guns and all the equipment that goes with it, or is it just the bare tanks?

Foley: When is the Chrysler tank coming out?

Schwarz: The first one rolls off the line this week, according to the papers.

H.M.Jr: Did you ask about the hundred and five other things?

Haas: No.

H.M.Jr: We will add that too.

White: It might be helpful to know what they expect at the end of a month or two, because they may just be getting going and they may be rolling off much faster in a month or two.

H.M.Jr: He will get that. Just let's follow the tanks and combat cars. I think if we follow the tank thing through and add a hundred and five of those others.

Haas: Yes. I have the charts made up now for the anti-aircraft guns and searchlights. That is just as sad looking.

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H.M.Jr: Take this away. You had better put this stuff in the safe.

Now that I have got rid of this stuff, I have got a little time on this end to think, and I am just going to lay it out before the President.

Sullivan: I had a call yesterday along this line from a friend of mine, Eddie Toland, who is counsel for the committee that is going to investigate defense contracts.

H.M.Jr: Eddie who?

Sullivan: Toland.

H.M.Jr: That is the Irishman?

Foley: He is a bad man.

Sullivan: That is all right, he may be a good man on this thing.

H.M.Jr: Well, go ahead.

Sullivan: Vinson, Chairman of Naval Affairs in the House, told him that he should talk to me, that through Vinson-Trammell we knew something about it, and he said that under the statute they had the authority to take personnel, and he wondered if there was anybody from the Bureau we could make available to him for that work; and I said, well, if he sent in a request, we would look the situation over.

H.M.Jr: The man I am thinking about is the counsel for Truman.

Foley: He is all right.

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H.M.Jr: That is a different committee?

Foley: Sure. This is this Anti-Labor Committee where you will get a bad labor report. That is why they got Toland. This is the Vinson Military Affairs Committee. Naval Affairs and Military Affairs are both the same.

H.M.Jr: Ed, give the group a little thumbnail sketch of what we have been doing about labor. I think they would be interested.

Foley: We suggested, the Secretary did, to the President, a couple of weeks ago that all defense contracts contain a clause that the contractor would comply in carrying out the contract with all of the laws of the United States applying to labor, wages and hours, and working conditions and collective bargaining and so forth; and he would in turn require sub-contractors to agree to comply with those requirements.

The President sent the letter to Donald Nelson and Nelson came over here a couple of days ago with a copy of a counter proposal that he had submitted to the President.

The counter proposal was to the effect that such a clause in the contract would place an unreasonable police burden on the Government, and the penalty would be if compliance with that clause in the contract was not carried out by the contractor, refusal on the part of the United States to accept the materials contracted for, which, of course, says Nelson, would be the worst thing that could happen, because we need these materials desperately.

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The Secretary told him that he was trying to protect the President and at the same time prevent a repetition of what had happened on the motors and coal and steel industries in the way of dissatisfied labor and strikes.

Nelson said that he thought the real trouble was the failure of OPM to announce any kind of a labor policy, that there were certain members of OPM who were adamant on the subject and labor was dissatisfied because it had no clear-cut expression of policy from OPM and it didn't have adequate representation in OPM and didn't have confidence in OPM.

The Secretary told Nelson that he thought that two of them ought to be able to agree on some kind of a proposal whereby there would be a public pronouncement on the part of OPM of an adequate labor policy, and Nelson agreed; so we have been trying to work something out.

Katz came over yesterday, and we got out an agreement that in addition to an announcement of a labor policy that contracts for defense would be given only to contractors with a good labor record and who would comply with the laws of the United States during the life of the contract, that the contractor and the subcontractor would be required to sign a certificate of compliance with all the labor laws of the United States before the contract would be given to it.

That is the procedure that was followed in NRA. Instead of putting those things in the contracts as we did in PWA, we put clauses in there as to where they could get their labor, whether it would be an open shop or closed shop, and the wages and the hours and

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the working conditions; we put all those things in the contract.

Over at NRA they merely required a certificate of compliance for the particular code of that industry before a contract would be given to them. Katz agreed and thought that was a good idea, and the Secretary agreed.

Nelson, when Katz took it up with him, had some doubts, because he thought that that would scare the daylights out of industry and he was going to talk to Hillman last night and some of his other associates over there. I haven't heard from him.

H.M.Jr: He has gotten cold feet?

Foley: Yes. That is what Katz said. So I sent a memorandum that you signed, over to Katz and told him as soon as he could get Nelson to sign it, to send it back. I think it is indicative of --

H.M.Jr: Well, this puts Nelson --

Foley: Right on the spot.

H.M.Jr: Right on the spot.

Foley: Because this took away from him any objection that he made in that letter to the President about policing. That isn't a part of the contract.

On the other hand, if the fellow signs that certificate and he wilfully or knowingly at the time he signs the certificate, has any reservations about complying with the laws of the United States or isn't complying with the laws of the United States, he can

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be prosecuted under Section 35 of the Criminal Code.

H.M.Jr: Think I ought to call up Sydney Hillman?

Foley: I think it would be a good idea if you would give Nelson a ring and ask him what he thinks and maybe talk to him.

H.M.Jr: Do it now?

Foley: I would call Nelson first.

H.M.Jr: Did he get it last night?

Foley: Yes. I sent it over to him right after you signed it. I think if Nelson will go along and the President will require OPM to do that, it will have a very salutary effect on labor.

H.M.Jr: If Nelson backs down on that.

Foley: Well, his lawyer couldn't have any further objection.

H.M.Jr: How did Katz feel about it?

Foley: He felt it was all right. He wrote the letter, you see, objecting to the other proposal, and just cut the ground right out from under him, and he didn't have a leg to stand on. He had to go along with this or else be unwilling to do anything.

H.M.Jr: While we are waiting for that call, Norman, will you set up that committee, whatever is necessary, composed of O'Connell, Haas, and White, O'Connell to head it up with Leon Henderson.

Thompson: Yes.

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(The Secretary talks on Telephone with Donald Nelson.)

Gaston: Just a little question. (Laughter)

Klotz: Just a minor thing.

H.M.Jr: Well, if it gets to the President's desk, what the heck. What about the certificate?

Foley: He probably wouldn't like to have it.

H.M.Jr: Well, that was a good day's work. Now, what we are going to do is, we will have O'Connell represent me as the alternate; but it will be a committee of O'Connell, Haas and White, and they will talk things over; and if there is any major policy, they will bring it up to this group here, you see? Is that agreeable to you, George?

Haas: Very much so.

H.M.Jr: And Mr. White?

White: Quite satisfactory.

H.M.Jr: Norman, will you take the necessary steps?
Herbert?

Gaston: Unfortunately, one of our old trusted cashiers up in New York went bad yesterday. They found a shortage of about two thousand dollars in the Customhouse. Harry Durning wanted to pay it out of his own pocket, but we told him, of course, that couldn't be done.

On this cutter situation, do you want us to go ahead and try to work out a budget estimate on the basis of two big ice breakers and five --

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H.M.Jr: Yes. I thought it would be all done by now.

Gaston: Well, the ice-breakers are a pretty crucial end of it.

H.M.Jr: How much do they cost?

Gaston: An off-hand guess is probably eight to ten million, and they are talking now about a 310-foot boat with a very broad beam, about a four to one ratio, about a 770-foot beam and a very high-power Diesel drive, probably.

H.M.Jr: Will there be enough landing deck space for an airplane?

Gaston: They are going to try to work that out, yes.

H.M.Jr: Sure, go through with it. See it through.

Gaston: I think you know that we haven't got any weather patrol ships, but I don't think that is in our lap at the moment, is it?

H.M.Jr: If they take it away, somebody will do something, that is the Democratic way. Give them no service, and they will wake up and do something about it.

Gaston: If they take seven cutters away, there won't be any weather patrol.

H.M.Jr: That is right. Then they will wake up and find out, and it will be all right. Mr. Juan Trippe's Washington representative, whoever he is, is going to get busy.

Gaston: Right.

H.M.Jr: O.K.?

Gaston: Yes.

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H.M. Jr: Incidentally, when they have gone into Juan Trippe's whole figures, it is very interesting. The reason he wanted to sell these three planes, costing a million dollars and a half a piece, to the English was, Pan-American is absolutely busted. It is busted higher than a kite.

Gaston: They have been making money off that Clipper service.

H.M. Jr: Well, the whole system is absolutely busted. They haven't got the money to pay for these three new ships.

Gaston: There will be a new scheme of Federal subsidy coming up, then, pretty soon.

H.M. Jr: Ed?

Foley: There is legislation now which enables the Federal Reserve banks to hold accounts --

H.M. Jr: I don't know why I can't hear. All you people are going so refined on me.

Klotz: The window is open.

Foley: There is legislation now which permits Federal Reserve banks to hold accounts for foreign governments. They didn't have that power when you set them up as agency accounts in the beginning, and I think that ought to be transferred over now to foreign government accounts.

H.M. Jr: Work it out with --

Foley: Logan wants to write to the Board.

H.M. Jr: Work it out with Dan. I don't want to be bothered with it. Just work it out. Whatever Dan decides. You, Merle and Dan.

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Cochran: I am familiar with it.

H.M.Jr: Whatever you gentlemen decide, I will accept it and like it.

Foley: O.K.

H.M.Jr: What else?

Foley: Colonel Donovan came in to see me yesterday with a Mr. Bond who was Fiscal Assistant Secretary during the Mellon administration.

H.M.Jr: Is he the father of Bond clothes?

Foley: I don't know. I doubt it.

H.M.Jr: What does he want.

Foley: Donovan wanted to know whether or not he should take a retainer from Giannini in the Bank of America case. I told him I couldn't tell him that. He wanted to know whether anything that Giannini asked here in the way of additional branches would be turned down and whether there was an asbestos curtain. There is nothing before us now, and I told him I couldn't tell him what the attitude of the Comptroller's office would be on any additional requests; so then he said, "Well, then, there is no reason why I can't submit additional requests." I said, "Why certainly not," but he was trying to get me to tell him that we thought the organization was too big and we wouldn't approve any additional branches, which of course, would be the basis for a mandamus against Delano to compel him to do it, but Donovan got a little nasty. He pushed me pretty hard. He didn't get anywhere.

H.M.Jr: You tell him we are no Yugoslavs.

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Foley: Yes. Here is a little memorandum from the conversation.

H.M.Jr: He got a little nasty?

Foley: I thought he went too far.

H.M.Jr: What did you do, push him in the face?

Gaston: Maybe he already has a retainer.

Foley: I think so, sure.

Bell: Bond is his partner.

Foley: I am surprised that Donovan would do it. Yes, I think - Bond - or Donovan is counsel to the Bond firm. It works one way or the other.

Bell: It is Donovan and Bond. He started out with Donovan and Alvord, and Alvord split with them, I think.

H.M.Jr: Would you fix it up, either by law or by regulation, that lawyers have to itemize their fees? That is something I have been wanting for eight years. When you go in to examine a law firm's revenue, it is all lump sum, just like these diplomats. I would like to have them show who their client is and where they get the money from. Now, we make a fellow who signs an income tax show who helped him make it out. I don't see why a lawyer in his books shouldn't show who his client is and how much he receives from that client. I don't see why they should be treated --

Sullivan: When the agent goes around to investigate, he can get that.

H.M.Jr: No he can't, excuse me. I have been blocked on

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that again and again. I cannot find - I go to a law office, and I want to know what his retainer is and how much - am I right, Harold?

Graves: Well, I think John is right in theory, but very often the accounts kept by the lawyer will not show, just as you say. What a statute would do, it would purport to require that the accounts show the source of the fee. I don't know how that would work.

H.M.Jr: But in practice, Harold, when you and I were after that particular thing, we could not find one.

Graves: That is right.

H.M.Jr: And our men couldn't find it.

Graves: But our men do have, as John says, access to the books and records of the lawyer.

H.M.Jr: Sure, but they cannot go in and find out in practice, am I right?

Graves: You are right. I am just wondering --

Foley: I think, Mr. Secretary, a good, reputable firm keeps accurate accounts.

H.M.Jr: But those aren't the firms we are interested in.

Foley: That is right.

White: Then you have discriminatory legislation of that kind?

Sullivan: Oh, no, you would have it on all professional people.

White: You would have to find out every patient a doctor

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gets his fee from.

Sullivan: Anyone receiving fees for services.

H.M.Jr: John, I am telling you we have got a lot of cases we could make headway with much faster if we could get that breakdown, and I know we have been blocked again and again.

Sullivan: I didn't know we had.

H.M.Jr: Take the old man's word for it.

Sullivan: I am.

H.M.Jr: Will you do something about it?

Sullivan: Yes, sir.

H.M.Jr: Thank you, sir.

Sullivan: Eleven o'clock. I like your new clock.

H.M.Jr: Thank you. The modern age.

Sullivan: It came from my room.

(Laughter.)

H.M.Jr: Where is my clock?

Sullivan: That is all right, I thought after I saw that nice new desk that would be next, too.

H.M.Jr: I like this desk.

(Laughter.)

Now one thing, I have been doing most of the talking today. I am running way behind. Supposing I get a call Monday or Tuesday to appear on

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the Hill with a statement before Ways and Means?

Sullivan: Of course, if you get the call, you will have the statement.

H.M.Jr: Well, have you got it outlined?

Sullivan: No. Doughton called yesterday afternoon and told me that he had asked his committee to meet on Monday to have Mr. Stamm and I go over in executive session our proposal and what Stamm thought of it and --

H.M.Jr: But that has got nothing to do with me.

Sullivan: But I am trying to tell you that the hearing won't possibly be Monday or Tuesday.

H.M.Jr: Why can't you get an outline that I can look at? What are you doing this morning?

Sullivan: I am going up and talk to Doughton.

H.M.Jr: Yes, but how about giving me an outline on one page, what you think I ought to say?

Sullivan: All right, sure.

H.M.Jr: I expect to leave here at two.

Sullivan: All right, we will have it for you.

H.M.Jr: Better let Ferdie see it. The point that I am getting at, I don't want always this terrific pressure on me at the last minute.

Sullivan: Sure. That outline is going to change within - between now and then.

H.M.Jr: But it is going to be a philosophical thing,

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largely. I don't want to get down to rates.

Sullivan: All right.

H.M.Jr: I am trying to be helpful. I don't want to wait until the last minute.

Sullivan: I will have it for you.

Foley: Have you heard from Glass about the bank-holding thing?

H.M.Jr: I called him personally, and the old boy said he was going to do the best he could, and he would let me know just as soon as possible, but I did call him myself. I am moving a little faster now.

Cochran: Jay Crane was in yesterday. I hadn't been in touch with him --

Sullivan: I am getting cheated by the asparagus here. I have a little memoranda I want to get off my chest.

(Laughter.)

H.M.Jr: All right, what is it?

Sullivan: Go ahead, Merle.

Cochran: No, no.

H.M.Jr: All right, what is it, John?

Sullivan: Here is a memorandum of the conference the day before yesterday.

(The Secretary held another telephone conversation with Donald Nelson.)

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Foley: Don't let him take that certificate off.

H.M.Jr: It is all right.

How was that?

Sullivan: Here is one other memorandum. It is confidential. You may want to talk about it afterward.

H.M.Jr: No. Everything else all right?

Sullivan: Yes, sir.

Cochran: Jay Crane was in yesterday, and I put him in touch with Philip Young, and he wants to come back next week to see me about the memo, and I have a copy for you.

H.M.Jr: I have seen it, the memo why he wanted to see me.

Cochran: He has given me a two-page memo describing his proposition.

H.M.Jr: We looked at these (posters) yesterday, and I frankly was disappointed. The only one that I would be willing to use is this one.

I say this is the only one I would accept. I am not saying you would have to take it.

Graves: Are you saying we can't pick any other?

H.M.Jr: You pick one, and I will argue, but there is none I would like, and none of the group at the house last night liked them.

Graves: Of course you understood these were just preliminary sketches?

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H.M.Jr: I know. There is none there that I like, and this is the only one I do, but I am not saying you should buy this.

Sullivan: What are those dots around the edge?

H.M.Jr: Rivets. It is a bank.

Sullivan: I thought they were supposed to be fortifications, and I was wondering about the Canadian border.

H.M.Jr: No, no; they are rivets.

Klotz: I didn't see any of the others, but that conveys something immediately.

H.M.Jr: Ferdie?

Kuhn: Nothing.

H.M.Jr: Harold?

Graves: Nothing.

H.M.Jr: George?

Haas: Mr. Secretary, you wanted to see me sometime about that Meigs report on airplanes.

H.M.Jr: Yes. You keep after me. Anything else?

Haas: That is all.

Schwarz: I have editorials and news stories on the taxes if you would like Mrs. Klotz to have them or can give them a spare moment.

H.M.Jr: Editorials on what?

Schwarz: On the new taxes, and the radio reports.

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H.M.Jr: Oh.

Schwarz: The radio thing isn't quite complete. I sent for Lowell Thomas', and it was very good.

H.M.Jr: Oh, you mean these are the clippings?

Schwarz: Yes, sir. I thought you might like to see them.

H.M.Jr: I see. Anything else?

Schwarz: There is one point in the Baltimore Sun editorial Ferdie and I have talked about we are going to talk to the editor about.

Kuhn: They say there is one thing missing from your statement, that you said nothing about the reduction of non-defense expenditures, and why didn't you say anything about it, and so on and so forth; so Chick is going to read them a transcript of the --

H.M.Jr: No paper ran what I said about it.

Schwarz: It may have been in the Star. The Star last night.

H.M.Jr: Anything else?

Schwarz: That is all.

H.M.Jr: Harry?

White: When Phillips was with us two days ago giving the data on their financial status, he stated that they were unable to ascertain from the Army or Navy how much contracts the Army and Navy would take over. He said he approached them informally but got nowhere at all. I suggested that you might wish to see whether you could get any information on the score, because upon

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that information will depend whether they will be short or not during the next few months. So if you want to take anything up, it is --

H.M.Jr: We are going behind, and Clark is here, and that is why I am pressing.

White: Probably part of your decision with Clark will rest upon Phillips' decision with him, and Phillips will probably state he is not in a position to do that --

H.M.Jr: Well, you hear what I have to say to Clark, which may or may not solve your problem.

White: Yes.

H.M.Jr: O.K.?

White: That is all.

H.M.Jr: Bell?

Bell: Here is a clipping that you asked about on the Economy League. I take it you will have that publication. Don't we get that Economy League publication, George?

H.M.Jr: I want some help --

Bell: George might take that and analyze the statistics.

H.M.Jr: Can you do it, Monday? I want some help with Rayburn. I need some help.

Bell: Well, I assume --

H.M.Jr: To try to kill this Agricultural appropriation over and above the President's Budget.

Bell: By the way --

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H.M.Jr: I need some help.

Bell: There is an item in this morning's paper that the House had agreed to disagree in a conference. Whether that is pushing ahead now, I don't know. Did you hear anything from Rayburn?

H.M.Jr: Yes. I brought it up at Cabinet, and he talked to the President, and they are fixing up the Committee, and the President is sitting there waiting for the Committee to come down and see him, but the - he is out of town. I spoke to General Watson last night, and he said, "I am trying to do it, and if you can follow up, too." And I said, "I have got a call in for Rayburn," and he said, "So have I." He said, "The minute - we are waiting for Cannon, and the minute Cannon comes back in town the President will see him and drop everything."

Bell: I have a memorandum on that conference in the Speaker's office. I also have a memorandum of the conference at the White House the other day with Dr. Soong and the Chinese Ambassador.

H.M.Jr: Fine. Did you tell the boys about that, what happened? You know, I get Danny Bell over there to act as my bodyguard, because I knew that Soong was going to ask for fifty million - billion - million? Was it? Fifty something, in a lump sum. So Soong never opened his mouth, and we all stand up to go, and I say to Dan, "Well, I guess Soong lost his nerve," and I no sooner say that, he kind of watches to see the ambassador get out of the room, and as soon as the ambassador left, he goes up and whispers to the President, and the President says, "I know nothing about it. Speak to the Secretary of the Treasury. I never heard about it."

(The Secretary held a conversation with Speaker

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Rayburn.)

H.M.Jr: Here I am so tickled. I think I said something important, and every radio had it from five to ten minutes, and here is the Speaker of the House doesn't know it, and I think it is marvelous.

(Laughter.)

Gaston: I think he is deliberately not knowing, because he did know a good deal about it. He is just fighting away from taking a position.

H.M.Jr: I think it is marvelous. That is in pretty good shape. If I can get a little backing from the Treasury on my economy drive, or if somebody will take a little interest and give me some facts and figures and go after the Bureau of the Budget - I asked a month ago for some stuff on CCC and NYA and all the rest of it. I need a little backing now.

Bell: I talked to Harold Smith the other day about our request, and he said they had to pull some of their people off that were making this investigation and put them on the defense thing, and he said they were snowed under and couldn't do it. That memorandum - you remember the Argentine Ambassador spoke to you the other day.

H.M.Jr: Shall I ask the Economy League to come in as advisers to me?

Bell: It might be good.

H.M.Jr: What else, Dan?

Bell: On Spanish silver. We are starting that, you know, and the charges that the Mint would make in their normal procedure would be quite high.

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We thought it was only fair to not charge them any more than outside concerns would charge, and through the Federal Reserve Bank of New York, we have ascertained what those charges would be, and in this letter you tell the Spanish Ambassador the rates, which brings the cost down considerably to them.

The other question is the attorney's fees in connection with the suit, and you are telling him that you will advise him later of the amount. In the agreement, I think Ed's office feels that there is a provision there which will permit the charging of the attorney's fees to the Spanish government, but you are telling him that for the first time in this letter.

H.M.Jr: To who?

Bell: The Spanish Ambassador. I don't know whether it will be a shock or not.

H.M.Jr: I don't think there are enough initials on this.
(Laughter.)
Okeydoke. Anything else?

Bell: That is all for the moment.

H.M.Jr: Norman?

Thompson: I have several personnel matters I would like to see you about sometime.

H.M.Jr: Well, tell Stephens about it, and see where we are at.

Sullivan: Gulick may be here today, sir.

H.M.Jr: Well, I am not going to see him. I am sorry.

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I am booked solid. Ask him why, when he says he is going to go to work for the Treasury, he hasn't got time to work for us, but he has got time to work for the National Resources Board.

Now, let's see. Who stays with me, Mr. Bell and Mr. White and Mr. Cochran.

Can I have two minutes, just a breathing spell, and then we will go on that thing, Dan.

April 18, 1941
9:50 a.m.

H.M.Jr: Hello.

Donald
Nelson: Good morning, sir.

H.M.Jr: How are you?

N: Just fine, thank you.

H.M.Jr: Good. Did you get my little billet-doux?

N: I haven't gotten the letter yet, no, sir. It hasn't come over. I'm ready to sign it and send it over just as soon as I get it. Milt told me it was coming.

H.M.Jr: Well Katz got it last night.

N: Oh, he got it. Well, he wanted to come in and see me. He's coming in in just a few minutes so that's probably what he has in mind.

H.M.Jr: After you have signed it will you give me a little ring?

N: I'll do it, sir.

H.M.Jr: Thank you.

N: He came in and talked to me. The only question I had was on the working of the certificate thing which I'd like to talk over with you. I think we ought to send the letter and then work out the mechanism.

H.M.Jr: Fine. Well, after you've read it and signed it, give me a little ring.

N: I'll do that, sir.

H.M.Jr: Thank you.

N: And I'll get him in just a few minutes.

H.M.Jr: Thank you.

APR 18 1941

MEMORANDUM FOR THE PRESIDENT:

As a result of several conversations we have come to the conclusion that a statement of policy, incorporating the labor requirements issued by the Advisory Commission on August 31, 1940, ought to be issued by the Office of Production Management. We recommend for your consideration the desirability of the issuance by that office, and its publication in the Federal Register, of a statement of labor policy along the lines set forth in the attached statement.

The statement adopts the labor policy of the Advisory Commission and implements it by requiring, before the award of any defense contract, a certificate from the contractor that he is complying with and will comply with all Federal laws affecting labor. A suggested form of certificate is also attached.

This suggestion is made in lieu of our individual recommendations previously made to you.

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

/s/ Donald M. Nelson
Director of Purchases.

STATEMENT OF LABOR POLICY
OF OFFICE OF PRODUCTION MANAGEMENT.

I. Notice is hereby given that no defense contracts shall hereafter be awarded unless the contractor is complying with the labor policy of the Advisory Commission to the Council of National Defense unanimously adopted on August 31, 1940. The President of the United States considered that policy to be of such importance as to justify transmitting the statement of it to the Congress in a message on September 18, 1940. The statement of the Advisory Commission's labor policy follows:

"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.

2.

"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 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 16, 1917, relative to the relation of labor standards to efficient production:

3.

"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."

2. In order to effectuate this labor policy, no defense contracts shall hereafter be awarded, unless the contractor shall have first certified to the Government Department or agency awarding such contract that he is complying with and will continue to comply with all Federal laws affecting labor to which he is subject and that he will require subcontractors to sign similar certificates before making awards to or purchases from such subcontractors.

4.

Any person falsely certifying as to such compliance may be punished as provided in section 35 of the Criminal Code, as amended.

**CERTIFICATE OF COMPLIANCE WITH FEDERAL LAWS AFFECTING LABOR
IN CONNECTION WITH DEFENSE CONTRACTS**

To:

(Insert name of Government Department or Agency awarding contract)

It is hereby certified that the undersigned is complying with and will continue to comply with all Federal laws affecting labor to which the undersigned is subject, and that the undersigned will require all subcontractors to sign similar certificates before the undersigned will make awards to or purchases from such subcontractors.

(Signature)

Penalty for False Certification

Section 35 of the Criminal Code, as amended, provides a penalty of not more than \$10,000 or imprisonment of not more than ten years, or both, for knowingly and wilfully making or causing to be made "any false or fraudulent statements . . . or use or cause to be made or used any false . . . certificate . . . knowing the same to contain any fraudulent or fictitious statement . . ." relating to any matter within the jurisdiction of any Governmental department or agency.

There is still to be done - 4/16
revised -
added
His appointment 4-16

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C O P Y

The President

The White House

Dear Mr. President:

I am writing to supplement my oral report of April 11 concerning the suggestion of the Secretary of the Treasury "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.'

In my judgment, it would not be helpful to require the inclusion of such a clause in defense contracts. To do so would, it seems to me, inevitably visit upon the various contracting and purchasing officers of the government (and upon prime contractors in their relation to subcontractors) the burden of determining whether and when a violation of law has occurred. Experience demonstrates that these questions are frequently intricate and highly controversial, and tax the capacities even of agencies specially trained and equipped to resolve them. Such a clause would, moreover, introduce an incalculable factor into contracts which might prove acutely embarrassing to the government. With events moving and conditions changing as rapidly as they are, we cannot know at the time when a contract is executed how urgent our need may be for the particular articles three or six or twelve months later. In consequence, if contracts should include the suggested clause, we may find ourselves repeatedly forced to choose between rejecting articles the need for which is vital and immediate, and

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avoiding the obligations imposed on us by the clause.

It seems to me that the point at which to implement the labor policy incorporated in the principles governing the letting of defense contracts transmitted by you to the Congress under date of September 13, 1940, is the time of award. Under a procedure already established, major proposals for purchase or construction by the Army and Navy are submitted to the Office of Production Management for clearance prior to award. The Office of Production Management has vested the function of clearance in the Director of Purchases, who is required, prior to clearance or rejection, to take the opinion of any division, bureau or office of the Office of Production Management which may have an interest in the proposal. It would be practicable to submit the name of any proposed supplier to the Labor Division of the Office of Production Management, prior to clearance of a proposed award; the Labor Division could report on such proposed supplier's record of compliance with or violation of labor laws, as established by the orders or reports of appropriate administrative agencies or by judicial decision; and in the light of this record and the acuteness of the need for the capacity of the particular supplier, a determination could be made whether to clear or reject the proposed award. In following such a course, I believe that our emphasis should be upon promoting compliance, as far as this can be done consistently with the primary objective of military procurement, rather than punishing for non-compliance. In consequence, the essential questions in each case would be: is the supplier now in violation of existing law, or does his record indicate a substantial probability that he will continue to violate in the future as he has in the past; and, if the record does thus establish him as an actual or imminent violator, is it feasible to seek alternative sources of supply? Whenever a proposed supplier is rejected because of violation of federal laws affecting labor, the permanent files should contain a clear statement of the basis for rejection. Similarly, whenever an award to such a supplier is cleared notwithstanding objections based upon violations of labor laws, the permanent files should contain a clear statement explaining why the circumstances of the particular case nevertheless justified the award.

Respectfully yours,

Donald M. Nelson
Director of Purchases

April 18, 1941
10:02 a.m.

H.M.Jr: Hello.

Donald
Nelson: Hello, Mr. Secretary. Don Nelson.

H.M.Jr: Glad to meet you.

N: This letter is fine except that it says that the suggested form of certificate is also attached. Now I'd like to have a chance to discuss that question of certificate and how it would be handled and so forth because as it goes down to the sub-contractor, you see, there is going to be quite an administrative problem in getting them all in.

H.M.Jr: Well, our attitude is we always like to listen but I don't see that there is much to discuss, but Foley is available.

N: Well, I'll let it go through this way. My opinion is that the certificate is going to cause a great deal of trouble and very little good. I think the reiteration of that policy that we discussed is splendid. I think it will be good, I think it's wholesome and I think it should have been done a long time ago because the policy is there - never been retracted.

H.M.Jr: Yeah, but as you and I know the O.P.M. have never expressed themselves publicly.

N: Never have.

H.M.Jr: No.

N: And they ought to. I think they ought to express themselves publicly. Now, it says the suggested form of certificate. I presume that we would have an opportunity to go into that with the President after it was done, wouldn't we.

H.M.Jr: Oh, you can always have an opportunity.

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N: All right. We'll let it go as it is then,
Mr. Secretary. Shall I send it back to
you or send it over to the President.

H.M.Jr: I wish you'd send it right to the President.

N: I'll do that.

H.M.Jr: Mark it urgent.

N: I'll do that.

H.M.Jr: Thank you.