

DIARY

Book 434

August 16 - 22, 1941

- A -

	Book	Page
Aarons, Lehman C.		
See War Conditions: Foreign Funds Control (China)		
Agriculture		
Farmers' disapproval of Government because of unanimous support of labor voiced in telegram from H. E. Babcock, Ithaca, New York - 8/16/41..	434	10
Aikin, Richard P.		
See War Conditions: Foreign Funds Control (China)		
Appointments and Resignations		
Casady, Lauren W.: Appointed Special Assistant to American Ambassador to Great Britain - 8/18/41.. (See also Book <u>435</u> , page 263)		51,123

- B -

Babcock, H. E.		
See Agriculture		
Bank for International Settlements		
See War Conditions: Foreign Funds Control		
Brazil		
See War Conditions: Foreign Funds Control		
Business Conditions		
Research and Statistics memorandum on situation for week ending August 16, 1941.....		36

- C -

Casady, Lauren W.		
See Appointments and Resignations		
China		
See War Conditions: China; Foreign Funds Control		

- D -

Defense Savings Bonds		
See Financing, Government		

- E -

Economic Defense Board		
See War Conditions		

- F -

Facts and Figures, Office of		
See Office of Facts and Figures		

- F - (Continued)

	Book	Page
Financing, Government		
Eccles discusses September financing with Gaston prior to leaving city - 8/22/41.....	434	207
Defense Savings Bonds:		
Billion dollar mark passed in less than three months - 8/20/41.....		118
France		
See War Conditions: Foreign Funds Control		

- G -

Germany	
See War Conditions	

- I -

Italian Superpower Corporation	
See War Conditions: Foreign Funds Control	

- J -

Japan	
See War Conditions: Foreign Funds Control	

- M -

Malaxa Company	
See War Conditions: Foreign Funds Control (Roumania)	
Maywood Chemical Company	
See War Conditions: Foreign Funds Control	

- O -

Office of Facts and Figures	
Questionnaire, Odegard memorandum, and Gaston's letter to LaGuardia - 8/21/41.....	159
Kuhn and Schwarz to represent Treasury - 9/4/41: See Book <u>438</u> , page 145	

- R -

Roumania	
See War Conditions: Foreign Funds Control	

- S -

Socony Vacuum Oil Company	
See War Conditions: Foreign Funds Control	
Standard Vacuum Oil Company	
See War Conditions: Foreign Funds Control	
Sterling Products, Incorporated	
See War Conditions: Foreign Funds Control	

- U -

U.S.S.R.
See War Conditions
United Kingdom
See War Conditions: Military Planning

Book Page

- W -

War Conditions

Airplanes:

Shipments to United Kingdom and overseas commands - British Air Commission report - 8/18/41.....	434	53
Delivery direct to British forces in Middle East under ferry plan of Pan-American Airways System announced by FDR - 8/18/41..		54

China:

See also War Conditions: Foreign Funds Control		
Fox report on official organization of Stabilization Board August 13, 1941 - 8/18/41.....		61,66
Trade Agreement: Possibility of discussed in Fox cable - 8/19/41.....		99
a) State Department answer to Fox - 8/27/41: See Book 436, page 7		
b) List of questions concerning asked of Fox - 8/28/41: Book 436, page 74		
Rumor of murder of Fox, Taylor, and Hall-Patch pooh-poohed by Treasury Attache', Shanghai - 8/22/41.....		246
(See also Book 435, page 159)		

Economic Defense Board:

Second meeting in Wallace's office - 8/22/41..		210
a) Discussion of		
1) African oils		
2) South American priorities		
(See also Book 435, page 269;		
Book 436, page 45)		
Meeting - 9/3/41: Book 437, page 358		
a) Discussion of		
1) Coffee		
2) Russian demands		
3) Japanese shipments		

Exchange market resume' - 8/16/41, etc.....	28,77,109.
	145,191,275

Export Control:

Exports of petroleum products, scrap iron, and scrap steel from United States to Japan, Russia, Spain, and Great Britain, week ending August 16, 1941.....	27
--	----

	Book	Page
War Conditions (Continued)		
Foreign Funds Control:		
Administration of Executive Order 8389, as amended:		
(See also Books <u>411</u> and <u>425</u>)		
Conference - 8/19/41.....	434	92
a) Discussion of		
1) Socony Vacuum Oil Company application to purchase 22% of stock of Maywood Chemical Company (now owned by resident of Germany)		
2) Brazil: State Department proposal to allow fulfillment of outstanding contracts between coffee importers in United States and exporters in South America on "list of blocked nationals".....		93, 269
3) Bank for International Settlements should be sustained for purpose of post-war economic reconstruction.....		94
4) Sterling Products, Incorporated: Anti-Trust Division of Justice Department attitude toward		
Conference of August 29 - 8/30/41: Book <u>436</u> , page 173		
a) Discussion of		
1) Plan for payment from blocked French Government funds for goods to be shipped to Madagascar		
2) Italian Superpower Corporation: Application of		
3) Standard Vacuum Oil Company: Shipments of petroleum products from Netherlands East Indies to Japan		
China: Aikin and Aarons to be sent from Hawaii and Philippine Islands to Shanghai and Hong Kong - 8/22/41.....		204
Japan: Hall (Noel F.) comments on press story of negotiations between Bank of England and Yokohama Specie Bank for barter trade agreement - 8/22/41.....		237
Roumania: Malaxa Company (manufacturer of tanks, shells, airplanes, etc.) - transfer of capital reserve in United States of \$1,200,000 to National Bank, Bucharest, discussed in American Legation cable - 8/22/41.....		274
Germany:		
Consular Establishments: Procedure if reciprocal treatment is arranged - 8/21/41.....		181
Lend-Lease:		
Packing to be closely supervised to prevent introduction of unauthorized material - 8/21/41.....		168
Purchases - weekly report - 8/21/41.....		223

- W - (Continued)

War Conditions (Continued)

Book Page

Military Planning:

Reports from London transmitted by Halifax -
8/16/41, etc.....

434 29,79,111,147,
192,276,278

War Department bulletins:

Cooperation between German Army and Air

Force - 8/18/41.....

81

German medium tanks in combat -

May 15, 1940 - 8/20/41.....

149

German answer to problem of water in

motor fuel - 8/22/41.....

280

Purchasing Mission:

See also War Conditions: Lend-Lease

Vesting order sales - 8/18/41.....

55,56

Roumania:

Malaxa Company: See War Conditions: Foreign Funds
Control

U.S.S.R.:

Shipments for week ending August 16, 1941, sent
to Wayne Coy.....

115

United Kingdom:

Wood, Kingsley: Thanks HMJr for assistance

given Phillips and Keynes - 8/22/41.....

208

August 16, 1941.

DOUBTS ABOUT SILVER

"Mr. Morgenthau is reported to have announced this week that "he would raise no objection to the abandonment of the American silver purchase programme." In the immediate pre-war years, this announcement would have knocked the bottom out of the silver market. It has been received with complete indifference by the London market where the spot price for the metal recovered momentarily to 23-1/2d. So much for the insulation of a market in which the turnover has become negligible and which is closely hemmed by the restrictions on the free import and export of the metal. It is not surprising that, after eight inglorious years, the silver purchasing programme should have lost the sympathy of the United States Administration. Its monetary significance was lost many years ago. Its importance in the domestic politics of the country has likewise dwindled. As long as the American Treasury continues to pay a subsidised price for domestic silver, the abandonment of the rest of the purchasing programme would probably raise no single cry of resentment in the United States. The interests of China in the programme have largely disappeared since the Chungking Government have probably shipped most of their reserves of demonetised silver to the United States, and such metal as now makes its way out of the country is in most cases looted silver exported with Japanese connivance and destined ultimately to strengthen Japanese exchange reserves. Mexico is vitally interested in the silver programme, but the disposal of her important production is already being handled through a bilateral Mexican-American agreement and not under the general provisions of the silver purchasing programme. Though the market has ignored Mr. Morgenthau's remarks, it should be evident that if the silver programme is abandoned, and if the United States Treasury no longer publishes a price at which it will buy imported metal, the anchor to which the world price of silver has for many years been tied will be removed. The subsequent adjustment of the world price is a phenomenon about which no confident prediction is possible. Much must, in any case, depend on the policy of the American Treasury, which, as the holder of the world's largest stock of the metal, will, whether it likes it or not, be the arbiter of the metal's fate. If it refuses to buy, there may be an appreciable slump in the price. If it attempts to sell, the word "slump" would be quite inadequate to describe the movement in the quotation."

August 16, 1941.

The President,

The White House.

My dear Mr. President:

Secretary Morgenthau has asked me to write to you to tell you of a transaction which he entered into on Friday with the Soviet Ambassador.

Mr. Gumeny came to the Treasury shortly before noon on Friday and told Secretary Morgenthau that he was in great difficulty because of urgent need for funds. He said he had been negotiating with Jesse Jones for a \$500,000,000 loan, but that the negotiations had reached a difficult stage and could not be terminated quickly and his buying representatives had obligations immediately due beyond their capacity to meet. He asked if some way could not be found to arrange an advance of ten million dollars from the Treasury.

After exploring various possibilities Secretary Morgenthau agreed with the Ambassador to advance him ten million dollars for a period of ninety days against anticipated shipments of gold. A letter embodying the agreement was drafted during the afternoon and was signed by the Ambassador and by me as Acting Secretary. I am enclosing a carbon copy of it.

Instructions were sent to the Federal Reserve Bank of New York to effect the transfer.

Sincerely,

(Signed) Herbert E. Gaston

Herbert E. Gaston
Acting Secretary of the Treasury.



Sent by Special Messenger - 8-18-40. 10:20 AM.

August 16, 1941.

The President,

The White House.

My dear Mr. President:

Secretary Morgenthau has asked me to write to you to tell you of a transaction which he entered into on Friday with the Soviet Ambassador.

Mr. Oumansky came to the Treasury shortly before noon on Friday and told Secretary Morgenthau that he was in great difficulty because of urgent need for funds. He said he had been negotiating with Jesse Jones for a \$500,000,000 loan, but that the negotiations had reached a difficult stage and could not be terminated quickly and his buying representatives had obligations immediately due beyond their capacity to meet. He asked if some way could not be found to arrange an advance of ten million dollars from the Treasury.

After exploring various possibilities Secretary Morgenthau agreed with the Ambassador to advance him ten million dollars for a period of ninety days against anticipated shipments of gold. A letter embodying the agreement was drafted during the afternoon and was signed by the Ambassador and by me as Acting Secretary. I am enclosing a carbon copy of it.

Instructions were sent to the Federal Reserve Bank of New York to effect the transfer.

Sincerely,

(Signed) Herbert E. Gaston

Herbert E. Gaston
Acting Secretary of the Treasury.



THE SECRETARY OF THE TREASURY
WASHINGTON

August 15, 1941.

My dear Mr. Ambassador:

Pursuant to and in confirmation of the conversations had between you and the Secretary of the Treasury it is agreed as follows:

(1) The Government of the United States hereby purchases from the Government of the Union of Soviet Socialist Republics 301,000 fine troy ounces of gold which 301,000 fine troy ounces of gold the Government of the Union of Soviet Socialist Republics hereby agrees to deliver to the United States Mint at San Francisco or to the United States Assay Office at New York within ninety days from the date hereof for the account of the Secretary of the Treasury of the United States.

(2) The purchase price of such gold will be at the rate of \$35 per fine troy ounce less 1/4 of 1% and less usual mint charges. Ten million dollars, constituting an advance payment, shall be paid by August 16, 1941 to the Government of the Union of Soviet Socialist Republics by credit to the account of the State Bank of the U.S.S.R., Moscow, U.S.S.R., on the books of the Federal Reserve Bank of New York. Final adjustment will be made after the gold is melted, weighed and tested at the mint or assay office.

(3) The Government of the Union of Soviet Socialist Republics agrees to reimburse and indemnify the Government of the United States and the Secretary of the Treasury for any advance payments and expenses in the event that the gold herein purchased is not delivered as herein provided within ninety days from the date hereof or in the event that the gold is under weight. All risk of loss remains with the Government of the Union of Soviet Socialist Republics until delivery of the gold at the United States Mint

- 2 -

at San Francisco or the United States Assay Office at New York, and all expenses incurred in connection with the delivery of the gold to such mint or assay office shall be for the account of the Government of the Union of Soviet Socialist Republics.

Very sincerely yours,


Acting Secretary of the Treasury.

His Excellency
Constantine A. Oumansky,
Ambassador of the Union of
Soviet Socialist Republics.

The foregoing is agreed to on behalf
of the Government of the Union of
Soviet Socialist Republics.


Ambassador of the Union of Soviet
Socialist Republics.

August 16, 1941

Files

Mr. Cochran

Upon receiving word at 10:45 this morning from the Federal Reserve Bank of New York to the effect that the credit of \$10,000,000 had been put through to the account of the State Bank of the U.S.S.R., I telephoned the Soviet Ambassador, but was unable to reach him until he returned and called me back at 12:10 noon.

I told the Ambassador that the \$10,000,000 had been entered to the credit of his State Bank on the books of the Federal Reserve Bank this morning. I told him, furthermore, that it was customary for the Federal to cable a Central Bank reporting such credits. I asked whether in the present instance the transaction should be described, as an advance against gold, or otherwise, or simply be reported as briefly as possible. The Ambassador preferred the last alternative. He said that he had already cabled Moscow in regard to the transaction. Consequently, I telephoned Mr. Knake at 12:11 and told him of my conversation with the Ambassador. Mr. Knake was, therefore, to send a cablegram at once to the State Bank of the U.S.S.R. reporting that \$10,000,000 had today been credited to its account at the order of the Secretary of the Treasury.

I told the Soviet Ambassador that I was sending him a photostatic copy of the letter signed last night. He thanked me warmly for the quick manner in which this transaction had been handled.

When Secretary Morgenthau telephoned me at 11:45 this morning I let him know that the \$10,000,000 had been credited to the Soviet State Bank account this morning, following the signing of the letter by Mr. Gaston and the Soviet Ambassador last night at 6 o'clock.



EMC:lap-8/16/41

7 ✓
August 18, 1941.

Dear Mr. Babcock:

Your telegram of August 14th reached the office just after the Secretary had left for a brief vacation. I know that he will appreciate the information you sent him, and just as soon as he is back in the office I shall be glad to bring your telegram to his attention.

Sincerely yours,

(Signed) H. S. Klotz
HCK

H. S. Klotz,
Private Secretary.

Mr. E. E. Babcock,
Ithaca, New York.

GHF/dbs

August 16, 1941.

Dear Mr. Babcock:

Your telegram of August 14th reached the office just after the Secretary had left for a brief vacation. I know that he will appreciate the information you sent him, and just as soon as he is back in the office I shall be glad to bring your telegram to his attention.

Sincerely yours,

(Signed) H. S. Klotz
mkt

H. S. Klotz,
Private Secretary.

Mr. H. E. Babcock,

Ithaca, New York.

GKF/dbs

August 16, 1941.

Dear Mr. Babcock:

Your telegram of August 14th reached the office just after the Secretary had left for a brief vacation. I know that he will appreciate the information you sent him, and just as soon as he is back in the office I shall be glad to bring your telegram to his attention.

Sincerely yours,

(Signed) H. S. Klotz
H. S.

H. S. Klotz,
Private Secretary.

Mr. E. E. Babcock,

Ithaca, New York.

GEF/dbs

Treasury Department

10

TELEGRAPH OFFICE

W7FF

WY? 106 NT

ITHACA NY AUG 14 1941

1941 AUG 15 AM 8 17

HENRY MORGENTHAU JR

SECY OF THE TREASURY

115-141-
MOST RELIABLE REACTIONS I CAN GET INDICATES THAT FARMERS ARE SO FED UP
BY GOVERNMENT'S SUPPORT OF ORGANIZED LABOR AND LABORS UNREASONABLE
WAGE AND HOUR DEMANDS THAT THEY WILL BACK ANY PROCEDURE EVEN THOUGH
IT BE UNSOUND IN THE LONG RUN WHICH WILL RAISE AGRICULTURAL PRICES
EVENTEMPORARILY. IN FACT THE FARMERS PRESENT ATTITUDE TOWARD AGRICULTURAL
AGRICULTURAL SUBSIDIES SEEMS TO BE INFLUENCED MORE BY THE GOVERNMENT'S
LABOR POLICY THAN ANY OTHER FACTOR. NEWYORKS FARM ORGANIZATIONS WILL
MOSTLY BE MEETING WEEK OF AUGUST TWENTY FOURTH IN SYRACUSE WHEN

Treasury Department

TELEGRAPH OFFICE

W7SHEET 2 FF

THEY MIGHT BE INDUCED TO TAKE SOME CONSTRUCTIVE ATTITUDE IF THEY FELT
THAT LABORS DEMANDS WOULD BE KEPT WITHIN REASON

H E BABCOCK.

AUG 15 1941

815A.

DEFENSE SAVINGS STAFF

ADVANCE NOTICE RADIO PROGRAMS

SATURDAY - AUGUST 16, 1941

Time: 6:30 - 7:00 P.M.

Program: Wayne King

Station: WJSV and CBS Network

Time: 7:30 - 8:00 P.M.

Program: Truth or Consequences

Station: WRC and NBC Red Network

Time: 8:00 - 9:00 P.M.

Program: National Barn Dance

Station: WRC and NBC Red Network

Time: 11:15 - 12:00 M.

Program: Music you want, when you want it.

Station: WMAL - Local

THESE PROGRAMS PROMOTE THE SALE OF DEFENSE BONDS AND STAMPS.

(CONFIDENTIAL)

13[←]

C
O
P
Y

CONFIDENTIAL

PARAPHRASE

A telegram (no. 1111) of August 16, 1941, from the American Consul General at Shanghai reads substantially as follows:

An important point to be noted is that in his announcement the Minister of Finance at Nanking did not and as yet has not decreed that the parity of the currency of the Central Reserve Bank with the currency of the Chinese National Government is to be discontinued. It seems probable that the action announced to be taken September 1 will have the following terms: (a) further loss locally of prestige by the currency of the Chinese National Government; (b) an increase to some extent in the circulation of the new currency of the Central Reserve Bank; (c) gradual appreciation of the currency of the Nanking Government over fapi. It is possible that the action is in part a political move having the definite object of ousting the Hua Hsing Yuan as a medium for the collection of customs at Shanghai. Although the regime at Nanking officially abolished Hua Hsing Yuan currency in the early part of 1941, (?) to be used by the Shanghai customs as a collecting unit.

Copy: hbr: 8-23-41

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Mukden, China
via Peiping and N.R.

DATE: August 16, 1941, 1 p.m.

NO. 1 19

THE FOLLOWING IS STRICTLY CONFIDENTIAL.

The following proposals have been presented ^{by} the Minister of Finance at Mukden to the Chitung Tobacco Company. (The Chitung Tobacco Company is a Manchurian subsidiary of the British-American Tobacco Company.)

One. That Chitung turn over to Manchukuo 10,000,000 yuan from its local surplus of currency of some 13,000,000.

Two. That the directors of the British-American Tobacco Company to secure an agreement by the U.S. Government to unfreeze an equivalent amount at the official rate of Japanese assets in the U.S.—approximately 2,360,000 for distribution as profits.

Three. As a quid pro quo for this large release of foreign exchange, the company is to persuade the U.S. Government to release an additional 2,360,000 in frozen credits per quarter (used to import ^{2/5ths} petroleum—2/5ths raw cotton; and 1/5th tobacco leaf). (No foreign exchange has been released to the Company for free use since 1938.)

(?) the operations of Chitung at Mukden are clear profit. Their investment has long since been liquidated by profits; albeit in local currency.

It is the ~~Manchukuo~~ Consulate's understanding that

-2-

that the proposals have been forwarded to the parent company without recommendation or comment by the local directors.

The idea behind the proposals, it is believed, originated in Tokyo rather than in Hsinking. Therefore, it may be assumed that large American companies who have frozen funds in Japan will have received proposals which are similar.

This message was sent to Peiping for the Department's information. It was sent to Tokyo by mail. It was repeated to Chungking and Shanghai and sent to the Department.

KHNTVL

893.5151 MANGHURIA/89

KASPAK

C
O
P
Y

16

EJ

PLAIN

Tsingtao via N. R.

Dated August 16, 1941

Rec'd 11:10 a.m., 17th

Secretary of State,
Washington.

58, August 16 5 p.m.

Reference Embassy's circular August 13, 1 p.m.

The following is a summary of the restrictions placed on American nationals since the American order freezing Japanese credits in the United States.

One. American funds in Japanese and Chinese banks are frozen but there have been several instances where sufficient amounts have been released for payment of pay roll of Chinese staffs. Provision has also been made for release of Federal Reserve Bank dollars five hundred (approximately United States dollars sixty) per family per month for living expenses but no instances of release of funds for this purpose are known. Most Americans have their funds in British banks to which freezing act does not apply at present. Other nationals are prohibited from having dealings with British and American nationals involving sums in excess of F.R.B. dollars twenty (approximately United States

-2-

States dollars two cents fifth) without special permit from the Japanese Consulate General. Intimidation of Chinese not to have any dealings with American nationals is the general rule.

Two. Travel by sea and rail is restricted for Americans. Permission is now being granted for travel by sea but only after close scrutiny are permits granted. Travel by rail is permitted in some instances but in others refused. ~~Baggage~~ is intensely searched and travelers often rudely questioned by Japanese gendarmes at the station despite the fact that permits are found to be in order.

Three. Installations of standard Vacuum Oil Company and Texas Company at Tsingtao were occupied by Japanese gendarme guards on July 28 and are still occupied despite protests. Stock may only be delivered against permits issued by Japanese Consulate General and gendarmerie. Guards have been discovered smoking in the installations and refuse to obey other rules. Universal Leaf Tobacco Company's factory also still under guard.

Four. Mail for American citizens is held up and is now invariably opened. This is also true of official consular mail bearing wax seals.

Five. Movement of imports and exports handled by Americans valued at more than F.R.B. dollars one hundred

(approximately

-3-

(approximately United States dollars twelve) must be covered by special permits none of which have as yet been granted. Exchange regulations effectively freeze all American funds involved in import or export trade.

Six. Delivery of coal which is under effective Japanese monopoly at Tsingtao refused American citizens but Japanese Consulate General has promised deliveries will be resumed upon application.

Seven. American-owned motion picture theatres at Tsingtao picketed by local police stopping all persons wishing to enter thus forcing the closing down of the theatre. Importation and exportation of films by the theatre must be covered by special permits which have not as yet been granted. On the contrary a German-owned theatre has been permitted to import and export American films.

Eight. Local garages were instructed not to supply taxis to American nationals or to perform repair work for them. After strenuous representation to the Japanese Consulate General taxis are now available to this Consulate but not yet to other American nationals.

Nine. This Consulate has received ration tickets for one month's supply of eight gallons of gasoline which must be obtained from Japanese-controlled organizations.

The allotment

-4-

The allotment is insufficient for normal requirements of Consulate's staff. German Consulate recently obtained additional special permits for 500 gallons of gasoline purchased directly from an American oil company. No gasoline has been made available to American nationals generally.

Sent to the Department. Repeated to Peiping, Chungking and Shanghai.

MEYER

HSM

COPY:wec:8-19-41

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Vichy

DATE: August 16, 1941, 3 p.m.

NO.: 1037

This telegram is for the Treasury from Matthews:

I had a visit from the managing director of the Societe Generale, Mr. Ardant. He is down here from Paris for a few days. In confidence he told me that recently all of the Bank of France's higher officials had been placed under arrest for some 24 or 48 hours, by order of the Devisen Schutz Kommando, because some very minor disagreement had arisen. Ardant told me that Governor Boisanger had been absent from Paris, and this was the only thing that prevented his arrest. He also told me that the same thing might happen to any of them at any time, that there was a stiffening in the attitude of the occupying authorities toward all of them. Ardant has been acting as leader in organizing "collaboration" in the banking field between the German authorities and the French banks.

Up to the present, he said, his organization (Societe Generale) has been able to maintain its branches in the occupied territory. However, he fully expected that it might become necessary to close a number of the branches since British bombing is becoming so effective in the areas on the Channel.

END SECTION ONE.

EA:LNW
COPY:wec;8-18-41

LEAHY

PARAPHRASE OF SECTION TWO, TELEGRAM NO. 1057
DATED AUGUST 16, 1941, FROM (PARIS) VICHY

The current financial situation in France is quite satisfactory, in Ardant's opinion, but he thought that this was "of secondary importance" under present circumstances. During the next winter season, if crops from Russia cannot be obtained by the Germans, he believes that the Germans will make massive food levies upon France. Because of the bombings by the British of power facilities and transportation facilities in the Pas de Calais area and in the Nord area, he anticipates a very serious coal shortage in France next winter.

Ardant told me that the raw material stocks in France are becoming depleted. He does not see much chance that German or other sources will provide replacement for the French stocks, with the exception of a few items. He said that the Germans had not obtained steel control of industries in France on a large scale, saying that the only deal the Germans put over was the Kuhlmann chemical transaction. Note: The Germans have of course simply taken over industries in the Alsace-Lorraine area.

END MESSAGE.

TO THE SECRETARY
LEAHY

EA:LWW

83 5 28
1941 AUG 13 10 14 AM

RECEIVED
INVESTIGATION

COPYDEPARTMENT OF STATE
WASHINGTON

August 16, 1941

In reply refer to
EA 840.51 Frozen Credits/3013

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of a telegram dated August 15, 1941, from the American Embassy at Rome concerning the Italian regulations affecting withdrawals by Americans in Italy from blocked accounts.

The Secretary of State would appreciate being advised as to what information may be communicated to the Embassy in Rome in this connection.

Enclosure:

No. 1213 from
Embassy, Rome,
August 15, 1941.

KD

PLAIN

Rome

Dated August 15, 1941

Rec'd. 11:40 a.m.

Secretary of State,
Washington.

1213, Fifteenth.

Embassy's telegram number 917, July second. While proceeds of remittances sent from United States for subsistence of Americans in Italy are allowed to be received by them within the general license limitations outlined in Embassy's above cited telegram (provided these remittances were made after date of Italian "freezing" orders) it is learned from Italian Exchange Institute that Italian Government has recently blocked lire accounts derived from operations (notably those for transfer of "lire miste") which were still in course at that date for alleged reason that American authorities act similarly with regard to operations in course at date of American "freezing" orders.

Institute cites case of a transfer ordered by Banco di Sicilia June fourteenth through Bank of Naples Trust Company, New York, of dollars twenty-six hundred representing an authorized payment to Carlo Faillace,

formerly Attache

-2- #1213, Fifteenth, from Rome.

formerly Attache of Colombian Legation, Rome. As Banco di Sicilia did not have sufficient funds on deposit with the New York Bank Institute authorized the latter to debit its account for supplementary amount necessary; but American federal authorities rejected request for necessary license. Institute has instructed New York bank to renew application.

This case is reported in the thought that considering its apparent relation to the above mentioned action of the Italian authorities affecting certain American accounts Department may wish to telegraph pertinent information or comment for Embassy to communicate to exchange institute.

PHILLIPS.

MG

Copied: hbr
8-18-41.

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Santiago, Chile.

DATE: August 16, 1941, 8 p.m.

NO.: 275

Recently, the Department has been approached by the Chilean Ambassador in regard to an application which he has been informed the Yokohama Specie Bank will file for the release of \$232,000. This money is to pay for fifty metric tons of crude iodine which is stored by the Nitrate and Iodine Sales Corporation of Chile in Osaka.

If Japan has funds which are available outside of the U.S. freezing control which it could use to make this payment, the Department would be reluctant to recommend to the Treasury Department that this application be granted.

The Embassy is requested to telegraph a report of any information in regard to Japanese deposits or funds in Chile which might be available for this payment if the Japanese should choose to utilize such.

HULL
(DA)

EA:GL:PAK

FE

PA/H

RA

A-A

KA:PAK

REV 100 50 6W 2 50

100 100 100 100

C
O
P
Y

GRAY

Guatemala

Dated August 16, 1941

Rec'd. 10:27 p.m.

Secretary of State,
Washington.

137, August 16, 5 p.m.

Ernesto Rosenberg, agent for Gillette Razor in Guatemala, has received letter from his principals quoting interview with their comptroller Rigby with Mr. Geist to the effect that latter assured the manufacturer that American agents and branches in Latin America could sell to persons on proclaimed list. Is our understanding correct that this applies only to retail and not to wholesale trade?

DESPORTES.

PEG

Copy:hbr:9-5-41.

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

Week ended August 16, 1941

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	--	2,400 Bbls.	--	317,000 Bbls.
Crude -				
Blended or California High Octane Crude*	--	--	--	--
All Other Crude	--	--	--	110,000 Bbls.
Gasoline -				
Gasoline A**	--	117,078 Bbls.	--	317,000 Bbls.
Gasoline B*	--	--	--	181,000 Bbls.
All Other Gasoline	--	1,200 Bbls.	--	--
Lubricating Oil -				
Aviation Lubricating Oil***	--	10,927 Bbls.	--	39,248 Bbls.
All Other Lubricating Oil	--	--	--	456 Bbls.
Tetraethyl Lead***	--	--	--	--
"Boosters", such as Iso-Octane, Iso-Hexane, or Iso-Pentane	--	--	--	--
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	--	--	--	3,667 Tons
All Other Scrap	--	--	--	1,994 Tons

Office of the Secretary of the Treasury, Division of Research and Statistics.
August 18, 1941.

Source: Office of Merchant Ship Control, Treasury Department.

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

** Aviation Gasoline.

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

For Miss Chauncey.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 16, 1941.

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£9,000
Purchased from commercial concerns	£2,000

Open market sterling was unchanged at 4.03-1/4 The reporting banks purchased a total of £15,000.

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

Canadian dollar	11 1/2 discount
Argentine peso (free)	.2380
Brazilian milreis (free)	.0505
Colombian peso	.5800
Mexican peso	.2070
Uruguayan peso (free)	.4380
Venezuelan bolivar	.2700
Cuban peso	1-1/8 discount

In Shanghai, the yuan was quoted at 4-3/4¢, off 1/16¢. Sterling was also lower at 4.00-3/4, off 1¢.

There were no gold transactions consummated by us today.

BRITISH EMBASSY,

WASHINGTON, D.C.,

August 16th, 1941.

Personal and Secret.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated August 14th.

1. Netherlands submarine has torpedoed and sunk in Mediterranean 5,000 ton laden supply ship and 1,000 ton cargo ship.
2. On the 13th merchant ship estimated at 2,000 tons attacked with torpedo by Beaufort aircraft 5 miles southwest of Ymuiden: result unobserved.
3. Night of 11th to 12th and following day Tobruk gas attacked by enemy aircraft. Damage done to ordnance stores, ammunition dump and power cables. In spite of considerable bombing and shelling, passage of supplies to Tobruk by destroyers and lighters continues. On the 12th Panagusta harbour and Nicosia aerodrome attacked by 8 aircraft: slight damage.
4. Night of 12th to 13th four heavy bombers from Malta attacked Tripoli (L.).
5. Abyssinia. Italian garrison Debarech 6,000 strong reported to have only three days' rations left.
6. Russia. Finland no information. Baltic front. Russian reference to fighting in direction of Staraja Russa August 13th may indicate fresh German offensive this sector. Ukraine. German pressure continues towards Dnieper River southwest of Kiev. Germans apparently in immediate neighbourhood of Nikolsev.

Telegram from London dated August 15th.

1. Night of 13th to 14th three Swordfish attacked submarine base at Augusta Sicily. Large fire started jetty. Two other Swordfish attacked barracks Syracuse. Large fire started.
2. Night of 12th to 13th one Blenheim 5 Albacores attacked submarine reported Bardia Harbour, possibly damaged as oil patches seen next day.
3. On the 14th Boulogne attacked by 11 bombers. Two thousand ton merchant vessel Heligoland attacked by three bombers left in sinking condition. Our fighters destroyed 14 aircraft 3 probable and damaged 6. We lost 6 Spitfires and 1 bomber.
4. Night of the 14th to 15th over 310 aircraft attacked targets including Hanover, Brunswick, Magdeburg and Boulogne. 12 bombers missing.
5. Egypt. 13th to 14th, 15 enemy bombers attacked Suez Canal zone, our fighters intercepted 2, no details available.

RESTRICTED

G-2/2657-220; No. 469 M.I.D., W.D. 11:00 A.M., August 16, 1941

SITUATION REPORTI. Eastern Theater.

Ground: Finnish advances have occurred in the area to the northwest and west of Kakisalmi. Kakisalmi has not been encircled by the Finnish Army.

No reliable news has been received as to the operations on other sections of the front, although there are strong indications that severe fighting is in progress on the Leningrad front to the northwest and southeast of Lake Ilmen.

Air: Light Russian night attacks were made on Berlin. Moscow suffered no damage. German air activity was reported both against ground forces and transportation around Odessa and Nikolaev.

II. Western Theater.

Air: The R.A.F. offensive over northern France was continued, but weather conditions prevented night bombing action.

Scattered German night raids over eastern England and Scotland was the only activity announced.

III. Mediterranean Theater.

Lull continues.

RESTRICTED

DEFENSE SAVINGS STAFF

ADVANCE NOTICE RADIO PROGRAM

SUNDAY - AUGUST 17, 1941

Time: 4:00 - 4:15 P.M.
Program: Moylan Sisters
Station: WMAL and NBC Blue Network

Time: 5:30 - 5:45 P.M.
Program: Paul Sullivan News
Station: WJSV and CBS Network

Time: 5:30 - 6:00 P.M.
Program: Dr. I. Q., Jr.
Station: WRC and NBC Red Network

Time: 6:30 - 7:00 P.M.
Program: Fitch Band Wagon
Station: WRC and NBC Red Network

Time: 7:30 - 7:55 P.M.
Program: Crime Doctor
Station: WJSV and CBS Network

Time: 7:30 - 8:00 P.M.
Program: What's My Name,
Station: WRC and NBC Red Network

Time: 9:00 - 9:30 P.M.
Program: Take It or Leave It
Station: WJSV and CBS Network

Time: 11:15 - 12:00 M
Program: Music You Want When You Want It.
Station: WMAL - Washington, D. C.

THESE PROGRAMS PROMOTE THE SALE OF DEFENSE BONDS AND STAMPS.

DEFENSE SAVINGS STAFF

ADVANCE NOTICE RADIO PROGRAM

MONDAY - AUGUST 18, 1941

Time: 10:15 - 10:30 A.M.
Program: Pepper Young's Family
Station: WRC and NBC Red Network

Time: 2:45 - 3:00 P.M.
Program: Just Plain Bill
Station: WMAL and NBC Blue Network

Time: 4:00 - 4:15 P.M.
Program: Home of the Brave
Station: WRC and NBC Red Network

Time: 7:30 - 8:00 P.M.
Program: Voice of Firestone
Station: WRC and NBC Red Network

Time: 9:00 - 9:30 P.M.
Program: Famous Jury Trials
Station: WMAL and NBC Blue Network

Time: 9:00 - 9:30 P.M.
Program: Lady Esther Serenade
Station: WJSV and CBS Network

Time: 11:15 - 12:00 M
Program: Music You Want When You Want It
Station: WMAL - Washington, D. C.

THESE PROGRAMS PROMOTE THE SALE OF DEFENSE BONDS AND STAMPS.

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Monday, August 18, 1941.

Press Service
No. 27-13

Mrs. Nellie Tayloe Ross, Director of the Mint, reported today that 98 percent of the 2,450 Mint employees are buying National Defense Savings Bonds and Stamps.

Mrs. Ross, recently returned from a trip throughout the Mint field reported a whole-hearted response on the part of employees.

The Mint Service set for itself a goal of 100% participation in the Defense Savings program.

The staff of the Director's Office in Washington took the lead in achieving this goal. The New York Assay Office was the first of the field institutions to reach the 100% mark, where everyone from the Superintendent down to the lowest paid employee subscribed.

The other 7 field offices followed in quick succession, until at the present time the Service as a whole, has reached an average of 98% and the Director feels that they will shortly make it a round hundred.

- o o o -

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE August 18, 1941

TO Secretary Morgenthau

FROM Prepared by: Mr. Daggit, Mr. Chevreux, and
Miss Michener

Subject: The Business Situation,
Week ending August 16, 1941

Summary

(1) The general price level is still rising. The BLS all-commodity index in the week ended August 9 rose 0.4 point to 89.6. This is the highest level reached by the index since the spring of 1930 and represents a gain of 20 percent since mid-August 1939, shortly before the outbreak of the war.

(2) Retail trade is booming as a result of enlarged public purchasing power and scare buying. Department store, variety store and rural sales on a seasonally-adjusted basis all moved up sharply to new highs in July. Department store sales in the first week in August jumped 46 percent above year-earlier levels.

(3) Despite a rise in receipts of export freight, light-erage freight in storage and on hand for unloading in New York harbor has declined substantially since the end of May, owing to a larger volume of exports. The burden on piers in New York harbor is reported to have been reduced by cutting down on free time allowed import cargoes, and by more stringently regulating deliveries of export freight.

(4) The steel industry is still greatly concerned over the shortage of steel scrap. Steel operations during the current week are scheduled to rise 0.7 point to 98.2 percent of capacity. This rate, however, is still 1.4 point below that prevailing at the end of July.

(5) Weekly indexes of business activity have declined for the second consecutive week. The New York Times index of business activity in the week ended August 9 dropped 1.1 point to 131.0. This figure compares with the record high of 133.3 reached in the fourth week in July.

- - - - -

- 2 -

BLS all-commodity index still rising

Despite the establishment of price ceilings on a widening number of commodities, the BLS all-commodity index of wholesale prices (nearly 900 commodities) continued its extended rise in the week ended August 9 with a further gain of 0.4 point, which carried the index up to 89.6. This is the highest level reached by the index since the spring of 1930, and the rise from mid-August 1939, shortly before the outbreak of the war, now amounts to 20 percent.

The breadth of the rising trend of commodity prices is again evidenced by the fact that 9 of the 10 major groups comprising the index advanced. The largest gains were shown by the building materials and miscellaneous groups, both of which rose slightly less than 1 percent. In the building materials group, average lumber prices reached an 18-year peak. A ceiling price was fixed by OPACS on Southern pine lumber at the end of last week, and ceiling prices on Douglas fir are expected soon.

Import commodities lower

The BLS index of 11 import commodities reached a peak around the beginning of August and has since declined approximately 2.4 percent, due principally to substantial decreases in silk and burlap prices. (See Chart 1.) Silk prices dropped when OPACS imposed a price ceiling 14 percent below the price prevailing when trading was halted late in July. Burlap prices have been sagging in anticipation of the imposing of a price ceiling below recent market levels. At the end of the week, OPACS fixed a price ceiling on burlap approximately 20 percent below the New York spot market price. In contrast with the declines in silk and burlap prices, sugar was moving higher until the middle of last week when a price ceiling of 3.5 cents a pound, duty paid, was suddenly fixed on raw sugar. This move was followed by the suspension of trading in domestic sugar futures.

Wheat bolsters domestic commodity group

Although import commodities as a group have declined since the beginning of the month, domestic commodities have shown a firmer tendency. As will be seen by referring to the lower section of Chart 1, the widest advance during this

- 3 -

period has been scored by wheat. Recent legislative developments have been a major factor in the upturn in wheat prices. These have included the incorporation of a provision in the pending price control bill prohibiting price ceilings on farm commodities below 110 percent of parity, and the passage by Congress of a bill designed to freeze Government loan stocks of wheat and cotton.

During the early part of the week, the Crop Reporting Board released its estimate of the 1941 wheat crop, based on August 1 condition. This revealed an increase of 27,000,000 bushels over the July 1 estimate, and on this basis the crop would be the largest since 1919. The estimate for 1941 is 16 percent above the crop actually harvested in 1940. The publication of the Government estimate was followed by a moderate price decline which was more than regained in the following market session.

Retail trade booming

Stimulated by increased public purchasing power and more recently by some "scare buying", retail trade has been unusually active this summer. Thus, the FRB seasonally-adjusted index of department store sales in July rose 9 percent above the previous month (see Chart 2, top section) and came within 1 point of the 1929 high reached in September of that year.

On top of the strong July showing, department store sales scored further gains in the early part of the current month. Estimated sales in the week ended August 9 widened their gain over year-earlier levels to no less than 46 percent. (See Chart 3.) All districts of the country showed wide increases with the gains in the Boston and Richmond districts amounting to 61 and 60 percent, respectively.

Part of the upsurge in consumer buying has been attributed to fears of shortages in such items as silk stockings and various kinds of household goods and appliances. Among other items, heavy sales of refrigerators have been reported recently by some large stores in the New York area. Anticipatory buying has undoubtedly been going on recently in this and related household appliance lines, in view of impending curtailments in production. The National Electrical Manufacturers Association revealed recently that domestic sales of refrigerators in the first half of 1941 were 36 percent above year-earlier levels, while the gain for other major appliances during the same period was as much as 40 percent.

Variety store sales in July were more than 14 percent above the corresponding month in 1940, and the seasonally-adjusted index moved up to a new high. (Refer to Chart 2, lower left section.)

Rural sales sharply higher

The strong showing of department store and variety store sales in July was more than matched by rural chain store and mail order sales, which on a seasonally-adjusted basis made an unusually sharp rise to a new high. (Refer to Chart 2, right section.) Rural retail sales normally show a sharp drop from June to July, but this year the decline was limited to small proportions, with the result that the adjusted index rose nearly 17 percent. The gain in sales over July 1940 was no less than 44 percent. Rural sales have been stimulated, of course, by the rise in farm income, which moved substantially above year-earlier levels in March and has since widened its gains. By June, the latest month for which figures are available, farm income (including rental and benefit payments) was running 35 percent above the 1940 level.

Export freight at new high

Freight for export (exclusive of grains) unloaded at Atlantic, Gulf and Pacific ports in July reached the highest level since the Association of American Railroads began compiling such statistics in November 1939. The total of nearly 55,000 cars was 10 percent higher than in July 1940.

Carloadings received at New York for export have shown a rising trend in recent months, although weekly loadings have sagged off somewhat from the recent high reached immediately after the sharp drop over the July 4 holiday. (See Chart 4, lower section.) Actual exports, however, also have been increasing and, particularly in the past few weeks, have run ahead of receipts for export. (Refer to Chart 4, upper section.) As a result, lighterage freight in storage and on hand for unloading in New York harbor has declined substantially from the high point prevailing around the end of May. (See Chart 5.)

According to the latest port survey of the North Atlantic district office of the Maritime Commission, a drastic reduction in the burden on piers in New York harbor has been effected. This has been accomplished by cutting down on the

- 5 -

free time allowed to import cargo on piers after discharge from ships, and by regulating more stringently the delivery of export cargo to docks before loading.

The Association of American Railroads stated recently that notwithstanding the heavy movement of export freight through the North Atlantic ports, there were ample railroad storage facilities at all ports. The Association has recently indicated, however, that because the terminal elevators were filled, no more grain could be moved for storage at Philadelphia and Baltimore on the Atlantic coast and at the Puget Sound and Columbia River ports in the Northwest.

Steel industry executives studying recent priorities orders

The recent orders of the OPM placing all producers of pig iron and steel under full priorities control have been engaging the attention of steel executives during the past week. According to the Iron Age, unprecedented confusion is building up in the pig iron industry as consumers and producers attempt to readjust their activities to the priorities control order. A large part of the confusion is said to have arisen from the short time available to digest the order and adjust activities to its requirements. In view of this fact, the OPM has already extended the deadline for certain requested reports.

Steps taken to increase scrap supply

The shortage of steel scrap continues to be one of the most serious problems of the steel industry, and various measures designed to increase the scrap supply are being advocated by defense officials and company executives. Thus the Federal Transportation Commissioner has stated that a plan is under consideration to have the WPA take up rails from abandoned street car and railroad lines. Various steel companies have instituted community scrap collecting drives. In addition, the railroads, one of the principal sources of scrap supply, have been asked to check equipment, buildings, etc., and to dismantle promptly property no longer needed for actual operations. OPACS has again made minor revisions in the price schedule covering iron and steel scrap, permitting higher prices on some secondary items in certain areas.

Steel operations last week declined 0.8 point to 97.5 percent of capacity, but the loss will be almost completely regained during the current week as operations are scheduled at 98.2 percent. This rate, however, is still 1.4 points

- 6 -

below that prevailing at the end of last month. The slightly lower level of operations recently has been attributed largely to the shortage of steel scrap.

New orders index lower

Due to a further decline in textile orders, our index of new orders in the week ended August 9 fell about 4 percent below the previous week. (See Chart 6.) New orders for steel showed a moderate increase and amounted to 123 percent of capacity as compared with 119 percent in the previous week. Orders for products other than steel and textiles in the aggregate also rose moderately.

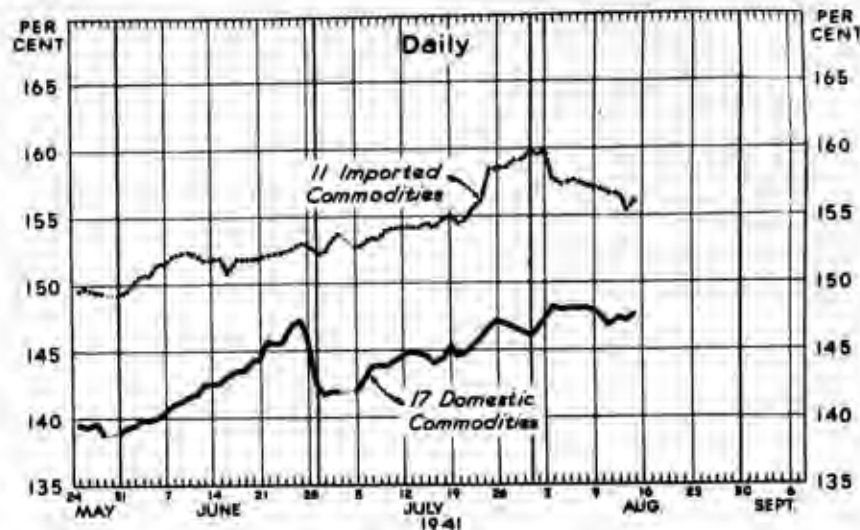
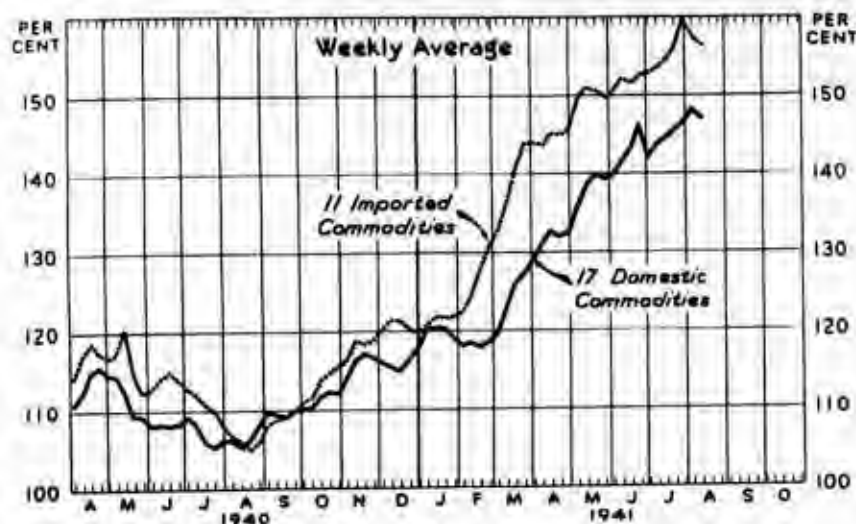
Weekly business indexes lower

The New York Times index of business activity showed a further decline of 1.1 point in the week ended August 9 and as a result the index dropped to 131.0. This is 2.3 points below the recent high reached in the fourth week in July. The decline in the Times index was confirmed by Barron's index of business activity, which fell 1.0 point to 139.2.

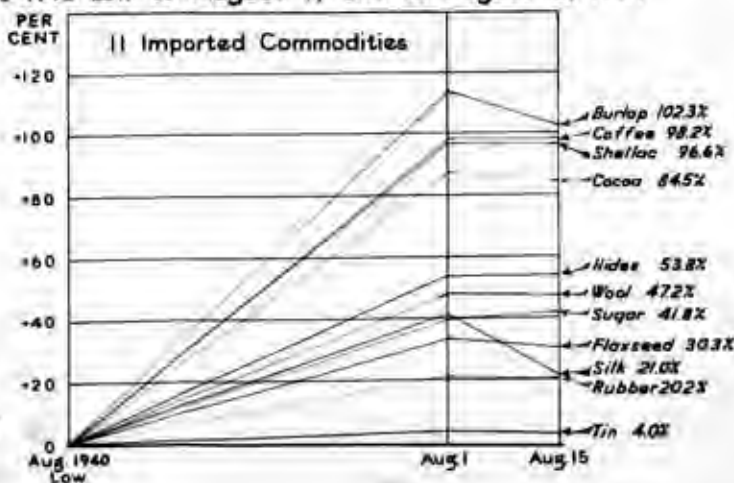
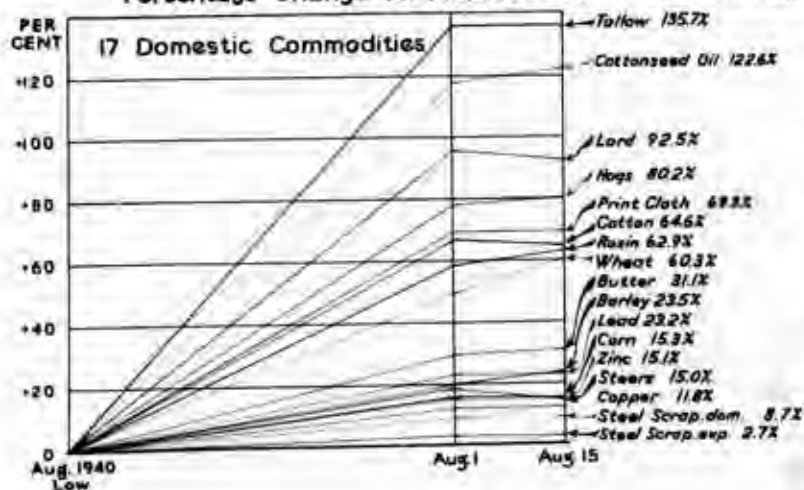
The decrease in the Times index was due largely to contra-seasonal decreases in cotton mill activity and electric power output. However, only two components of the index, lumber and paperboard production, showed gains after allowance for seasonal factors.

MOVEMENT OF BASIC COMMODITY PRICES Domestic and Imported

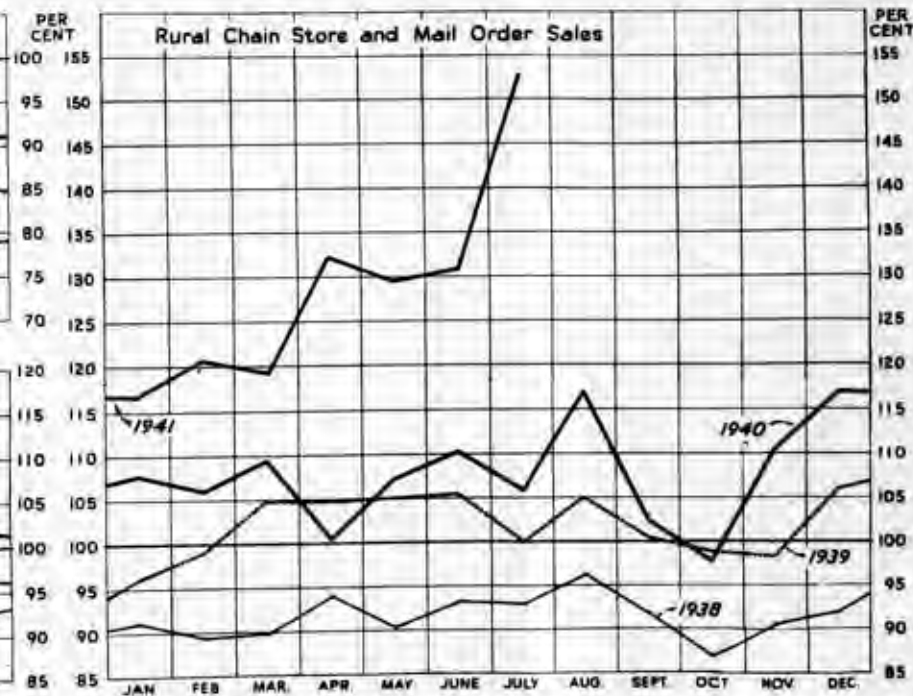
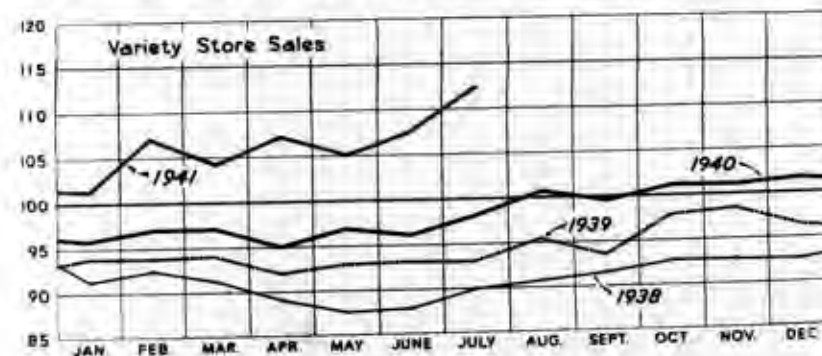
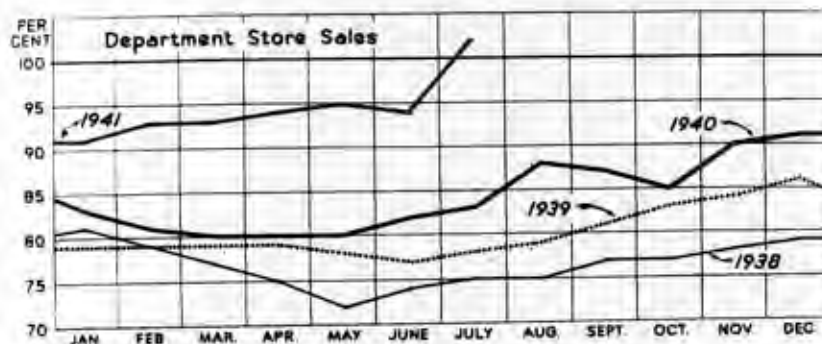
AUGUST 1939 = 100



Percentage Change for Individual Commodities, August 1940 Low to August 1, and to August 15, 1941

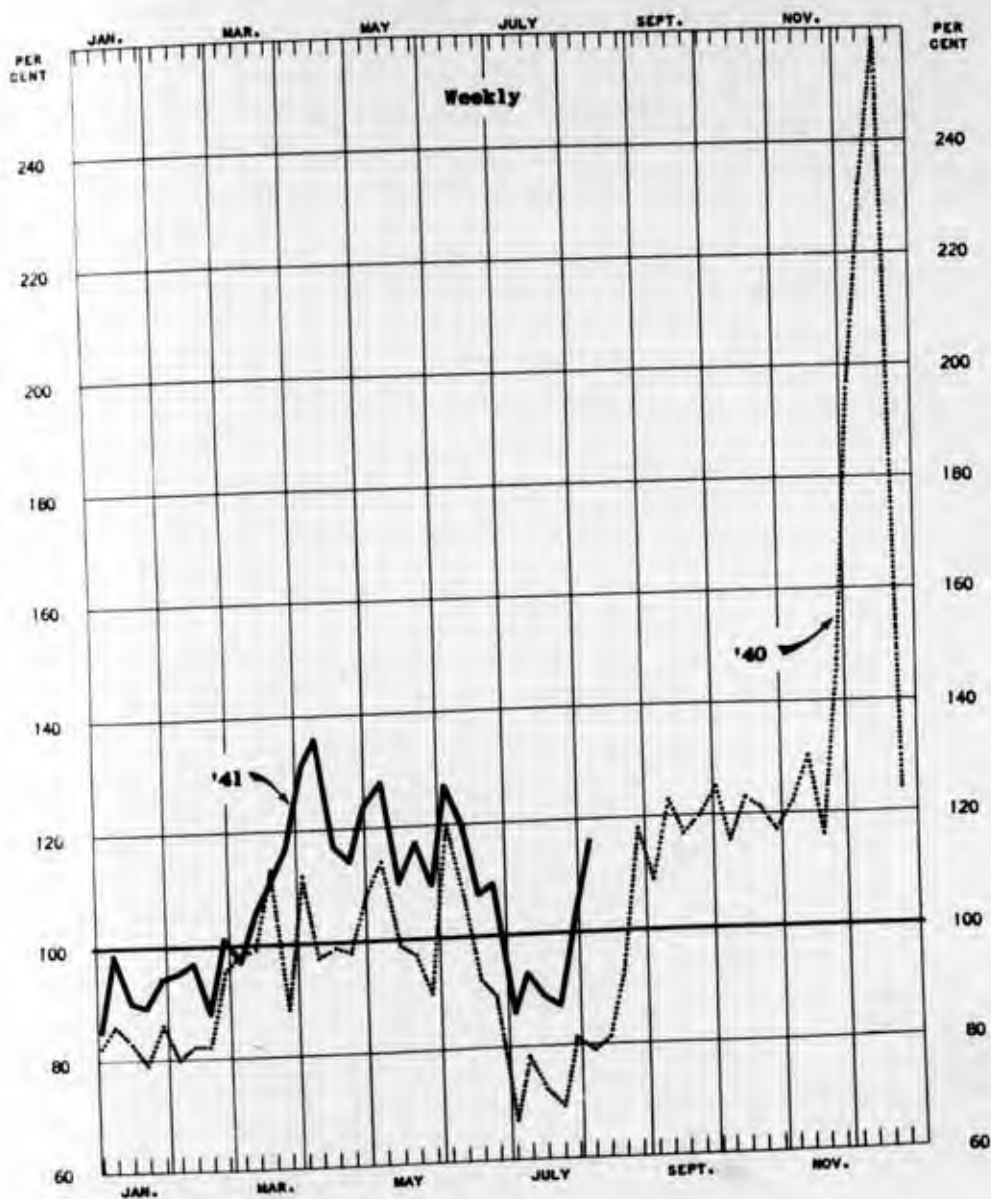


RETAIL TRADE Urban and Rural Sales of General Merchandise 1929 = 100, ADJUSTED

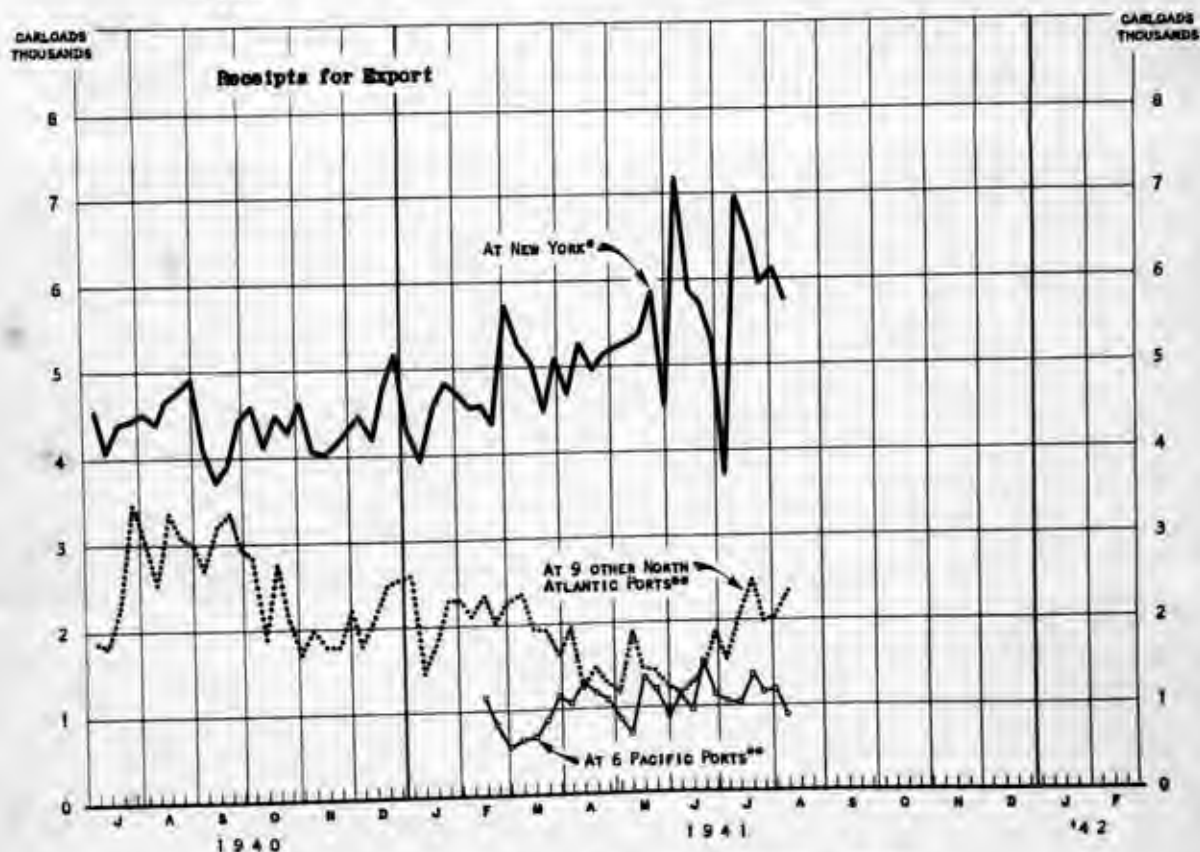
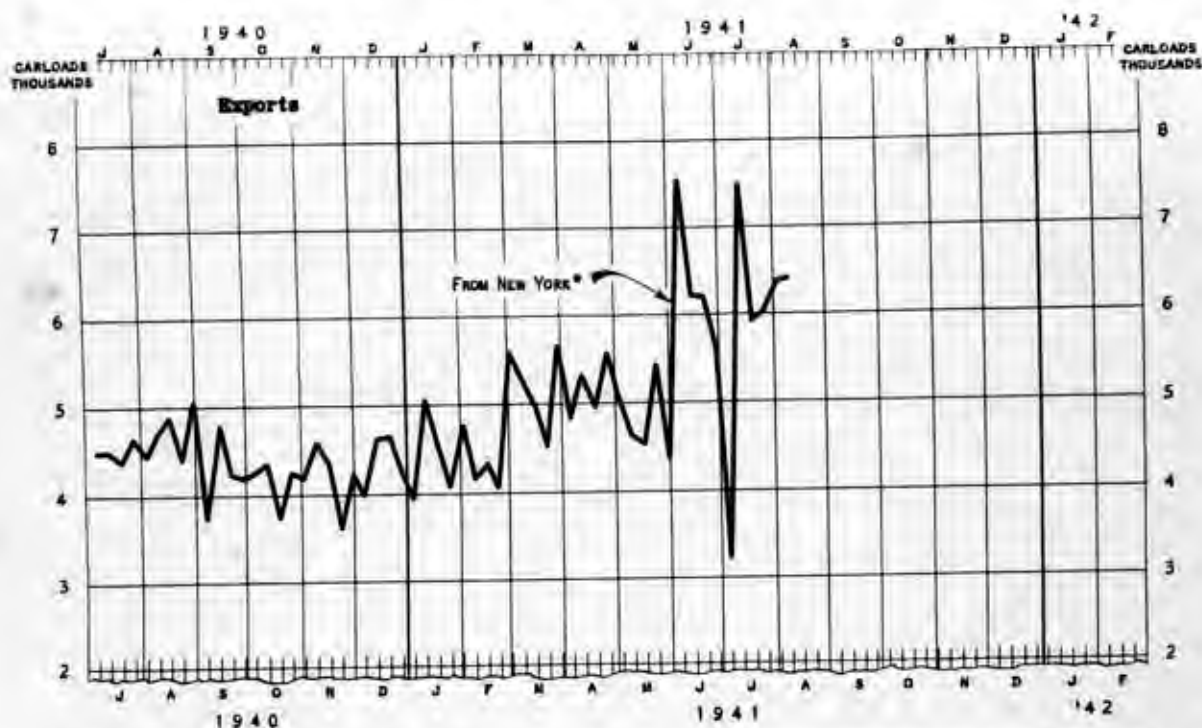


DEPARTMENT STORE SALES

1935 - '39 = 100, UNADJUSTED

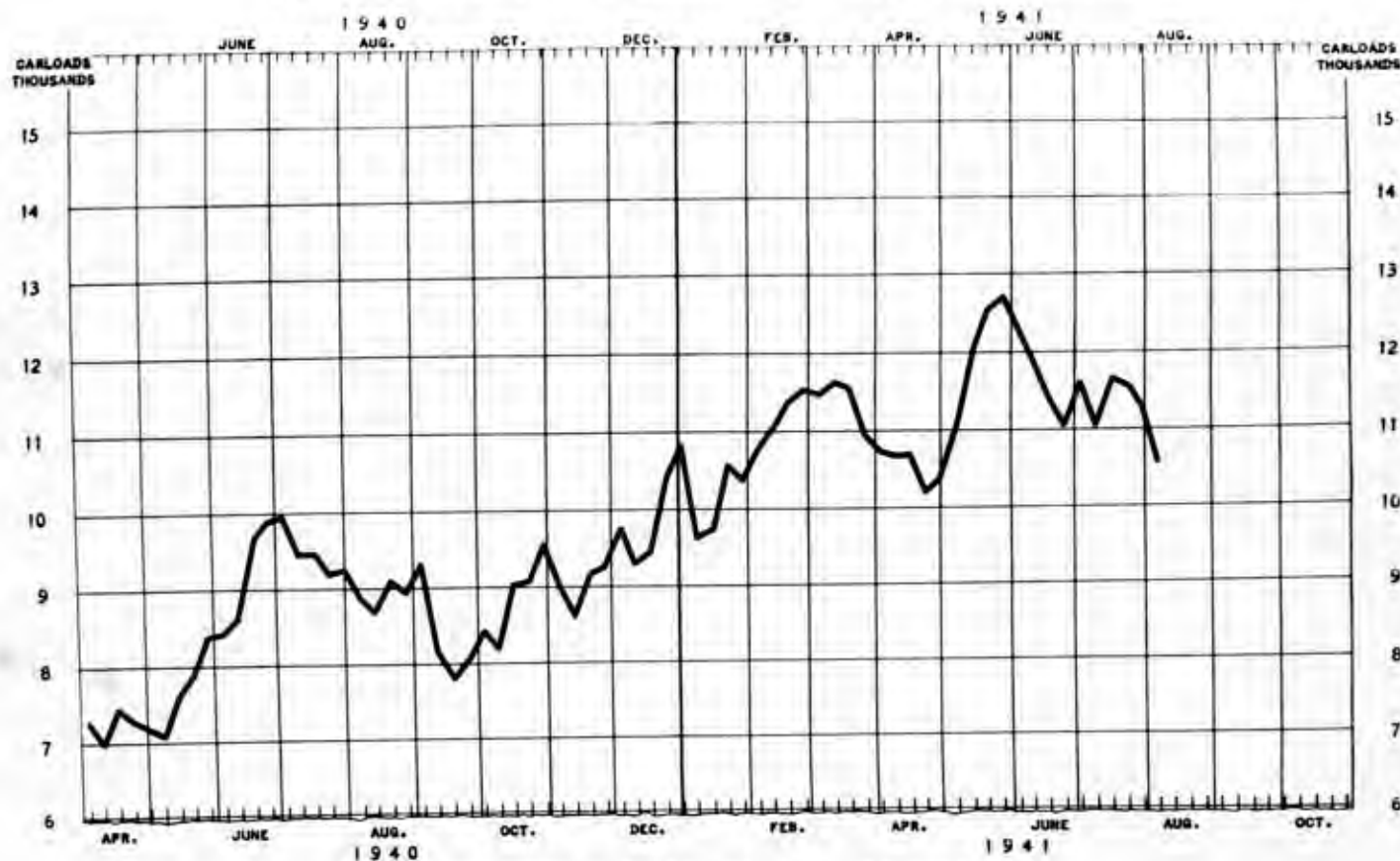


EXPORT FREIGHT MOVEMENT



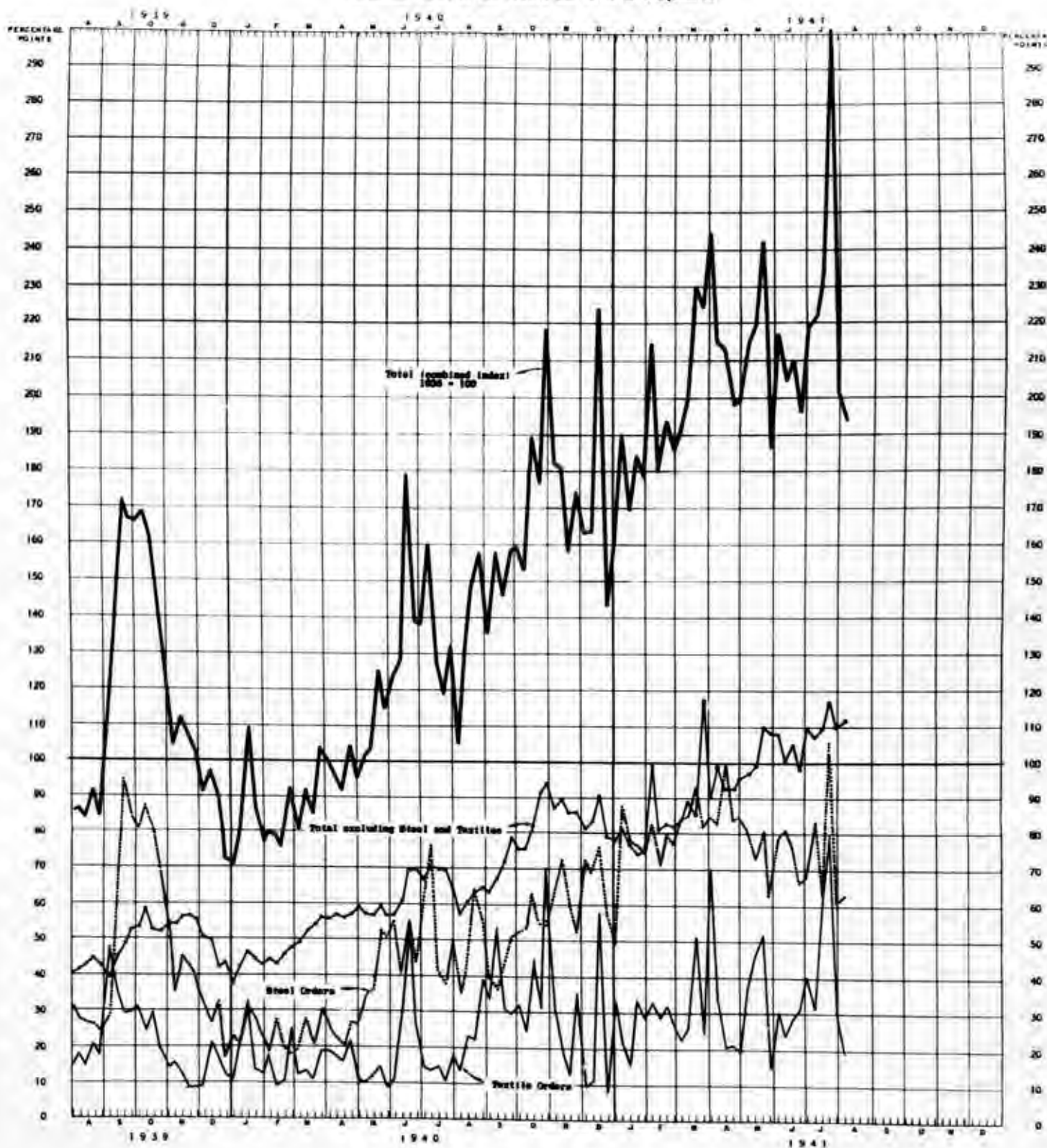
*AS ESTIMATED FROM DATA OF GENERAL MANAGERS' ASSOCIATION OF NEW YORK.
 **ASSOCIATION OF AMERICAN RAILROADS.

LIGHTERAGE FREIGHT IN STORAGE AND ON HAND FOR UNLOADING IN NEW YORK HARBOR*



* LARGELY EXPORT FREIGHT, BUT ABOUT 10% REPRESENTS FREIGHT FOR LOCAL AND COASTAL SHIPMENT. FIGURES EXCLUDE GRAIN.

INDEXES OF NEW ORDERS
Combined Index of New Orders and Selected Components



22 Jan Hight - Ben Hark
8/20/41.

9/2 - Feb -
Henry
48

London, August 18, 1941.

My dear Mr. Secretary:

Thank you very much for your letter of August 7th saying that you are sending band arrangements of Irving Berlin's new songs. I shall be glad to see that they reach the best British bandmasters.

Sincerely,

John F. Kennedy

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

C
O
P
Y

49

DEPARTMENT OF STATE
WASHINGTON

August 18, 1941.

Dear Merle:

I have to enclose, in accordance with our telephone conversation a copy of a paraphrase of Mr. Winant's telegram concerning Coe.

As requested by you also, there is enclosed a letter appointing Mr. Casaday a Special Assistant to the Ambassador.

Sincerely yours,

/s/ John G. Erhardt, Chief,

John G. Erhardt, Chief,
Division of Foreign Service Personnel.

Enclosures:
Paraphrase and
letter of ap-
pointment of
Mr. Casaday.

H. Merle Cochran, Esquire,
Treasury Department,
Washington.

COPY:wec:8-19-41

C
O
P
Y

PARAPHRASE OF A CABLE RECEIVED FROM LONDON

DATED AUGUST 16, 1941.

Mr. Winant, in reply to Mr. Shaw's recent telegram says he appreciates why Secretary Morgenthau wants Coe to return and is pleased to accept as a replacement Mr. Casaday. He will be personally sorry to see Mr. Coe go, since the latter has been very helpful.

COPY:mew 8/19/41

DEPARTMENT OF STATE

WASHINGTON

August 18, 1941.

In reply refer to
FA

Mr. Lauren W. Secord,
Care of the Treasury Department,
Washington, D. C.

Sir:

You are hereby appointed Special Assistant to the American Ambassador to Great Britain for such period of time as may be necessary for the performance of the duties to which you will be assigned.

If you will inform the Department of State of the date of your contemplated departure for London, it will make the necessary arrangements for priority in connection with your air travel from New York to London.

Very truly yours,

For the Secretary of State:

(Signed) Breckinridge Long
Assistant Secretary

COPY - dm - 8/19/41

A23

52

MEMORANDUM

FROM British Supply Council in North America

TO Mrs. Henrietta Klotz

Compliments of E.N. Gray

STATEMENT NO. 28AIRCRAFT SHIPPED TO U. K. AND OVERSEAS COMMANDS

TYPE	DESTINATION	ASSEMBLY POINT	By Sea during Week ending July 26, 1941.	By Air during Week ending August 17, 1941.
<u>BELL</u> Airacobra	U. K.	U. K.	5	—
<u>CURTISS</u> Tomahawk	Middle East	Port Sudan	7	—
<u>UNITED</u> Chesapeake	U. K.	U. K.	2	—
<u>DOUGLAS</u> Boston III	U. K. Middle East	U. K. Port Sudan	17 6	— —
<u>LOCKHEED</u> Hudson III	U. K.	U. K. (via Gander)	—	24
TOTALS			37	24

British Air Commission,
August 18, 1941.

AUGUST 18, 1941

The President announced today an important step to speed delivery of planes direct to the British forces in the Middle East.

Agreements have been concluded under which the Pan American Airways System will ferry aircraft from the United States to West Africa, and will then ferry those planes on to the Middle East.

In connection with the ferry system Pan American Airways is establishing an air transport service from West Africa to the Middle East and plans are under way for a transport service from the United States to West Africa. Planes owned by the United States Government will be used by Pan American and they will be operated by American personnel. The route of delivery is so arranged that it will nowhere pass through the zone of actual warfare.

The transport services will supplement the ferry system by returning ferry personnel and carrying spare plane parts and items essential to effective delivery of aircraft to the Middle East. The route will also be available for general commercial use, providing direct air service from New York or Baltimore to Africa.

The ferry system and the transport services provide direct and speedy delivery of aircraft from the "arsenal of democracy" to a critical point in the front against aggression. The importance of this direct line of communication between our country and strategic outposts in Africa cannot be overestimated.

Miss Chauncey

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 18, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

	No. of Shares Sold	\$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	\$ Proceeds of Bonds Sold
Aug. 11	7,859	174,256	23,000	15,277
12	15,115	345,450	8,000	7,301
13	8,107	234,140	23,000	23,724
14	5,105	126,787	17,000	14,158
15	681	12,428	28,000	30,280
16	100	6,816	Nil	Nil
	<u>36,967</u>	<u>899,877</u>	<u>99,000</u>	<u>90,740</u>
Gift to Treasury	5	13		
Sales from Feb. 22, 1940 to Aug. 9, 1941	<u>9,706,167-1/2</u>	<u>277,513,939</u>	<u>44,685,216</u>	<u>36,719,322</u>
Total Feb. 22, 1940 to Aug. 16, 1941	<u>9,743,139-1/2</u>	<u>278,413,829</u>	<u>44,784,216</u>	<u>36,810,062</u>
Aug. 13	407 rights sold for		\$ 482	
July 24 to Aug. 9, 1941	<u>54,600</u>	" "	<u>101,335</u>	
Total July 24 to Aug. 16	<u>55,007</u>	" "	<u>\$ 101,817</u>	

Miss Chauncey

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 18, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

	\$ proceeds of Shares Sold	\$ Proceeds of Bonds Sold	Total	
Aug. 11	174,256	15,277	189,533	
12	345,450	7,301	352,751	
13	234,140	23,724	257,864	
14	126,787	14,158	140,945	
15	12,428	30,280	42,708	
16	6,816	Nil	6,816	
	<u>899,877</u>	<u>90,740</u>	<u>990,617</u>	
Gift to Treasury	13		13	
Sales from				
Feb. 22, 1940 to				
Aug. 9, 1941	<u>277,513,939</u>	<u>36,719,322</u>	<u>314,233,261</u>	
Total				
Feb. 22, 1940 to				
Aug. 16, 1941	<u>278,413,829</u>	<u>36,810,062</u>	<u>315,223,891</u>	315,223,891
\$ proceeds of non-vested securities sold			500,000	
Aug. 4, 1941 to Aug. 9, 1941				
\$ proceeds of non-vested securities sold			230,700,000	
Sept. 1, 1939 to Aug. 2, 1941				
\$ proceeds of non-vested securities sold			231,200,000	231,200,000
Sept. 1, 1939 to Aug. 9, 1941				
			<u>GRAND TOTAL</u>	<u>546,423,891</u>
Aug. 13	407 rights sold for	\$	482	
July 24 to Aug. 9, 1941	<u>54,600</u>	" " "	<u>101,335</u>	
Total July 24 to Aug. 16	<u>55,007</u>	" " "	<u>\$ 101,817</u>	



EJ

PLAIN

London

Dated August 18, 1941

Rec'd 11:32 a.m.

Secretary of State,
Washington.

3699, Eighteenth.

FOR TREASURY

A British Treasury order vesting five Canadian securities with delivery date September 15th and payment date October 6th has been issued. The securities are Dominion 4% 1953-58; 3-1/2% 1950-55; 3-1/4% 1958-63; Ontario 4 1/2% 1945-65; and 4% 1953-58; 3-1/2% 1950-55; 3-1/4% 1958-63; Ontario 4-1/2% 1945-65; and 4% 1947, the aggregate outstanding of which amounts to about £35-1/2 million. This vesting order which amounts in effect, like earlier vestings of Canadian and of Indian securities, to repayment before maturity, reduces Canada's debt to the United Kingdom to little more than £11 million (£1 million Dominion 2 1/2% inscribed stock 1947 and several provincial stocks aggregating about £10 million.) The financial editor of the MANCHESTER GUARDIAN points out the revolution thus taking place in the creditor-debtor position between the United Kingdom and Dominions (though shipping

-2- #3699, August 18, from London

though shipping difficulties will doubtless limit the movement in the case of Australia and New Zealand) and says "the Dominions will have gained more real independence, but those which depend on the United Kingdom market may find this a mixed blessing. Canada may well turn from debtor to creditor and will then have to take more United Kingdom goods. What this will mean for Imperial political relations can at this time not even be guessed but it is as well to realize the revolution that is taking place."

WINANT

HPD

C
O
P
YDEPARTMENT OF STATE
WashingtonIn reply refer to
EA

August 18, 1941.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses six copies of telegram No. 192, dated August 15, 1941, 5 p.m., to the American Embassy at Chungking, China, transmitting a message for Mr. A. Manuel Fox from the Secretary of the Treasury.

Enclosure:

To Embassy, Chungking,
No. 192, August 15, 1941.

Copy:lg 8/18/41

COPY

TELEGRAM SENT

GRAY

August 15, 1941, 5 p.m.

AMEMBASSY,

CHUNGKING, VIA N.R.

192.

FOR FOX FROM THE SECRETARY OF THE TREASURY.

Refer memorandum things to be done handed to you May 26.
Please confirm by cable and have Chinese Government cable to its
Ambassador that action referred to in paragraphs 1, 2, and 3 of
memorandum has been taken and that documents are being forwarded
if such is the fact.

HULL
(FL)

EA:FL:PAK

Copy:lg 8/18/41

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China, via N.A.

DATE: August 18, 1941, 11 a.m.

NO.: 384

STRICTLY CONFIDENTIAL.

FOR THE SECRETARY OF THE TREASURY FROM FOX.

The Board was officially organized on the thirteenth of August. Due to the bad situation which prevails in Hong Kong and Shanghai, the Board has sent Hall-Patch, Hsi, and Pei to Hong Kong, and Hall-Patch on to Shanghai.

While in Hong Kong, the members of the Board will hold two meetings on Sunday. The first meeting will be with representatives of the banks which are named in general licenses 59, 60, and 61. The second meeting will be with the representatives of other banks.

In order that the rapid deterioration of the financial condition might be checked, the members of the Board have been required to offer cover of U.S. dollars for legitimate trade operations under certain conditions but at a rate which is not to exceed that which prevailed on the day that the freezing was made. It is expected that this will require between 8,000,000 and 10,000,000 U.S. dollars. The balance of fund A is to be used to supply sterling; such balance being some 800,000 pounds.

The decrees which was made available to the Board at the last moment was found to be unsatisfactory. Therefore, the trip to Hong Kong was postponed until the matter was cleared

-2-

cleared up. At the meeting of the Board on Saturday morning with Dr. Kung, a satisfactory compromise was effected in time for the members of the Board to catch the plane. This was against the opposition of Prime Minister Koo and political Prime Minister Yui.

A satisfactory conference was held with Generalissimo on August 13. He approved of the recent procedure of the Board and the trip of the Board members. Because of the almost continuous air raids, he gave them priority on the first plane leaving Chungking in a week.

Copies of the agreements and the accompanying letters were furnished to the Minister of Finance and the four Government banks officially by the Board. Dr. Kung claims that this provided him with the first good opportunity to examine the letters which were exchanged on April 23. At the present time, Dr. Kung is willing for the agency to be established.

At the present time, progress is rather slow in the formulation of plans for exchange control and there seems to be some confusion as to the form of such. This uncertainty is an important factor in the bad situation which prevails in Shanghai and Hong Kong.

It is my understanding that a plan is being formulated which provides for an agency of about twelve members. The Chairman is to be Dr. Kung and C. K. Yui is to be the Executive Secretary. A number of Ministry officials are
also

-3-

also to serve on agency, and three Chinese board members are to serve as ex-officio members. One of the two or three vice chairmanships was offered to E. F. Chen. However, he declined the offer.

Should the Treasury Department have any special ideas it would like to have incorporated, I would appreciate receiving such instructions as soon as possible. It is easier for me to influence action in formative period of plans for agency than it will be later to try to influence such. It is my understanding that the British are awaiting details of exchange control before definite plans are formulated for unfreezing.

Chinese Nationals are at a disadvantage and in an uncertain status by the placing of Hong Kong in the sterling area and the freezing of Chinese funds by the United States. A correction of the situation could be made by issuing a general license to Chinese nationals in Hong Kong. In order to meet the situation, it would seem feasible for some type of satisfactory plan to be worked out between the United Kingdom Treasuries and the United States in Washington.

If I could receive (within a reasonable period) a reply to the inquiries which I made a few weeks ago as to the possibility of securing observers for Hong Kong and Shanghai from Washington, it would be helpful in making plans for Taylor and Freese.

I am furnishing Dr. Kung with one of the photostatic copies, received from Cochran, of the June 30th supplemental agreement.

-4-

agreement.

During the discussion on Saturday, Dr. Kung disclosed the fact that he never liked the terms of the agreement of April 1. He is also beginning to manifest an interest in the possibilities of having the U.S. increase its contribution to the stabilization fund, at some future time. I also learned that an inquiry has been made of Dr. Kung by T. V. Soong as to whether or not an American secretary has been approved for me by him. Even though I had never discussed this subject with Dr. Kung, K. P. Chen (?), it is my understanding that his approval was promptly telegraphed. At the present time, I am without any assistance.

It is my understanding that severe criticism is being directed against the United States general licenses. This is due to the fact that three licenses have been issued to three Saxon banks and one to obscure Russian bank; reputable, long-established private commercial Chinese banks have been issued no licenses.

The Minister of Economics, at a recent conference, made the statement that the rice crop was good, rice prices are already starting to decline, and he expects that they will decline further.

WV 108 13 35 15 03
GAUSS

KAIPAX
FL

NOTE: This message was badly mutilated
in transmission and had to be retransmitted
from Shanghai, thus causing the delay.

65

C
O
P
Y

66

TREASURY DEPARTMENT
UNITED STATES COAST GUARD
WASHINGTON

18 August, 1941.

SECRET

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

Message from Mr. Fox

The organizing and functioning of the board here is a most delicate matter. Aside from the physical difficulties to which I recently referred in cable through the State Department, there are others. There is unmistakable evidence that everything discussed in the board is quickly reported to Dr. Kung. Hell Patch reluctantly came to Chungking for a few days for organizing purposes. He is most persistent on proceeding to Shanghai. I understand Dr. Kung is to be present at the board's initial official meeting and will probably make the inauguration speech. The Finance Ministry is drafting exchange control regulations without first consulting the board. I understand that it is being done by Vice-minister Y. C. Koo. Control undoubtedly will be centered in finance minister. Delay in promulgating information on exchange control procedure is apparently disturbing financial markets. Dr. Kung appears flushed with victory in the Rogers matter. I am doing everything I can to support K. P. Chen as chairman of the board. Fortunately, Dr. Chi's services have been secured for three to six months. He will be a distinct help. There is much emotion over the wide powers given to the Central Bank of China through general licenses. I understand there is much political maneuvering among Postal Savings and other banks to secure some of the benefits this power gives Central Bank. This bank is sharply criticized by many economists and others. It does not appear to commend

- 2 -

general confidence. I understand it is not as well organized and staffed as other government and private banks. The Board hesitates to engage in general economic studies regarding suggestions for needed improvements for rehabilitation. Proper economic studies by foreign group may be able to effectuate some change. It would seem that without outside influence and pressure there is little hope for improvement. I am not certain of the advisability of joint Anglo-American help in such an undertaking. It seems to me that the present uncertainty in Shanghai and Hongkong occasioned by the recent freezing of Chinese funds is caused in a large part by yet unofficial appointment by Treasury of Far East administrator or inspector of frozen funds operating together with one or two assistants to be stationed at Shanghai and possibly Hongkong.

The friendly freezing of Chinese funds has been well received. At present I am satisfied with my progress here and possibilities for the future, although progress is slow and patience necessary.

S E C R E T

C O P Y

TEM

PLAIN

Mukden via Peiping
and N.R.

Dated August 18, 1941

Rec'd 7:45 a.m. 20th

Secretary of State,
Washington.

20, August 18.

Reference my 18, August fourteenth.

The Central Bank has today informed this office that effective immediately no (repeat no) bank withdrawals of any amount (repeat any) may be made without specific license.

Sent to the Department, repeated to Chungking, Shanghai, Tientsin.

KRENTZ

NPL

Copy:bj:8-21-41

C
O
P
Y

69

PLAIN

Tokyo via Shanghai & NR

Dated August 18, 1941.

Rec'd 9:55 p.m., 23d

Secretary of State,
Washington.

"38, August 18th.

Japanese press continues emphasize economic encirclement by American and British in form freezing orders and export bans and Japan's preparedness against all eventualities. Press also stresses urgency establishment co-prosperity sphere and self-sufficiency within this sphere. Business financial leaders evidenced growing concern over Japan-American relations upon receipt reports conference between President Roosevelt and Prime Minister Churchill. Japan's isolated position further emphasized by return several passenger and cargo ships from Pacific coast areas without entering American ports or discharging cargo. All foreign trade business outside yen block remains absolute standstill with no early prospects improvement. In meantime domestic prices continue rise and scarcity foodstuffs intensified by new control measures and

-2- No. 38, August 18, 1941, from Tokyo via Shanghai and NR.

extensive flood damages throughout country to crop and transportation facilities. Several new ordinances issued past week alleviating freezing regulations. One ordinance excepted diplomatic representatives Britain, Australia, Canada and three partially owned British companies from freezing rules. Another exempted from permit requirements distribution petroleum, payment royalties on foreign motion picture film, settlement accounts for goods bought or sold before freezing order enforced, receipt or delivery of bills of lading on imported cargo from or to foreign steamship companies and receipt by persons engaged in communications or transportation business of fares of freightage from designated foreigner or keep baggage for designated foreigner. Persons despatched to Japan by Indian Government to conduct trade matters also exempted from treatment accorded designated foreigners. However, foreign banks remained virtually closed with no provisions yet made for Americans, even Government officials, to withdraw funds or transact foreign exchange business for personal or business requirements. Foreign exchange market stagnant, rates unchanged.

Money market quiet with Bank Japan note issue sixteenth four one three zero one nine two thousand yen advance three seven eight one nine thousand over ninth. Stock exchange dull with prices fluctuating very narrow limits. Market undertone extremely cautious reflecting grave concern over international situation. Cotton cloth market weak. Silk market quiet with price tendency downward. Business limited unloading by exporters to domestic consumers. Stocks accumulating at rate of from seven hundred to eight hundred bales daily. Exporters reportedly requesting Government sponsored Silk Control Company purchase export silk as price has fallen below domestic consumption product. This request refused but authorities contemplating increasing issuance tickets domestic consumption silk. Natural decrease production summer autumn cocoons considered inevitable also use larger quantities cocoons for short fiber output. Nevertheless industry facing serious disorganization from stoppage export U.S.A. Ministry Agriculture promulgating two ordinances fifteenth permitting more extensive use silkworm pupa and silk short fibers for domestic consumption. Press reports

-4- No. 38, August 18, 1941, from Tokyo via Shanghai and NR.

French Indochina announced twelfth ban all exports except those destined Japan. Press also claims cancellation export licenses already granted by British Empire and extension new license system covering goods hitherto exempt will have little effect Japan's economy. Fourteen vegetables and fruits have been allotted quota shipping space from producing districts to large consuming areas with idea alleviating current shortage in large cities. Government increased official rice purchase price by one yen to yen forty four per koku, has announced grant five yen per koku to producers of rice sold to Government and through reclassification rice grades will add another yen to purchase price making total yen fifty per koku. Government's official rice selling price will remain at yen forty three per koku. New purchase price highest since nineteen twenty. This arrangement exemplifies Government's adoption double price system of permitting higher prices on such commodities as will not affect price general commodities by means subsidies or bonuses. Craft imperial decree approved eleventh subjecting ship repairing charges, landing and loading expenses and

-5- No. 38, August 18, 1941, from Tokyo via Shanghai and NR.

marine transportation commissions to license system and fixed rates. Press announced Government appropriation yen five hundred million to compensate losses incurred by Japanese subjects from assets frozen in U.S.A. and British Empire. Foreign branches Yokohama Specie Bank probably will be ordered purchase such frozen assets consisting foreign currency or exchange, securities and immovable property. Ministry Finance announced yen four one half billion increase national savings April-June term representing gain one point one billion yen consamer. Ministry Commerce decided increase buying prices copper by forty percent to yen one nine eight per one hundred kilograms and wholesale selling price by thirty three percent to yen one eight zero. Bill clearings July numbered one eight seven three thousand value six billion yen increase one seven zero thousand and yen five five nine million comp June but decline forty nine thousand and gain yen seven five two million consamer. Bank Japan wholesale price index July three three four point one gain zero point nine percent comp June and nine point two percent consamer. Of one one zero articles investigated ten rose and seven five fell. Domei reports

-6- No.. 38, August 18., 1941, from Tokyo via Shanghai and NR.

Bank Japan net profit read million yen first half current year thirty point two increase seven over previous half and ten consamer attributed entirely larger interest payments on national bonds. Heavy decreases occurred regular interest and discount accounts reflecting dwindling foreign trade and reduction loan amounts. Government decided increase such indirect taxes as amusement, restaurant, luxury and consumption effective October this year. Increased tax revenue yen one two zero million expected for October-March term current fiscal year and yen three hundred million for first twelve months term in force. Following successful issue yen ten million Government one yen bond further lot five million yen will be placed on sale August twenty-first for ten days. Industrial share prices sixteenth average seventy two point eighty nine index seventy five point forty three, weeks average seventy two point eighty two index seventy five point thirty seven. End. Signed Williams."

INFORM COMMERCE.

GREW.

EMB

Cory:dtg:8/27/41

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Santiago, Chile

DATE: August 16, 1941, 6 P.M.

NO.: 369

Reference is made to the Department's telegram of August 16, 6 P.M., no. 276. The Ambassador believes that Chilean banks hold at least \$300,000 in collections for account of Japanese. Normally, until a few months ago, National City Bank alone had an average of one million dollars for collection for Japanese. The Japanese have been diverting such business to Banco Germanico and Banco de Chile, and the National City Bank now has only \$119,000 in collections of this sort for Japanese account. National City Bank has been ordered not to remit collections made in dollars for Japanese to New York, but to transfer such collections to Banco de Chile. The Ambassador believes that such funds in New York deposits of Banco de Chile are not identified as Japanese.

Chilean authorities ought to be able to find out immediately the total of Japanese dollar collections now in hands of banks in Chile and also how many dollars banks in Chile are holding for Japanese accounts. The Ambassador suggests that a request from the Department to the Chilean Ambassador for the above-mentioned information might bring out some very useful facts.

Japanese might be required to use funds now in process of collection to pay for iodine in Osaka, in which case they could not purchase as large quantities of Chilean minerals because they

-2-

they would have fewer dollars with which to pay for them.

BOWERS

HTM

EA:CD

TO THE SECRETARY
TECHNICAL SERVICES
OFFICE OF THE

181 NOV 50 PM 2 58

181 NOV 50 DEPARTMENT
RECEIVED

For Miss Chauncey

TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE August 18, 1941.

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£36,000
Purchased from commercial concerns	£58,000

Open market sterling was finally quoted at 4.03-1/4. The only reported transaction consisted of £1,000 purchased from a commercial concern.

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

Canadian dollar	11% discount
Argentine peso (free)	.2382
Brasilian milreis (free)	.0505
Colombian peso	.5800
Mexican peso	.2070
Uruguayan peso (free)	.4375
Venezuelan bolivar	.2700
Cuban peso	1-1/8% discount

It was reported that the Chinese Stabilization Board at Chungking fixed a yuan-dollar exchange rate of 5-11/32¢ and a yuan-sterling rate of 3-3/16d, at which levels dollars and sterling would be furnished to legitimate importers. In Shanghai, the yuan was quoted nominally in the neighborhood of 5-1/8¢, as compared with the current low of 4-3/4¢ quoted on Saturday.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the South African Reserve Bank shipped \$3,498,000 in gold from South Africa to the New York agency of the Banque Belge pour l'Etranger for account of the Bank of the Belgian Congo, for sale to the New York Assay Office.

A price of 23-7/16d was again fixed in London for both spot and forward silver, equivalent to 42.55¢.

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

- 2 -

We made six purchases of new production silver totalling 325,000 ounces under the Silver Purchase Act, all of which was bought for forward delivery. Of this amount, 150,000 ounces came from Honduras, and the remaining 175,000 ounces from various foreign countries.

We also purchased 232,000 ounces of silver from the Bank of Canada under our regular monthly agreement. So far this month, we have bought 457,000 ounces from that source, as compared with the agreed monthly limit of 1,200,000 ounces.

A handwritten signature in dark ink, appearing to be 'J. M. S.', is centered on the page below the text.

BRITISH EMBASSY,
WASHINGTON, D. C.

August 18th, 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.

80

TELEGRAM FROM LONDON DATED AUGUST 16th 1941

Circassia A.E.C. captured Italian S.S. Stella 4,272 tons 1,000 miles N.W. of Cape Verde Islands on August 14th. Despatch (sic) intercepted German Horderney, 3,667 tons, 900 miles east of Barbados. Crew scuttled ship but endeavours being made to save her. Amongst the cargo was 1,500 tons of rubber. Spanish Berge, 804 tons, from Malaya ostensibly bound Spanish port but in fact for Genoa with Cargo of Pyrites for Germany was intercepted off Almeria and brought into Gibraltar.

2. In the Mediterranean August 14th Hlenheims from Malta attacked two tankers estimated 4,000 tons each, two schooners 800 tons each. All four ships hit, both tankers probably sunk, schooners damaged. During night of August 14th/15th nine Swordfish attacked convoy 30 miles south of Lampedusa. One merchant ship estimated 6,000 tons, two merchant ships each estimated at 3,000 tons, were all hit by torpedoes. Large ship and one 3,000 ton ship also one of the destroyers sunk.

3. Night of August 13th/14th Royal Air Force aircraft bombed Corinth canal and claim that the Canal is blocked.

4. Tobruk. August 14th. Fighting patrol surprised enemy post outside Western Perimeter killing entire garrison of twelve men. Penetrating further same patrol engaged large working party but ultimately had to withdraw with one officer, five other ranks wounded.

5. Russia. Baltic front heavy fighting at Kholm area but no appreciable change.

Smolensk. Enemy digging in. Kiev Russians have probably broken up strong German attack. Southern Ukraine German drive into loop formed by Dnieper continues.

CONFIDENTIAL

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, August 18, 1941

TENTATIVE LESSONS BULLETIN
No. 146
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.

COOPERATION BETWEEN GERMAN
ARMY AND AIR FORCE

SOURCE

This bulletin is based upon the report of an American official observer in London. The report, which contained information obtained from a high British official source, was submitted on July 15, 1941.

CONTENTS

1. GENERAL
2. ALLOTMENT OF ARMY COOPERATION UNITS
3. EMPLOYMENT OF SUPPORTING BOMBERS, DIVE-BOMBERS, AND FIGHTERS
4. TASKS OF AIR FORCE IN CLOSE SUPPORT
5. ARMY AND AIR FORCE COOPERATION MACHINERY
6. POWER TO REQUEST IMMEDIATE AIR SUPPORT
7. TIMING

CONFIDENTIAL

CONFIDENTIALCONTENTS
(Continued)

8. INTERCOMMUNICATION BETWEEN GROUND FORCES AND AIRCRAFT
9. SAFETY ZONES
10. SUMMARY

CONFIDENTIAL

CONFIDENTIALCOOPERATION BETWEEN GERMAN
ARMY AND AIR FORCE1. GENERAL

The Germans have always considered that close and direct support of the army is one of the main roles of the air force, particularly during offensive operations. The reliance placed on air support is evidenced by the small size of the divisional artillery - forty-eight field and medium guns in the infantry division, and twenty-four field guns in the armored division - and the relatively limited use made of it in the spearhead of the attack.

The greatest importance is attached therefore to close cooperation between army and air force. In peace time the normal candidate for a commission in the air force had served first in the army.

2. ALLOTMENT OF ARMY COOPERATION UNITS

The allotment of army cooperation units to army formations is thought to be as follows:

- 1 long reconnaissance Staffel - 9 airplanes - per army;
- 1 short reconnaissance Staffel - 9 airplanes - per corps;
- 1 short reconnaissance Staffel - 9 airplanes - per armored division.

In addition, short reconnaissance Staffeln are allotted to infantry divisions, and to motorized infantry divisions, as required. Normally each division in the main attack is given one Staffel.

3. EMPLOYMENT OF SUPPORTING BOMBERS, DIVE-BOMBERS, AND FIGHTERS

Bomber, dive-bomber, and fighter units are employed in support of army formations according to the circumstances prevailing.

Generally speaking, an air formation is allotted to an army, or groups of armies, for a specific operation or operational period; it then functions as a whole and on a plan made in conjunction with the army formation.

Occasionally, for specific operations, direct communications are provided between army formations and their supporting air formations. This is particularly true when dive-bomber units are involved.

4. TASKS OF AIR FORCE IN CLOSE SUPPORT

The following close support tasks of the air force have featured

CONFIDENTIAL

CONFIDENTIAL

every German operation to date:

- a. Dive-bombers used as highly mobile artillery to attack enemy centers of resistance, etc.;
- b. Bombers and fighters, normally twin engined, employed to exploit success, to isolate enemy troops whose flanks or front have been penetrated, to attack counterattacking troops and reserves in concentration areas, and to disorganize communications in the forward zone of operations;
- c. All types of operational units utilized in pursuit to bring about complete destruction of the enemy.

5. ARMY AND AIR FORCE COOPERATION MACHINERY

In order to facilitate the closest possible cooperation, the following air force officers are permanently attached to army formations:

One Air Force Lieutenant-General per army group;
 One Air Force Major-General or Colonel per army;
 One Air Force Major per army corps.

These officers and their staffs are known as Koluft - Kommandeur der Luftwaffe - officers. Their task is to command and administer the air forces normally allotted to the army formation, and to act as technical advisers to the commander. If, however, the air forces allotted are increased beyond normal, a special air force commander and staff may be appointed.

Liaison between army and air force commanders is carried out by specially trained air liaison officers who are known as Fliegerverbindingsoffisiere of Flivos. These officers range in rank from full colonel to second lieutenant, according to the size of the formation to which they are attached. The military commanders state their wishes as to the targets or bombing lines, and the air liaison officers relay these requirements to the air force commanders.

In addition to their own mechanized signal detachments, these liaison officers have slow-flying Fieseler-Storch biplanes at their disposal for reconnaissance.

5. POWER TO REQUEST IMMEDIATE AIR SUPPORT

A study of undisguised radio telephone messages intercepted during operations on the Western Front shows that divisional and corps commanders were empowered, on meeting resistance, to call for air support through the air liaison officers. It is not believed that

CONFIDENTIAL

CONFIDENTIAL

formations below divisions had such authority.

The following two messages, of the many intercepted, illustrate the close cooperation that took place during land operations:

The commander of an infantry division gave this order:

"Enemy carrying out air attack on my division. Send fighters at once; dive-bombers to be held in readiness."

The chief of staff of a mechanized group - in status, equivalent to a corps - sent the following message:

"Many columns close together on road. Please make dive-bomber attack at once."

7. TIMING

Reports received during the Battle of France stated that dive-bomber attacks were carried out 15-20 minutes after they were requested. This would seem to indicate that landing fields were normally only some 30-40 miles in rear of the advance troops and that communications were excellent.

In Crete, however, a different method was employed. In order to obtain air support there, the attacking infantry fired white Verrey lights in the direction of the objective. This signal was answered by any German plane that happened to be overhead in that area, and the defending formation was at once bombed or machine-gunned. When the German troops had reached the objective, they fired red Verrey lights to announce that fact. This indicates a great elasticity, in that all aircraft had apparently received orders to assist the ground troops when assistance was asked. It may, however, be presumed that the system used in some particular place, or in a local operation like that of Crete, will differ from that used when large armies are operating. In any event, the general picture is one of rapid response to calls.

8. INTERCOMMUNICATION BETWEEN GROUND FORCES AND AIRCRAFT

In addition to the radio phone employed by higher formations and the Verrey light system used in Crete, troops utilize ground strips and various light and smoke signals to indicate to aircraft their own and the enemy's position. The light and smoke signals are frequently changed.

9. SAFETY ZONES

In general, it seems that safety lines depend less on radio

CONFIDENTIAL

CONFIDENTIAL

communications than on visual reconnaissance and on observation assisted by signals from one's own troops.

10. SUMMARY

a. Air support of the army by bombing, dive-bombing, and machine-gunning has been very highly developed by the Germans.

b. During active operations, commanders of higher army formations use radio phone in the clear when calling for air support.

c. Commanders of lesser formations and units use visual signals.

d. Experience has shown that calls for support are met promptly and effectively.

e. In attack, air support seems rather largely to have replaced field artillery, particularly in supporting divisions in the van of the attack.

CONFIDENTIAL

RESTRICTED

G-2/2657-220; No. 470 M.I.D., W.D. 11:00 A.M., August 18, 1941

SITUATION REPORTI. Eastern Theater.

Ground: Finnish troops have captured Sortavala, a town on the north shore of Lake Ladoga.

No information has been received concerning the situation on the Leningrad or Moscow fronts. German mopping up operations in the Pripyat swamp area are approaching a conclusion.

The German advance in the southern Ukraine continues. German and Hungarian mobile troops have captured the Black Sea seaport of Nikolaev.

II. Western Theater.

Air: The R.A.F. operated over western and northwestern Germany during the night.

Normal night raids were carried out over southeastern England.

III. Mediterranean Theater.

Air: The British claim to have sunk two Axis merchantmen and damaged other shipping.

Ground: Nothing noteworthy.

RESTRICTED

CONFIDENTIAL

Paraphrase of Code Cables
Received at the War Department
at 2:28 p.m., August 18, 1941.

London, filed: 6:25 p.m., August 18, 1941.

1. British Air Activity over the Continent.

a. Night of August 16-17. Data on the amount of bombs dropped is as follows: Cologne, 77 tons HE, 8300 small and 70 large incendiaries; Duisburg, 49 tons of HE and 3200 incendiaries; Dusseldorf, 49 tons of HE and 2300 incendiaries; Ostend, 6 tons of HE; and Rotterdam, 10 tons of HE.

b. Day of August 17. A total of 750 fighters were employed as follows: 100 on interception patrols, 222 in the protection of shipping, 30 on special missions, and 398 on offensive patrols. Unfavorable weather prevented the dispatch of bombers. A direct hit was obtained on a 6000 ton tanker off Le Touquet by aircraft of the Coastal Command.

c. Night of August 17-18. A total of 108 bombers were sent out as follows: 41 to the railway center at Duisburg; results poor, due to bad weather; 48 to the Bremen railway center; fair results; 1 to Dunkirk; 6 to attack airdromes and drop leaflets over Paris; 7 to the Frisian Islands; 3 to Great Belt and 1 to Little Belt; and 1 on a sea mining mission off Aalborg.

2. German Air Activity over Britain.

a. Day of August 16. 15 reconnaissance aircraft and 10 long range bombers were employed.

b. Night of August 16-17. 15 fighters, 5 reconnaissance aircraft and 25 long range bombers were dispatched.

CONFIDENTIAL

CONFIDENTIAL

c. Day of August 17. Defensive patrols were maintained and reconnaissance of shipping carried out off the east and southwest coasts of Britain.

d. Night of August 17-18. Long range bombers operated off Flamborough Head, having Hull as their main objective. Night fighter activity took place off East Anglia. Operations against shipping occurred off the coast of Cornwall.

3. Aircraft Losses Reported.

a. British losses. During the operations of the night of August 16-17, losses of bombers were as follows: 3 Hampdens, 7 Whitleys, 2 Manchesters and 2 Wellingtons; also two Wellingtons crashed on their return. On the day of August 17, two Hurricanes and pilots were lost. 2 bombers were unreported from the raid on Bremen, the night of August 17-18.

b. Axis losses. During the day of August 17, these were as follows: 7 Me-109's and 1 Me-109F shot down, and 2 Me-109's and 4 Me-109F's damaged.

A statement has been made by the Air Ministry to the effect that some units of the German Air Force have been withdrawn from the Russian front to Central Germany for the purpose of aircraft maintenance or the rest of the crews. Information has also been received by the Air Ministry indicating that in the Ukraine sector the Russians are successfully employing 40 to 50 dive bombers at intervals, to attack German panzer divisions.

LEE

CONFIDENTIAL

CONFIDENTIAL

Distribution:

State Department
Assistant Chief of Staff, G-2
War Plans Division
Office of Naval Intelligence (2)
O. N. O.
Record Section
Intelligence Branch
Chief of the Army Air Forces
Secretary of Treasury
A.S.W.A.
Section File
Collection Section
A.G.
B.F.
OS & MM
G-3

CONFIDENTIAL

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, August 19, 1941.
8/18/41

Press Service
No. 27-16

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 August 20 and to mature November 19, 1941, which were offered on August 15, were opened at the Federal Reserve Banks on August 18.

The details of this issue are as follows:

Total applied for - \$237,444,000
Total accepted - 100,227,000

Range of accepted bids:

High	-	99.980	Equivalent rate approximately	0.079	percent
Low	-	99.969	" "	0.123	"
Average					
Price	-	99.971	" "	0.116	"

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

- o o o -

August 19, 1941

MEMORANDUM FOR THE SECRETARY'S FILES:

A meeting relative to the administration of Executive Order No. 8389 was held in the office of Mr. Dean Acheson, Assistant Secretary of State, at 4 p.m. on August 19, 1941, attended from time to time by the following:

Messrs. B. Bernstein, Cochran, Towson, E. M. Bernstein, Lawler, and Timmons for the Treasury; Messrs. Acheson, Geist, Fisher, Miller, Luthringer, and Hiss for State; Messrs. Shea, Jurenev, Swydler, and Levy for Justice; Messrs. Thomas and Knapp for the Board of Governors of the Federal Reserve System.

Reference was made to an application filed by the Socony Vacuum Oil Company to purchase for 1,600,000 reichsmarks 22% of the stock of the Maywood Chemical Company, which stock is presently owned by a person residing in Germany. The effect of such transaction would be to enable Socony Vacuum to exchange blocked reichsmarks for an asset which it would in turn resell immediately. It was agreed that in view of all the circumstances this application should be denied.

Mr. Towson reported to the committee that the Banque Nationale Suisse had recently redeemed \$5,000,000 worth of Treasury bills and had purchased an equal amount of a later maturity. This transaction was consummated under General License No. 50.

Reference was made to a recent confidential telegram received from the American Embassy at Rio de Janeiro, which stated that an attache of the French Embassy had recently arrived from Vichy with \$1,000,000 in American currency in his possession. It was agreed that the Foreign Funds Control would not renew any licenses to permit

- 2 -

the French Government to send funds to South America for the support of its diplomatic and consular missions pending further consideration of this matter.

A cable has been received from the American Ambassador to Brazil endorsing a proposal by the State Department to allow the fulfillment of outstanding contracts between coffee importers in the United States and exporters in South America whose names appear on the Proclaimed List of Certain Blocked Nationals. It was agreed that each such application would be considered on its own merits and that such applications would be approved where it appears that denial of such applications would enable Proclaimed List firms to benefit financially. A sub-committee was designated to draft an announcement to be released to the press simultaneously here and in South America. Such press release will point out that it is clearly not the purpose of the Presidential Proclamation to allow Proclaimed List nationals to reap profits and that this Government will permit the execution of contracts in those cases in which fulfillment of contracts will hurt rather than help the Proclaimed List firms. The press release will not be limited to coffee, but will cover other commodities which have experienced considerable price advances in recent months.

Mr. B. Bernstein pointed out that the British had considerably tightened up on the granting of navicerts covering shipments to Switzerland since the recent announcement of the German-Swiss Trade Agreement. It was pointed out that insofar as the freezing order is controlled we are still granting licenses covering such exports. It was agreed that for the time being no change in Foreign Funds Control policy would be initiated.

Reference was made to a telegram from the American Embassy in Madrid, stating that the Spanish subsidiary of the Armstrong Cork Company has been presented with a

- 3 -

proposal whereby additional dollars would be remitted to the Spanish subsidiary. The blocked peseta balances of such subsidiary would not, apparently, be released. Mr. Acheson suggested that before proper consideration could be given to this problem, a memorandum should be prepared by the State Department covering the whole Spanish exchange situation.

Mr. Cochran said that he had been informed by Sir Otto Neimeyer that the British Government is convinced that Mr. Thomas McKittrick, President of the Bank for International Settlements has full authority over the operations of the Bank and is to be trusted. Mr. B. Bernstein said that he had also talked with Sir Otto and that the British Government felt that it was in the interest of everyone concerned to see the B.I.S. sustained for the purpose of post-war economic reconstruction.

Mr. Hiss referred to a telegram received by the State Department on August 1, 1941, from the American Legation in Costa Rica stating that several sugar, coffee and rubber plantations are owned by persons on the Proclaimed List. The Costa Rican Government has advanced the proposal that government supervisors be appointed for such enterprises, that only the payment of necessary operating expenses be allowed, and that all profits accruing to such enterprises be frozen for the duration of the war. After general discussion it was agreed that representatives of the State and Treasury Departments should meet to consider the problem further and to draft a reply to such proposal.

With reference to Sterling Products, Inc., Mr. Shea raised the question of Paragraph 12 of the assurances that are to be given by Sterling Products to this Government. Mr. Levy said that the discussions between Mr. Hills of Sterling Products and the Anti-Trust Division of

- 4 -

Justice, the Department of Justice made it clear that the separation of Mr. William Weiss from any connection with Sterling Products is to be requested. Mr. Hills asserted that the retention of Mr. Weiss had been cleared with this committee, that a request for Mr. Weiss's separation would be a breach of faith, and that if this Government insisted on such action Sterling Products was not prepared to carry through its proposals. In response to a question from Mr. Bernard Bernstein, Messrs. Acheson and Shea stated that if Sterling Products did not agree to sever Mr. Weiss's connections, State and Justice were prepared to request that the Treasury block Sterling Products under the Order. Mr. Bernstein indicated that he desired to discuss this with Mr. Foley, who is presently on vacation. It was agreed that counsel for Sterling Products should be invited to attend a meeting to be held on August 21, 1941, at which time the question of the severance of Mr. Weiss's connection with Sterling Products would be discussed. It was to be made clear at the same time that it might be necessary later to request that other persons holding responsible positions in Sterling Products be replaced and that the first token of the change in Sterling Products was to be the replacement of Mr. Weiss by someone who is satisfactory to this Government.

DEFENSE SAVINGS STAFF

96

ADVANCE NOTICE RADIO PROGRAM

TUESDAY - AUGUST 19, 1941

Time: 2:45 - 2:55 P.M.
Program: "America In Transition"
Mrs. Blair Banister, Assistant U.S. Treasurer,
speaks on Transition in Taxes and new Tax Savings Plan.
Station: WJSV and CBS Network

Time: 3:45 - 4:00 P.M.
Program: Young Widder Brown
Station: WRC and NBC Red Network

Time: 7:00 - 7:30 P.M.
Program: Johnny Presents
Station: WRC and NBC Red Network

Time: 7:30 - 8:00 P.M.
Program: "FOR AMERICA WE SING"
Starring - Vivian della Chisa
Conrad Thibault
with Dr. Frank Black's Orchestra,
Victor Arden conducting NBC Chorus.
Station: WMAL and NBC Blue Network

Time: 11:15 - 12:00 M.
Program: Music You Want, When You Want It.
Station: WMAL - Washington, D. C.

THESE PROGRAMS PROMOTE THE SALE OF DEFENSE BONDS AND STAMPS.

GRAY

London

Dated August 19, 1941

Rec'd 1:40 p.m.

Secretary of State,
Washington.

3732 August 19, 6 p.m.

PERSONAL FOR SECRETARY MORGENTHAU.

Memoranda outlining an existing and proposed distribution in commercial channels of certain manufactured articles, petroleum, tobacco and food-stuffs are being sent you by air pouch. These were prepared by the Ministry of Supply, the Petroleum Board, the Tobacco Control and the Ministry of Food following conferences between Coe, Treasury officials and the officials of these Ministries. It was understood that these first memoranda would be preliminary and brief and that subsequently further memoranda would set forth fuller details. Would you kindly furnish General Burns copies of these memoranda for Mr. Hopkins.

In reply to Oscar Cox's 3165 in regard to British export trade in connection with lend lease materials, I have asked that Harry Hopkins take up personally with you the situation as I am informed of it to date.

It was

-2- 3732 August 19. From London.

It was a pleasure to distribute the records you sent here and I am carrying out your request in regard to the band music which I am sure will be much appreciated.

WINANT

CSB

DEPARTMENT OF STATE
Washington

In reply refer to
EA

August 19, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses copies of telegram No. 353, dated August 18, 1941, 10 a.m., from the American Embassy, Chungking, China, transmitting a message from Mr. A. Manuel Fox for the Secretary of the Treasury.

At its meeting on August 19, 1941, the Interdepartmental Committee on Trade Agreements authorized a Country Committee on China to study and report on the possibility of a trade agreement with that country. This information is being sent by telegraph to the American Embassy at Chungking for communication to Mr. Fox. The trade agreement material requested by Mr. Fox is also being sent to the Embassy for transmittal to him.

Enclosure:

From Embassy, Chungking,
No. 353, August 18, 1941.

eh: copy

KD

GRAY

CHUNGKING VIA N.R.

Dated August 18, 1941

Rec'd. 9:12 a. m.

C
O
P
Y

Secretary of State,
Washington.

353, August 18, 10 a. m.

CONFIDENTIAL FROM FOX TO SECRETARY OF TREASURY;

Find considerable interest in many quarters in a trade agreement. Could Trade Agreement Division of State have an immediate study made of possibility of a limited agreement to be quickly consummated. I am having similar inquiry made here. Would appreciate number of sets of selected trade agreement material for distribution. Also tariff commission reports on Japan to which I referred about six weeks ago.

GAUSS.

FEG

Copy: hbr: 8-28-41.

The National City Bank of New York
55 Wall Street, New York

Customers Confidential Bulletin No. 283
Exchange Regulations and Restrictions

August 19, 1941.

CHINA

Cable advices from Shanghai quote as follows a notification given to the Bank in that market from the Stabilization Board of China, Chungking. This Board administers the Stabilization Fund recently provided by the American and British governments. The expression "fapi" in the underquoted means Chinese national dollars:

Paragraph 1.

As from Monday 18th August, 1941, Board will provide U. S. dollars at rate of 5-5/16¢ for cash delivery to banks licensed under U. S. A. Treasury General License 59 and 61 against legitimate imports to China provided such sales satisfy requirements and condition of U. S. A. General License 58.

Paragraph 2.

As from Monday 18th August, 1941, Board will provide sterling cover at rate of 3-3/16d for cash delivery to the following banks for legitimate import to China,

Hong Kong China Banking Corporation
Chartered, Mercantile, National City Bank
Chase Bank, Central Bank China, Bank China
Bank Communications, Farmers Bank China

provided such imports are from the sterling area and that beneficiary is a resident of sterling area.

Paragraph 3.

Banks referred to in Paragraph 1 and 2 who require such cover should make application to temporary office of Board at 104 105 106 Hong Kong Shanghai Banking Corporation Building, Hong Kong, through their Hong Kong office or agent and give written undertaking to Board in following terms: bank or agent on behalf of applicant undertake to furnish Board within two weeks with duly executed application form in triplicate and agrees to resell any exchange purchased from Board which may subsequently be found to have been used for other than authorized imports as specified in Paragraph 1 and 2 or for goods found to be on prohibited list published by Chinese Maritime Customs on 4th July, 1939, with subsequent additions and amendments.

- 2 -

Paragraph 4.

U. S. dollars and sterling cover will be provided through an applicant branch or agent in Hong Kong Stop upon receipt of Boards notification that an applicants cover has been provided bank or agent shall then confirm to Board in its usual form of confirmation to effect that payments of equivalent amount of fapi has been effected by wire to Shanghai offices of National City Bank or Chase Bank in case of U. S. dollars and to Shanghai offices of Hong Kong Shanghai Banking Corporation or Chartered Bank in case of pounds sterling."

Received by telephone from Mr. Lang's office of the Federal Reserve Bank of New York, August 20, 1941, at 3:50 p.m., by lg.

lg 8/20/41

Swatow via N. R.

Dated August 19, 1941

Rec'd. 5:10 p.m., 20th

Secretary of State,

Washington.

22, August 19, 7 p.m.

Department's 139, August 11 to Peiping and
the latter's circular August 13, 1 p.m.

Japanese authorities here have made (?)
freezing regulations applicable to Americans a-
long the lines of those reported by the Depart-
ment as being applicable to Japanese nationals
in the United States. According to the Japanese
consul the whole matter is still under consider-
ation. Pending clarification of the banking sit-
uation some firms have applied for permits to with-
draw funds in order to settle July accounts. A
few permits have been issued, the first ones being
to the post office, customs, and this office.

A number of general restrictions made by the
Japanese military affect Americans and other for-
eigners here:

(One) Permits issued by the Japanese authori-
ties are required of incoming and outgoing passen-
gers.

(Two)

-2- #22, August 19, 7 p.m. from Swatow

(Two) Travel between the occupied and unoccupied areas has been prohibited since August 1st. (My August 3, 1 p.m. to the Embassy repeated to the Department.) Some American missionaries reside in unoccupied territory.

(Three) Postal service between the two areas was discontinued on August 1st. Japanese censors are stationed at the post office.

(Four) Movement of merchandise between the two areas has been prohibited since August one. Drawn-work firms are unable to obtain their goods from the unoccupied territory.

(Five) Permits are required to move drawn-work merchandise from points in the occupied area to Swatow. For the time being no permits are being issued to firms desiring to send materials to places in the occupied area outside Swatow.

(Six) Shipments of drawn-work and embroidery to the United States are subject to certain Japanese restrictions imposed when the port was closed (?), other than Japanese, in June 1939.

(Seven) Operations of launches on the harbor, for business purposes, are restricted.

(Eight) Residents are required to obtain permits for

-3- #22 August 19, 7 p.m. from Swatow

permits for the importation of provisions. Certain items on lists submitted with the application are sometimes crossed off before the permit is issued.

(Nine) No imports are allowed, for personal or business use, without a permit or unless imported through Japanese authorities. The Japanese collect an illegal tax on drawn-work materials imported.

(Ten) Baggage of incoming and outgoing passengers is examined by the military.

(Eleven) Permits are required for the shipment of household effects and cases are opened by the military for inspection permits are required for the transportation of certain commodities across the harbor where some foreigners reside.

Sent to the Department, repeated to Peiping, Chungking.

YEARNs

NPL

Copy: hbr: 8-26-41

C
O
P
Y
TK

PLAIN

Hankow via H. R.

Dated August 19, 1941

Rec'd 4:10 p.m., 20th

Secretary of State

Washington.

62, August 19th, 9 a.m.

Peiping's circulars August 13.

One. Japanese and Chinese freezing regulations issued here appear to be the same as those issued by the Japanese Consul General at Shanghai (Notices 19 and 20) and the "Ministry of Finance" at Hanking. (two) the movements and activities of Americans (and other foreigners) in this occupied area were already so controlled and circumscribed that there freezing regulations beyond providing a more reasonable basis for restrictions hitherto imposed under the guide of military necessity have made little difference in the position of Americans. Under restrictions in effect since before the freezing orders Americans and other foreigners, including consular officers, must obtain Japanese permits to travel outside of the Wuhan area and to ship cargo, including personal effects, even if travel or shipment is by an American naval vessel; before departure they must declare their money and, except in the case of consular officers, allow their baggage to be inspected by Japanese military police. Trading is entirely prevented and the dispatch of funds to maintain staffs of firms and missions at outposts is made difficult.

Three. since the freezing orders the Japanese have provided

- 2 -

transportation to Shanghai for Americans and several British and other foreigners. They examined the baggage of foreigners including an American naval officer and American civilians but not of an American consular officer. No difficulties about money were reported. Application of our Americans for passage to Shanghai are pending.

Sent to the Department. Repeated to Peiping, Chungking, and Shanghai.

SPIKER

LMS

eh: copy

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern, Switzerland

DATE: August 19, 1941, 5 p.m.

NO.: 167

The German Reichsbank, since the early part of last month, has sold gold bars to private banks in Switzerland, for which it obtained from thirty to forty-five million Swiss francs. With the Swiss francs the Reichsbank acquired Argentine peso bank accounts and escudo, mostly the former. This in turn is for use in buying raw materials from South America.

It is the opinion of a competent Swiss official that the transactions mentioned in the foregoing have resulted from the blocking of foreign funds in the United States, and that the transactions have been carried out for German industry. However, he said, they might be private hedges on the part of high placed officials of Germany against the Reichsmark, which they may be carrying out in view of unexpected developments in the war in the Eastern part of Europe.

HARRISON

1671 AUG 30 1941

RECEIVED

EAL:W

TREASURY DEPARTMENT

for Miss Chauncey

INTER-OFFICE COMMUNICATION

DATE August 19, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£42,000
Purchased from commercial concerns	£32,000

Open market sterling held steady at 4.03-1/4. The only reported transaction consisted of £2,000 purchased from a commercial concern.

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

Canadian dollar	10-7/8% discount
Argentine peso (free)	.2385
Brazilian milreis (free)	.0505
Colombian peso	.5800
Mexican peso	.2070
Uruguayan peso (free)	.4375
Venezuelan bolivar	.2715
Cuban peso	1-1/8% discount

The open market yuan-dollar rate in Shanghai declined 3/16¢ to the nominal quotation of 4-15/16¢.

We purchased \$1,125,000 in gold from the earmarked account of the National Bank of Mexico.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$3,089,000 in gold from Canada to the Federal for account of the Government of Canada for sale to the New York Assay Office.

We were informed that the Bombay gold quotation on August 16 was equivalent to \$34.00, unchanged from August 9. Silver in Bombay was priced at the equivalent of 44.47¢, off 1/16¢.

In London, spot and forward silver were again fixed at 23-7/16d, equivalent to 42.55¢.

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

CONFIDENTIAL¹¹⁰

- 2 -

We made two purchases of new production silver totalling 125,000 ounces under the Silver Purchase Act, both of which were bought for forward delivery. Of this amount, 100,000 ounces came from Peru, and 25,000 ounces from various foreign countries.

The Federal Reserve Bank's report of August 13, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled \$56,097,000, a decrease of \$3,504,000 since August 6. 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 August 13:

	<u>August 13</u>	<u>Change from August 6</u>
Liabilities: Deposits for Japan and Manchuria.....	\$41,200,000	- \$3,307,000
Deposits for China.....	9,775,000	- 198,000
" : U.S. Treas. Bills, comm. paper, etc.....	26,134,000	+ 5,809,000
Claims : Loans.....	\$18,795,000	- \$3,406,000
" : Other - mainly Jap. import bills.....	7,585,000	+ 2,000

It will be noted that the decline of \$3,307,000 in Japanese and Manchurian bank deposits was accompanied by a \$3,406,000 reduction in Agency loans. As for the \$5,809,000 rise in bill holdings, we understand that approximately \$5,000,000 worth of trade bills were received from abroad for Japanese and Manchurian bank account, and are being held by the Agency for collection.

M.M.S.

BRITISH EMBASSY,
WASHINGTON, D.C.

PERSONAL AND
SECRET

August 19, 1941.

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,

R. I. Campbell

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

Telegram from London dated August 17th.

1. Lowestoft bombed night 16th - 17th. Some naval property damaged.
2. German Horderney has been sunk.
3. East Coast convoy off Cromer attacked last night by at least six low-flying aircraft, no damage to convoy reported; one aircraft shot down, two damaged.
4. On the 14th three Blenheims Bomber Command scored two direct hits on medium sized merchant ship with deck cargo of timber. Last seen on fire and sinking. Sixteenth a Blenheim bombed and set on fire enemy patrol vessel off the Dutch coast. Royal Air Force yesterday carried out various operations on enemy territory; sorties by 54 squadrons made by fighters. Total of 19 enemy fighters destroyed certain, 3 probably, 4 damaged. We lost 4. Last night 200 aircraft attacked enemy targets. Heavy attack on Cologne slightly lesser attacks on Dusseldorf Duisberg light attacks Rotterdam and Ostend. Anti-aircraft fire very heavy. Night 15th to 16th 9 Wellingtons from Malta bombed Catania starting large fires; believed oil tanks hit.
5. Russian front no fresh developments on eastern front other than in Ukraine where capture of Odessa and Nikolaev may not be long delayed. Soviet forces south and west of Dneiper are however effecting orderly withdrawal, supply services working well, and morale most satisfactory.

RESTRICTED

G-2/2657-220: No. 471

M.I.D., W.D.

11:00 A.M., August 19, 1941

SITUATION REPORTI. Eastern Theater.

Ground: Finnish - German forces are attacking in the Lake Ladoga sector north of Leningrad.

On August 16, German troops captured Novgorod, north of Lake Ilmen, after breaking through strong Russian defenses. The railroad line Narva-Leningrad has been reached at a number of points east of Kingisepp. The Russian admit the evacuation of Kingisepp.

Russian counter attacks continue east of Kholm, and in a westerly direction toward Velikie Luki, which town is in German hands.

German troops on the 15th reached Saksagan, 40 miles northeast of Krivoi Rog.

To the northeast of Nikolaev strong Russian forces are reported encircled.

German forces are approaching Kherson.

Air: The German air force claimed to have caused heavy losses in the Soviet air force on the seventeenth.

II. Western Theater.

Air: The RAF continued to hold the initiative by strong night attacks against Cologne, Duisburg and Dunkirk harbor objectives and day operations over northern France, while German night attacks were small scale and scattered.

III. Mediterranean Theater.

Ground: No important movement.

Air: The British bombed Catania, Sicily and attacked Benghazi and Tripoli, axis planes raided Tobruk.

RESTRICTED

FORM 100

TREASURY DEPT.

U. S. COAST GUARD

114

LEADING

WJBB 26 NL COLLECT VIA QUEBEC TADOUSSAC QUE AUG 20 1941

F B O U S C O A S T G U A R D

HENRY MORGENTHAU JR.

COMDT - FOR MRS KLOTZ

TEXT

FOR MRS KLOTZ PLEASE TELEGRAPH ME HOW MANY TAX NOTES SOLD
THROUGH AUGUST TWENTIETH AS SHOWN IN DAILY TREASURY STATEMENT
PERIOD EVERYBODY WELL BEST REGARDS

*Shoud 715am
Aug 21st
Add 1000
B.C. = W. 11*

708 0638 21 AUG 41 WB
21 Aug 41 (RECORDED AND DATE)

WU#5 RECD

OFFICIAL INITIALS

Aug. 22, 1941-

Dear Mr. Coyo

Reference is made to your letter of August 13, 1941, addressed to Secretary Morgenthau, requesting information as to the possibility of weekly reports on United States exports to the U.S.S.R., and inquiring as to the speed with which such reports can be made available to you.

The Treasury Department will be glad to furnish you by Tuesday of each week a statement covering shipments reported to the Treasury during the week ending the preceding Saturday. There will be a lag of three or four days between some shipments and the receipt by the Treasury of a report covering the shipments, with the result that in occasional instances, exports reported during one week may have actually been made in the preceding week.

There is attached a statement covering these exports reported during the week ending August 16.

Sincerely yours,

(Signed) Herbert E. Gaston

Herbert E. Gaston
Acting Secretary of the Treasury

Mr. Wayne Coy,
Liaison Officer for Emergency
Management,
Office for Emergency Management,
Washington, D. C.

115/221
8/22/41

Exports from the United States to U.S.S.R. reported during
the week ending August 16, 1941

	Unit of Quantity	Quantity	Value (Dollars)
TOTAL EXPORTS, INCLUDING REEXPORTS			\$986,000
Total Domestic Exports			945,000
Vegetable food products and beverages:			
Spices	lb.	785,000	120,000
Nonmetallic minerals:			
Cup grease	lb.	320,000	14,000
Metals and manufactures, except machinery and vehicles:			
Wire rope	lb.	1,000	200
Anchor chains	lb.	27,000	4,000
Copper cable	lb.	152,000	25,000
Machinery and vehicles:			
Electrical shovel and parts	no.	2	20,000
Electrical motors	no.	5	2,000
Storage batteries	no.	15	200
Forging machine	no.	1	16,000
Sewing machine	no.	2	24,000
Horizontal drill machine	no.	1	15,000
Die headers and parts	no.	3	21,000
Drill parts	lb.	87,000	101,000
Dampers and parts	lb.	173,000	7,000
Shovel parts	lb.	59,000	33,000
Tractor scrapers and parts	no.	8	30,000
Drilling machine	no.	1	14,000
Oil well equipment and parts	lb.	24,000	26,000
Drilling rigs	no.	6	150,000
Pipe line pumps and parts	no.	3	44,000
Slush pumps and parts	no.	22	122,000
Locomotive parts	lb.	251,000	40,000
Air compressors	no.	3	17,000
Miscellaneous:			
Beams	cass	5	2,000
Total Foreign Exports (Reexports)			40,000
Cocoa beans	lb.	505,000	40,000

Treasury Department, Division of Monetary Research

August 28, 1941

ISF:cmh
8/28/41

(COPY)

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE FOR EMERGENCY MANAGEMENT
WASHINGTON, D.C.

August 13, 1941.

Dear Mr. Secretary:

The President has asked me to follow up his declared policy of immediate aid to the Soviet Government. In furtherance of this policy, I am trying to work out a program of weekly reports to the President.

It would be very helpful to me in making these reports if, early each week, you could obtain from the Collectors of ports from which materials are shipped to Russia a report of all materials cleared at our ports for Russia during the previous week.

Would you let me know whether such reports would be possible, and if so, what day in the week they could be transmitted to me after the close of a week?

Sincerely yours,

(Signed) Wayne Coy
Liaison Officer for
Emergency Management

The Honorable

The Secretary of the Treasury

Submitted to:
"The Club Woman"
General Federation of Women's Clubs.

By *Miss. Kahn* -

to Secretary's
office

8/20/41 - 118

DEFENSE SAVINGS, A CHECK ON INFLATION

Defense Savings Bond sales passed the billion dollar mark more than a month ago. In less than three months from the initiation of the Defense Savings Program we had started on the second billion. All this has been done of their own free will by people who wanted to invest their savings for the defense of their country.

This speed in getting together to meet an emergency is just one evidence of the fundamental unity in America which underlies differences of creed or origin, and binds all together as one people, united in their devotion to American institutions and the American way of life.

The excellent start which has been made is very gratifying, but it is only the beginning. We must keep the ball rolling. The purposes of the Defense Savings Program will not be accomplished unless week by week, month by month, we purchase as many bonds and stamps as possible out of our current incomes, saving for defense, to be successful, must be a continuous process.

We need large sums of money for total defense. Present plans call for the expenditure of about 53 billion dollars, and even this huge sum will be exceeded. Beside the cost of maintaining and equipping a two-ocean navy and providing for an army of

- 2 -

more than two million men, we must build ships, planes, tanks, guns and all necessary military equipment. Industrial plants have had to be constructed and proper housing facilities provided for troops and civilian workers. In new localities entire new cities and towns have had to be built to house these groups.

In raising the money for this vast program the Government must rely upon both taxation and borrowing. To enlist the cooperation of every American, to have each one realize that all can help in the Defense Program, the Government wants to borrow a part of the money we need directly from the people. Results to date indicate the enthusiasm with which Americans have responded to this call.

Going directly to the people also helps to prevent inflation. The steady, continuous purchase of Savings Bonds and Stamps will aid in keeping down the cost of living. Plants and factories of the country are now producing an ever-increasing quantity of goods for national defense. This means that there are going to be smaller supplies of many goods available for our everyday civilian use. Automobile plants, for example, are going to have to cut down their production of cars. Some of these automobile plants are being converted to the manufacture of planes, or other military equipment. Other plants, not actually engaged in defense work, cannot go on producing as before because the skilled

- 3 -

labor, and the aluminum, nickel, steel, rubber, and other things which they require, are needed in defense industries. This same thing is true of many other industries which produce goods for civilian use.

As the supply of goods that we can purchase is being reduced, our national income is being increased. Most of the money which the Government is spending is going to workers in our defense industries; to those who supply the raw materials such as steel, copper, lumber, wool, cotton or many other goods used in these industries; to the people who produce the coal and petroleum used for fuel in the plants; and to all the other numerous groups of people who, directly or indirectly, are working for defense. Thus most of the money that the Government is spending is going right back to the American people and, as a whole, our spending power is being increased.

A part of our increased income will be returned to the Government in the form of taxes, but even with higher rates, taxes will take only a small part. If we were to use all our increased income to buy the smaller amount of goods available for civilian needs, the result would almost certainly be a general rise in prices. The cost of living would increase, and also the cost of our defense preparations.

If instead we spend as little as possible and invest as much as possible in Savings Bonds and Stamps, we shall not

- 4 -

only help to avert an inflationary rise in prices, but shall have Savings Bonds as well. Then later on when defense needs are over, the bonds will be a cash reserve to tide us over the period of adjustment which may accompany the shift of industry from defense activities to normal peace-time production.

In still another way the Treasury is seeking to enlist the aid of the people of the country, in preventing our enlarged purchasing power from having an inflationary effect on prices. Tax anticipation notes have been placed on sale to aid in meeting the larger taxes that will have to be paid next year. If every taxpayer sets aside a small amount each month to purchase these notes, he will be able, when his taxes come due, next year to turn in these notes at their face value plus accumulated interest, to pay his tax bill. In this way not only will the strain of larger taxes be greatly reduced, but in addition, purchasing power will be diverted from expenditure of the limited goods available for civilian consumption to payment for the goods we need for our national defense.

The present emergency is the concern of every American. In order to provide for national defense with as little disturbance as possible in our normal every-day life there is need for the cooperation of all.

- 0 -

DEFENSE SAVINGS STAFF

ADVANCE NOTICE RADIO PROGRAM

WEDNESDAY - AUGUST 20, 1941.

Time: 9:45 - 10:00 A.M.
 Program: "Woman of Courage"
 Station: WJSV and CBS Network

Time: 11:00 - 11:15 A.M.
 Program: "Kate Smith Speaks"
 Station: WJSV and CBS Network

Time: 5:30 - 5:45 P.M.
 Program: Paul Sullivan
 Station: WJSV and CBS Network

Time: 6:00 - 6:15 P.M.
 Program: "Easy Aces"
 Station: WMAL and NBC Blue Network

Time: 7:30 - 8:00 P.M.
 Program: "Plantation Party"
 Station: WRC and NBC Red Network

Time: 8:00 - 9:00 P.M.
 Program: TREASURY HOUR - "MILLIONS FOR DEFENSE"
 Starring Milton Berle as Master of Ceremonies,
 The Quiz Kids, and Beatrice Kay, Joe E. Howard,
 Barry Wood, Billy M. Greene and the Elm City
 Four in a special "Gay Nineties Revue". Also,
 Ray Block's Choir and Al Goodman's Orchestra.
 Station: WJSV and CBS Network

Time: 11:45 P.M. - 12:00 M
 Program: "Music You Want, When You Want It."
 Station: WMAL - Washington, D. C.

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London, England

DATE: August 20, 1941, 11 p.m.

NO.: 3267

THE FOLLOWING IS FOR THE AMBASSADOR.

Reference is made to telegram No. 2361, dated June 30, 11 p.m., from the Department.

This is to inform the Embassy that Mr. Lauren W. Casaday has been appointed to replace Mr. Coe as "Special Assistant to the American Ambassador to Great Britain".

Mr. Casaday will probably leave by clipper from New York on August 23. The Embassy is requested to arrange for priority from Lisbon to London and to advise Lisbon in regard to this matter.

HULL
(DA)

FA:KR EU IN A-5/2 A-L A-S

EA:PAK

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: August 20, 1941, midnight

NO.: 5775

The following telegram is strictly confidential.

An arrangement for barter trade between Japan and Great Britain was reported in this morning's NEWS CHRONICLE. Since it seemed to me to be out of order just now, I telephoned to Mr. Eden and asked him whether I could have any information with regard thereto.

This afternoon I had a visit from the New Zealand Prime Minister, Mr. Fraser, and he too said he had seen the newspaper report and he was going to inquire at the Foreign Office about it.

I was not able to reach Mr. Eden until late today, and he said it was an unimportant matter; I got the impression that Mr. Eden did not know about it. However, he promised to forward to me a memorandum which could be sent to the Department.

I received a telephone call from Mr. Eden's secretary at 6 o'clock this evening, stating that the matter was in the Treasury's hands and not those of the Foreign Office. This secretary suggested that any information there was on the subject could be obtained from Mr. Waley in the Treasury.

This

- 2 -

This evening a request was made of Waley for any comments he might have on the announcements in the newspapers about arrangements between Japan and the U.K. for barter payments. A request was also made for any additional details over what appeared in the press which might give the U.S. Government a clearer picture of the nature of the arrangements or contemplated arrangements.

According to Stand(?) the Bank of England and the Yokohama Specie Bank have not reached any agreement. However, he said there have been interchanges looking toward the conclusion of an agreement whereby past(?) freezing orders would permit transactions on a barter basis to take place between the British and Japanese, and frozen assets would not have to be released. At the beginning of the talk, he was careful to point out that the nature of the transactions themselves had not been discussed so much up to the present as had the mechanism or framework within which such transactions could be carried out. No definite conclusions had been reached with regard to the mechanism itself. It was made obvious that from the point of view of the British, the press report coming from Viscount Kane of the Yokohama Specie Bank was premature and even was a source of some embarrassment to the British. Waley said that no reply had been made by the Bank of England, although presumably a reply would be made.

Waley

- 3 -

Valley said that were the arrangement concluded, if it retained the form in which it is now, it would be substantially as reported by Viscount Kame. Minor alterations in verbiage were made in the text after it was received in London. The British Treasury will probably accept it in the following form:

(paraphrased)

Agreement is reached by the Bank of England and the Yokohama Specie Bank, Ltd., to set up an Anglo-Japanese barter account for the purpose of facilitating ^{a limited} exchange of goods between the U.K. or the British colonies and Japan, should there be agreement in any case upon such limited exchange on the part of the Government of the United Kingdom and the Japanese Government.

(1) With regard to the ~~scope~~ of the agreement, there will be cleared through the aforementioned barter account the payments for approved exports from the U.K. and the British colonies to Japan, and payments for approved exports from Japan to the U.K. The regulations of July 25, 1941, will not cover this barter account.

(2) Sterling will be the basis for the agreement.

(3) The Bank of England in London will if necessary make the initial payment to the Yokohama Specie Bank, Ltd., in respect of the purchase of Japanese goods by the British.

(4)

- 4 -

(4) When cable advices from the port of export confirming that the shipping documents have been completed are received, debit and credit entries would be made in the account.

(5) When the arrangement is concluded, notification will be communicated by the Bank of England to the respective central banks in Canada, Australia, New Zealand, India and Burma, and South Africa, in case these banks desire to make arrangements with the Yokohama Specie Bank Limited of a similar nature. Negotiations will be carried on through the London branch of the Yokohama Specie Bank, Ltd., in the case of localities where the latter bank has no representation.

(6)
/ The arrangement does not exclude the possibility that transfer of balances at a later stage between individual Empire barter accounts can be made.

(7) From time to time details of a technical nature shall be worked out.

(8) Should either party terminate the arrangement, such termination would be without prejudice to transactions upon which agreement was reached previously.

(End paraphrase of text)

Waley requested that the foregoing text be held strictly confidential in view of the fact that the British Government is particularly anxious to avoid giving the impression that there is a written agreement. Waley stated that there is no written agreement.

Waley

- 3 -

Walcy said, in reply to the Embassy's question, that the British Treasury had not informed Washington of this proposed agreement since no definite decision with regard thereto had been reached.

Walcy emphasized that the transactions which are to be handled under the proposed agreement are uncertain, and they are apt to be small. He said their nature will depend in some measure upon what the U.S. does. Careful study has been given by the British Treasury to the arrangements for trade between the U.S. and Japan after the freezing order was issued by the United States. The British Treasury has observed that the U.S. list of prohibited exports is such that trading will continue to be permitted in many commodities; in particular, Walcy said, there is cotton, and doubtless Indian cotton would also be sent to Japan since the U.S. would continue its cotton trade. Walcy said that in general they would try not to lag behind the U.S., and they wouldn't mind getting a little ahead of the U.S. It is the hope of the British that in exchange for ¹15,000 of asbestos and other things not yet decided they will be able to get from Japan around 1 60,000 of magnesium ore. The British do not contemplate excluding the sending of feedstuffs to Japan. Arrangements have already been completed for diplomatic and consular representatives to use a new diplomatic free account for collecting

- 4 -

collecting their salaries - British consular officers in Manchukuo are included in this arrangement.

Reference was made by Valcy to the possibility that the Netherlands Minister might set up some means of obtaining parallel action on Japanese trade questions as between his own country and Great Britain and the U.S. Valcy said that this might be accomplished by having a joint committee sit in London. However, he said that the risk would always exist that a committee member would be bypassed by decisions of officials higher up in his Government unless only high officials were the committee members.

I was asked by Valcy whether the export license regulations of the U.S. applying to Japan include occupied China; in this connection he said that it is the intention of the British to allow some goods to go to Shanghai. He observed that from Shanghai there is leakage to the unoccupied part of China, which would be in a more difficult position than it is now if goods from the occupied coast did not leak through.

It may be that this proposed arrangement was begun before Mr. Churchill left England on his recent trip. At that time there was some question as to what exceptions under the freezing order would be allowed by the U.S. On the other hand, it may have come from Horace Wilson and Montagu Norman, working on their own for trade advantage or for improvement of the exchange situation.

There

- 7 -

There is also a possibility that the action was influenced by the Economic Warfare Ministry. The Embassy traced to Mr. Dingle-Foots, the Ministry's Parliamentary Secretary, the following statement which was on the news tickers this afternoon at half-past four:

(not paraphrased)

"It was stated in London this afternoon that it would be a mistake to regard as an 'Kenny in appeasement' the recent arrangement between the Bank of England and the Specie Bank of Yokohama or to imagine that the action taken to freeze Japanese assets is now being undermined.

"The effect of the arrangement as already announced is to set up banking machinery which could be used in connection with any movement of goods between Japan and the United Kingdom which might in exceptional circumstances be licensed in the future.

"It was understood at the time Mr. Eden announced the economic action to be taken against Japan that export licenses might be granted in exceptional cases. Now for the first time the conditions in which export licenses might be granted are defined.

"These grounds are exceedingly narrow. All goods coming from Japan to the United Kingdom are subject to import licenses.

"No goods will now be exported to Japan of a greater

value

- 3 -

value than the imports we think it wise to receive.

"The only funds which will be released will be the proceeds of those Japanese imports.

"Licenses will be granted strictly on the merits of any particular case.

"Our own supply requirements will be balanced carefully against considerations of economic warfare.

"There are still commodities which we are anxious to obtain from Japan and any licenses that may be granted will be for the purpose of furthering our war effort".

VINANT.

END MESSAGE

EA:LMW

C
O
P
Y

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

Box 680
Benjamin Franklin Station
Washington, D.C.

August 20, 1941

Dear Cochran:

I enclose for your information a copy of a message sent from London to Hall Patch in China. No doubt you will forward it to any others interested in the Treasury or State Departments.

Yours sincerely,

/s/ T. K. Bewley

Mr. H. Merle Cochran
United States Treasury
Washington, D. C.

Encl.

P.S.

The message was telegraphed to Hall Patch at the beginning of August and was sent out here by bag and has only just reached me.

Copy:mew 8/20/41

Following for Hall Patch.

1. We still have no information from Chinese Government about the form of exchange control they would propose to set up in Chungking and other far eastern centres, and how much machinery will be linked with Stabilisation Board. We are therefore unable to proceed further with the unblocking of Chinese sterling beyond releasing the assets of certain banks and institutions for use within the sterling area.

2. As a working principle we intend only to free the amounts of British and American banks and of such other banks, corporations and persons as the Chinese Government may approve. The remaining sterling accounts held in the names of residents in the Republic of China (Manchuria coming under the Japan order) will continue to be blocked. There will be no further control over out-payments from freed accounts since they will only be released on the assumption that the Chinese Government will control the use of the sterling or is satisfied with the bona fides of the holder of the account. In order to facilitate the concentration of sterling balances in the hands of Chinese Government we shall be prepared at request of Chinese Government to give automatic permission for transfer from blocked Chinese accounts to such accounts as Chinese Government may specify (but see paragraph 7 below).

3. This presupposes that Chungking will devise and apply exchange control regulations under which, in effect, the Chinese Government or organs, banks, etc., approved by it, will be the sole providers of foreign exchange. Whether such exchange is provided through the medium of the Stabilisation Fund, or through some organisation on which the Stabilisation Fund, would be represented seems to us to be for the Chinese Government to decide. But it seems clear that the Chinese exchange authorities, whoever they may be, must be prepared at all times to buy at a fixed rate any sterling offered from sterling area sources. Failing this there is likely to be grave interruption of emigrant remittances and contributions to Chinese patriotic funds, apart from unnecessary hindrances to other inward remittances. We could probably help to arrange that emigrant remittances and patriotic contributions shall be canalised through responsible agents, such as the Chinese Government banks and the British banks.

- 2 -

4. With Hongkong in the sterling area, they will no doubt impose the same pattern of exchange control procedure, subject to certain local considerations, as exists in the rest of the sterling area, and will establish a range of rates based on the London official rates of exchange.

5. We think it essential that the Chinese Exchange Control should fix a rate of exchange against sterling and against dollars, and that the cross-rate must be 4.03, on which the official rate in Hongkong will be based. It would seem impossible to sustain a position in which sterling was quoted at substantially different rates in terms of United States dollars and Chinese dollars, in, say, Hongkong and other active centres of dealing in Chinese dollars. There should be no need for a continual review of the Chinese dollar rate of exchange in terms of sterling. It seems unlikely that there will be anything to gain from a further official depreciation of the Chinese dollar. If an appreciation were found desirable we feel strongly that the Chinese dollar must be appreciated on United States dollars and sterling in the same ratio.

6. In the new conditions:-

(a) free convertibility of fa-pi into sterling will cease;

(b) only a vestige of the free exchange market in Shanghai will remain;

(c) the principal function of the Stabilisation Fund and of the other exchange agencies of the Chinese Government will be to collect foreign exchange accruing to China and to allot foreign exchange for China's essential needs.

We assume of course that the members of the Stabilisation Board will play a major part in devising and executing exchange control policy.

7. Regarding the question of requisitioning of Foreign currencies by the Chinese Government, we must make it quite clear that our present action does not mean that we shall transfer sterling to the Chinese Government without consent of the owner. It is unlikely that His Majesty's Government could give effect to proposals to seize Chinese privately owned sterling assets and transfer them to the Chinese Government. What will happen under our present scheme is that the non-cooperative owner of Chinese balances, or a Chinese

- 3 -

operating under Japanese influence, will be deprived of the use of his sterling assets. He will not be able to dissipate or to use them in ways inimical to the interests of Free China, but their transfer to the Chinese National Government is a matter which will have to be arranged by the Chinese Government itself with the owner.

8. Please show this to Rogers.

COPY * dm - 8/20/41

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

Box 680
Benjamin Franklin Station
Washington, D.C.

20th August, 1941.

Dear Cochran,

I enclose a copy of a telegram from Hall Patch to London which we have just received. No doubt you have had similar information from Mr. Fox? I wonder if you can tell me at all what the Prohibited List in paragraph 5 covers, as I have not got a copy of it.

Can you tell me whether Fox is in Chungking or Shanghai?

Sincerely yours,

(Signed) T. K. Bewley.

Mr. H. Merle Cochran,
United States Treasury,
Washington,
D.C.

COPY - dm - 8/21/41

2. Communications with and in Chungking are delayed for days and effective operation from there impossible. Board resolved to support market in Shanghai and charged two Chinese members and myself to come here to arrange for United States dollar support and to investigate the possibilities of parallel arrangement for sterling support through fund A.

3. It has now been arranged that as from August 18th United States dollars cover will be supplied for all legitimate trade in terms of United States general license 58 to Banks in Shanghai holding United States general licenses 59 and 61.

Applications are to be made here to the representatives of the Board through local branches or agents. After agreement with Hong Kong Committee analogous procedure will be followed for trade with sterling area. Fund A will supply sterling cover to 3 British 2 American and 4 Chinese Government Banks against applications approved by representatives of the Board provided that beneficiary is a resident of sterling area. If fund A becomes exhausted it will be replenished by Central Bank. Fund A will continue to operate in this manner under the present arrangements until some effective method of exchange control is devised by the Chinese Government when the transfer of control from Fund A to the Board will be made.

4. Rates at which the Board will commence to operate will not exceed rates current on days the freeze took effect i.e., five, eleven thirty seconds U.S. cents on July 26th and three three sixteenth 1/16 omitted pence on July 29th. This gives a cross rate of four point nought two thirty five. No decision has yet been taken by the Chinese Government on your request that cross rate be fixed at 4.03.

5. The Minister of Finance has insisted that legitimate trade shall not include items on the prohibited list published by Chinese Maritime Customs July 4th, 1939, with the subsequent additions and amendments. This restriction may reduce considerably the psychological effect of the Board's decision to support the market.

6. I am to proceed to Shanghai as soon as possible to investigate and report, leaving two Chinese members here.

(Cable received by Chinese Embassy in Washington from Minister of Finance at Chungking and delivered to Mr. B. Bernstein on August 20, 1941.)

TELEGRAM FROM CHUNGKING
AUG. 19. 21:00

C
O
P
Y

AMBASSADOR HU SHIH

PLEASE INFORM AMERICAN TREASURY ACTION HAS ALREADY BEEN TAKEN WITH REGARD TO PARAGRAPHS NO. 1, NO. 2 AND NO. 3 OF MEMORANDUM OF MAY 26, 1941 COVERING CHINESE STABILIZATION BOARD AND THE TWO STABILIZATION FUNDS NAMELY (1) DECREE HAS BEEN ISSUED ESTABLISHING THE STABILIZATION BOARD AND THE STABILIZATION FUNDS (2) MINUTES ORGANIZATION MEETING OF BOARD HAVE BEEN PREPARED (3) THE CHINESE GOVERNMENT HAS ENTERED INTO AN AGREEMENT WITH THE CHINESE GOVERNMENT BANKS COVERING THE CONTRIBUTION OF 20 MILLION UNITED STATES DOLLARS BY SUCH BANKS TO THE UNITED STATES DOLLAR-CHINESE YUAN STABILIZATION FUND AND THE SUBORDINATION OF THE CLAIMS OF SUCH BANKS TO THE TERMS OF AGREEMENT DATED AS OF APRIL 1, 1941 BETWEEN CHINA THE CENTRAL BANK AND THE SECRETARY OF TREASURY ALREADY PAID TO FEDERAL RESERVE BANK ON AUGUST 14, DOCUMENTS FORWARDED UNDER SEPARATE COVER.

H. H. KUNG

August 19, 1941.

Copy:mew 8/21/41

August 20, 1941

Mr. Liversy

Mr. Cochran

Will you kindly send the following cablegram:

"American Consul,
Hong Kong.

For Free from Treasury.

Reference your 300, August 11, 3 p.m. and your 312, August 19.

Treasury General License 53 as amended August 5 simply permits trade involving blocked nationals who are not on proclaimed list and who are in American republics, British Commonwealth and Empire, Russia, Netherlands Indies, Belgian Congo, etc. License does not otherwise free accounts of such nationals and simply permits trade with them on same basis as with other persons in same area. The underlying principle is that the local authorities are in a better position to restrict activities of these blocked nationals if that is desirable in any particular case. As used in General License 53, British Commonwealth of Nations includes Hong Kong. Text of amended General License No. 53 is as follows:

(Amended text to be sub-quoted.)

(Init.) H. M. C.

HMC: dm: 8/20/41

PLAIN

August 22 20, 1941

AMERICAN CONSUL

HONG KONG, VIA N.R.

224, Twentieth.

FOR FRESE FROM TREASURY.

Reference your 300, August 11, 3 p.m., and your 312, August 19.

Treasury General License 53 as amended August 5 simply permits trade involving blocked nationals who are not on proclaimed list and who are in American republics, British Commonwealth and Empire, Russia, Netherlands Indies, Belgian Congo, etc. License does not otherwise free accounts of such nationals and simply permits trade with them on same basis as with other persons in same area. The underlying principle is that the local authorities are in a better position to restrict activities of these blocked nationals if that is desirable in any particular case. As used in General License 53, British Commonwealth of nations includes Hong Kong. Text of amended General License No. 53 is as follows:

(Annexed text sub-quoted.)*

HULL
(FL)

*Due to the length of the text and because no mimeographed copies were made of this cable, the text mentioned above is omitted from this copy.

COPY

141

TEM

Swatow via N. R.

Dated August 20, 1941

Rec'd 7:15 a.m. 21st

Secretary of State,

Washington.

23, August 20, 5 p.m.

My 19, July 29, 6 p.m. regarding drawn work
shipment.

Japanese authorities have removed the ban on
this shipment and it is expected to leave this week
for Shanghai by Japanese vessel. The usual "voluntary
contribution" of \$500 Chinese National currency per
ton will be required. A shipment made in July was
temporarily detained at Shanghai but is now en route
to the United States on the PRESIDENT COOLIDGE.

A new regulation made by the local Japanese
authorities requires the financing of shipments be
made through the Bank of Taiwan. Exchange bills are
to be drawn on Shanghai in Chinese National currency
through the Japanese Bank. No remittances or drawings
through the local British bank, which heretofore
financed the industry, are allowed. The Bank of Taiwan
will not extend credits and will not purchase foreign
bills of exchange. Individual shippers must hereafter

-2-

make their own arrangements for the obtainment of funds from abroad, exchange them for Chinese currency at Shanghai and remit to Swatow through the Japanese Bank.

It appears that the authorities desire that the industry continue, subject to Japanese restrictions, inasmuch as they derive revenue from shipments and many thousands in the district depend on the industry for employment.

Merchants are endeavoring to collect and ship as much merchandise as possible and do not contemplate importing additional linen material.

Sent to the Department. Repeated to Peiping, Chungking.

MEYERS

PEG

Copy:bj:8-27-41

PARAGRAPH OF TELEGRAM RECEIVED

FROM: American Embassy, Panama, Panama, via R.R.

DATE: August 20, 1941, 8 p.m.

NO. 1 242

RUSHED.

Reference is made to telegram No. 221, dated August 9, noon, from the Embassy.

This afternoon the Minister for Foreign Affairs read a note to me which he had received from the Spanish Minister in Panama several days ago. This note, under instructions of the Spanish Government, urgently requested that confirmation of cancellation of Panamanian registry of the SANTA HELENA be telegraphed to the Panamanian Consul General at New Orleans.

The statement was made by the Minister that action had been delayed in this matter (in accordance with the request of the U.S. Government) that such action be delayed until information from American officials in Spain had been received) but that, in view of this urgent request from the Spanish Government, he could not well delay much longer the sending of instructions to the Consul General to cancel the registry. The Minister informed me that he would wait 48 hours more, ^{at the} ^{SECRETARIA} ^{OF THE} ^{NAVY} ^{DEPARTMENT} ^{WASHINGTON} ^{RECEIVED} ¹⁹⁴¹ ^{AUGUST} ²⁰ ⁸ ^{P.M.} end of that time, if he had heard nothing further from the U.S. Government, as a result of its investigation in Spain, he would be obliged to confirm the cancellation of the Panamanian registry.

WILSON

619,882/46
KAP:K

GRAY

LISBON

Dated August 20, 1941

Rec'd 1:55 p.m.

Secretary of State,
Washington.

454, August 20, noon . .

According to the interpretation by Bank of Portugal of provisions of Treasury general license number 70 only firms owned exclusively by Portuguese nationals may engage in the full scope of dollar transactions authorized by the license. Mundot and Company, important cork exporters which owned by American and Portuguese "77 percent" nationals, has been denied full facilities under license which will seriously prejudice the conduct of their export business since Bank of Portugal insists that payment for such exports may only be made against credit established in Portugal whereas sales in dollars to the United States and Latin America were formerly liquidated in dollars on the basis of 30, 60 and 90 days.

Please ascertain from Treasury if Bank of Portugal interpretation correct and if so procedure for overcoming difficulties.

STCOR.

FISH

GW

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 20, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£69,000
Purchased from commercial concerns	£12,000

Open market sterling was again quoted at 4.03-1/4, and there were no reported transactions.

The Canadian dollar improved to close at a discount of 10-11/16%, the best rate for that currency since November, 1939. The market was reported to have been extremely small.

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

Argentine peso (free)	.2383
Brazilian milreis (free)	.0505
Colombian peso	.5800
Mexican peso	.2070
Uruguayan peso (free)	.4375
Venezuelan bolivar	.2750
Cuban peso	1-1/8% discount

In the unofficial exchange market in Shanghai, the yuan again weakened in terms of our currency. Today's quotation was 4-27/32¢, off 3/32¢. According to a cable received from Shanghai, the licensing banks in that center were providing dollar and sterling exchange for legitimate imports at 5-5/16¢ and 3-5/32¢. It will be noted that these rates are slightly lower than those mentioned in our report of August 18. The difference may represent bank commissions.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$1,508,000 in gold from Canada to the Federal for account of the Government of Canada for sale to the New York Assay Office.

A price of 23-7/16d was again fixed in London for spot and forward silver, equivalent to 42.55¢.

CONFIDENTIAL

- 2 -

We made one purchase of new production silver amounting to 50,000 ounces under the Silver Purchase Act. This silver, which was bought for forward delivery, came from various foreign countries.

The report of August 13, 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 \$4,850,000, a decrease of \$419,000 in the short position since August 6. Net changes were as follows:

Country	Short Position August 6	Short Position August 13	Change in Short Position*
England**	\$ 235,000	\$ 101,000	- \$134,000
Europe	2,873,000	2,802,000	- 71,000
Canada	298,000 (Long)	264,000 (Long)	+ 34,000
Latin America	203,000	75,000	- 128,000
Japan	59,000	60,000	+ 1,000
Other Asia	2,113,000	2,111,000	- 2,000
All others	84,000	35,000 (Long)	- 119,000
Total	\$5,269,000	\$4,850,000	- \$419,000

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

** Combined position in registered and open market sterling.

BRITISH EMBASSY,
WASHINGTON.

PERSONAL AND SECRET.

August 20th, 1941.

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,

R. I. Campbell

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

TELEGRAM FROM LONDON DATED AUGUST 18th, 1941.

1. In air attack on east coast convoy one aircraft, damaged by gun fire, struck balloon wire and crashed. One ship damaged by near miss; second ship damaged by near miss following day.
2. August 17th. Bomber Command aircraft attacked with torpedoes 5,000 ton tanker off Le Touquet. One hit with torpedo scored vessel believed sunk.
3. Our fighters engaged MA 109's escorting tankers, destroyed 7. 2 hurricanes missing.
4. Night of 15th/16th. Aircraft carried out attacks on shipping at Benghazi and Bardia, and Libyan aerodromes.
5. Night of 16th/17th. 5 Swordfish bombed Catania harbour. In dock area very large fires started followed by explosions.
6. Night of 17th/18th. Royal Air Force despatched over 105 aircraft and among targets attacked were Duisburg and Bremen. 2 of our aircraft missing.
7. Tobruk. August 15th patrol engaged enemy working party with hand grenades. Our casualties nil. Impossible to estimate enemies'. Frontier area. Coastal and centre sector shelled.
8. Russia. German thrust towards Leningrad resumed from Narva area. Further German progress towards the Dnieper between Kremenchug area and Black Sea. Russians reported falling back in good order. Heavy casualties on both sides in fighting north of Nikolaev.

RESTRICTED

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, August 20, 1941

TENTATIVE LESSONS BULLETIN
No. 147
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-N.

GERMAN MEDIUM TANKS IN COMBAT - MAY 15, 1940SOURCE

This bulletin, which is based upon the report of an American official observer in Berlin, contains a translation of an article published in Deutsche Allgemeine Zeitung, a Berlin daily newspaper.

The report, which was dated May 5, 1941, states that it is believed that the article was approved by the German General Staff before publication.

It should be remembered, in reading this bulletin, that the author of the article was a tank commander in the 4th Company of a battalion which had as its mission the breakthrough of the Dyle position.

Intended propagandistic effects should not be overlooked.

CONTENTS

1. GENERAL
2. COMMENTS OF AMERICAN
OFFICIAL OBSERVER

RESTRICTED

RESTRICTEDGERMAN MEDIUM TANKS IN COMBAT - MAY 15, 19401. GENERAL

The 4th Company - less the 1st Platoon, which was attached to the 2nd Company - and the 1st Battalion Light Platoon were ordered to support the 1st Company in an advance against hostile tanks which were reported to be attacking from the south. At 4 P.M. the 4th Company formed and moved in the direction of the railroad at Cortil-Noirmont. The Company Commander, Captain W., gives the following account of his experiences:

My company had six cannon tanks and five machine gun tanks, and I was proud to be able to employ them at last as a unit.

A brief glance at the terrain revealed that it favored a fast push upon the railroad line east of Noirmont, although we knew that an antitank trench probably paralleled the line. We drove rapidly in order to take advantage of the few remaining daylight hours and continued on through St. Paul to Ernage, where we deployed on both sides of the road. Subsequently we moved to the left of the road before crossing the crest of the ridge which overlooked the railroad line.

The men were in their best fighting spirits.

En route, the radio was tested again and I sent out some words of encouragement to the company.

We used the Light Platoon as we had been taught on the training ground. I gave its commander the following order: "K., reconnoiter the railroad crossing and investigate the possibilities of alternate crossings to your right front. Be careful of an antitank trench. Extend your front. You have protective fire on the slope."

I drove at increased speed toward the railroad line on a personal reconnaissance. The railroad bed, steep and high, was in itself a big obstacle; but in front of it the way was obstructed by a barricade consisting of several rows of vertical wooden piles about two meters tall, strongly braced against each other. However, I soon found a route through this barricade by discovering the point at which our tank pioneers had removed the piles. I then ordered by radio: "Follow me; speed up. After crossing railroad, fan out."

I now had time to make my plan.

RESTRICTED

RESTRICTED

After we had crossed the railroad, we found the terrain more difficult. About 500 meters in front of us, at the bottom of a slope, the village of Noirmont stretched along a road running perpendicular to the direction of attack. Beyond the village, the ground rose up steeply again and, about a kilometer farther on, it leveled into a plain favorable for a tank attack. The village of Villeroux stretched along the horizon; beyond Villeroux we could just see the edge of the forest north of Mallery, deep within the Dyle position. Mallery was the tank brigade's second objective.

I wanted to reach this objective, but things turned out different.

At approximately 7:40 P.M., in accordance with my last radio command, the company had just taken up a deployed formation. Only occasional machine gun fire came from the direction of the enemy. Beyond Noirmont we had to drive carefully, for we passed through our infantry, which had dug itself in, apparently against a well-prepared enemy position.

I gave the command: "File right, follow behind me!" My decision to have the company follow behind me because of the increased mine danger proved to be correct, for suddenly, after we had cautiously felt our way ahead for about 100 meters, my driver called, excitedly: "Mines!", and stopped immediately. A mine field, semicircular in shape, lay in front of us. My tank had halted only 18 inches from the first mine - not a comfortable position. Cool and quick-witted, my radio operator immediately sized up the situation and called through the microphone to the company: "Halt! Mines!"

I told my No. 1 Gunner and the Loader to get out and make a lane. These two men crawled along on their bellies to the mines, removed them, and marked off a lane with flags. All of this took place in a few minutes; the rest of the company watched closely. Then I ordered: "Follow in file on path through mines!"

Arriving at the edge of the village, Villeroux, we received well-aimed machine gun fire from some of the buildings, but the hostile fire was silenced after a few of the buildings had been set ablaze by our projectiles. Then we resumed the advance. A small steep-banked stream in the village was no small obstacle, but at last we found the bridge; it was in the hands of our own riflemen. The company moved through the village unmolested by the enemy, crossed the bridge, and suddenly found itself confronted by entrenched Moroccans. Our own men, who were in trenches at the edge of the village, could make no further advance against them. From one of our infantry lieutenants I learned that there were three hostile defensive lines in this area, occupied by Moroccans with

RESTRICTED

RESTRICTED

heavy machine guns and antitank guns.

I promptly commanded: "Moroccans entrenched on the high ground in front of us. Take fire positions; fire at will. 3d Platoon to right front; 2nd Platoon to left front; Light Platoon to extreme right."

As if it were on the drill ground the company executed these orders in face of the enemy defensive fire, and in a short time each unit was on the spot ordered.

Deadly fire from all guns was delivered upon the well-camouflaged Moroccans. On the left flank, an enemy antitank gun was put out of action, and the desert dwellers in front of us retreated hastily from their first position. After ordering the 3d Platoon to cover the enemy with fire, I gave the command: "Company deploy; push forward rapidly and gain the eastern edge of Villeroux."

Our attack at Villeroux began at 8:30 P.M., rather late to accomplish the final mission assigned for the day, the annihilation of the hostile artillery in the edge of the forest at Mellery. However, we quickly overran the first defensive line, and with the company in a narrow wedge formation, company commander leading, we rushed toward the second line, 300 meters beyond the first.

This line was soon penetrated, and the Light Platoon used its machine guns effectively against the groups of fleeing Moroccans. Shortly after piercing the second position we prepared to take on the third line.

At this moment the following report came over the radio: "Sch.'s tank has run on mines; it is completely out of action!"

Lieutenant A., the 3d Platoon commander, who witnessed this incident, reported as follows:

"When the 3d Platoon had reached the road running southwest from Noirmont, I saw a machine gun tank climbing the slope in front of us, about 150 meters to my left front and about 200 meters behind the cannon tanks halted at the crest. Suddenly it ran onto a mine. I thought I felt two detonations; later I learned that six mines had exploded. They must have exploded simultaneously, for the incident lasted only the fraction of a second. The detonation lifted the tank into the air and tore off its tracks and running gear. In a few seconds the turret top door opened, and the tank commander crawled out; he stood a moment on top of the tank and then fell to the ground. About two minutes afterwards he arose and ran towards a tank standing in rear of him, tearing the charred

RESTRICTED

RESTRICTED

parts of his clothing from his body as he went.

"The Moroccans, probably at the last moment, had laid a single row of 140 mines across our direction of attack, exactly in the depression into which the company had moved. On the high ground beyond they had constructed field fortifications and antitank gun positions which were provided with hundreds of rounds of ammunition. Two of my heavy tanks had driven parallel to this row of mines, one tank five meters to the right and the other only a few inches on the left. The Moroccans had laid these mines in this depression because they assumed, and rightly, that our tanks would take advantage of its cover, in approaching their positions on the high ground beyond."

Having passed the second line, the bulk of my company had already driven through the mine field and was approaching the third line of defense, beyond which the hostile artillery could be plainly seen in firing position at a range of about 1,000 meters. Our first task was to clean up the positions in front of us, the trenches, well-installed antitank guns, and heavy machine guns. When we approached, the Moroccans dropped flat in the bottom of their trenches. I directed my No. 1 Gunner and Loader to get out and clear the trenches with hand grenades. Explosions from the grenades were plainly heard shortly thereafter, and the Moroccans fled in panic.

Suddenly a murderous hostile artillery fire began. Dust, haze, and violet-blue smoke clouds dimmed the landscape. The adversary had realized the threat of our advance after we had moved through his minefield into his third and last line of defense. We returned the fire with all of our guns, and some enemy guns were put out of action.

It now became necessary, however, to consider withdrawing the company. I gave the command reluctantly because we were so near to our objective, and the hostile artillery was immediately before us. But approaching nightfall made continuation of the fight impossible, and I was forced to order by radio: "To the rear. March back on the same trail, and assemble at the edge of Noirmont."

With the exception of the tank commanded by Otto Sch., who had been seriously wounded and whose driver had been killed, the entire company returned safe and sound from this action.

2. COMMENTS OF AMERICAN OFFICIAL OBSERVER

- a. The peculiar composition of the company whose action is described

RESTRICTED

RESTRICTED

illustrates the flexibility of the German tank unit organization. The company organization on this particular date - May 15, 1940 - may have been necessitated by battalion losses in previous engagements, or it may have been due to a decision to organize a task force for a specific mission.

b. The company commander states that he used his attached Battalion Light Platoon as if it were on the drill ground, giving it the mission of reconnoitering for alternate routes forward to the line held by the leading foot elements. This, and the fact that the company commander himself increased his speed to make a personal reconnaissance, indicates that prior route reconnaissance by tank unit personnel was either very limited or lacking entirely. It is noted that Panzer unit pioneers were operating just in rear of the leading foot elements and had cleared a path through antitank obstacles. The location of this path, however, was discovered by the tank company commander personally.

c. Another indication of the absence of prior reconnaissance by tank unit personnel is gleaned from the statement that the tank company commander questioned an infantry lieutenant on the front line and from him learned details of hostile defenses.

d. The company commander remarked that careful driving was necessary when his unit passed through foot troops dug in just in front of a well-prepared hostile position. No other precautions for passing through foot troops are mentioned.

e. The futility of unprotected and unconcealed mine fields is indicated by the fact that a part of the crew in the leading tank of an advancing company could dismount, clear a path through the mines, and mark this path with flags.

f. Cooperation between infantry and tank units is implied by the statement that friendly riflemen were in possession of a bridge in Villersoux, although hostile machine guns were still operating in the village.

g. The faulty defense of the Moroccans is illustrated by the fact that a tank crew could dismount during an attack and clear out trenches with hand grenades.

RESTRICTED

RESTRICTED

G-2/2557-220; No. 472 M.I.D., W.D. 11:00 A.M., August 20, 1941

SITUATION REPORTI. Eastern Theater.

Ground: German forces continue to attack toward Leningrad from the west and southwest.

The Russians state that strong German forces have appeared in the Gomel area, east of the Pinsk Marshes and half-way between Smolensk and Kiev.

In the Ukraine, heavy German attacks are continuing against Russian bridgeheads west of the Dnepr River. Pressure on Kiev and Odessa is increasing.

Air: Combat aviation bombed and strafed ground troops and attacked bridgeheads in the Dnepr River area. The bombing of Odessa and railroads approaching Leningrad continued strong.

II. Western Theater.

Air: British planes launched night attacks on the Kiel Canal and other objectives in northwest Germany. Germany claimed operations over the east coast of England and heavy casualties for British planes over occupied territory.

III. Middle Eastern Theater.

Air: German dive bombers attacking a British naval unit off Tobruk, sank two ships and damaged one.

RESTRICTED

U. S. COAST GUARD

FORM 3619
TREASURY DEPT.

HEADLINE LONG WU WJ68 82 DL COLLECT VIA QUEBEC-TADOUSSAC QUE AUG 21 1941
843A.

FROM
A
T
T
E
N
T
I
O
N
I
N
F
O
R
M
HENRY MORGENTHAU JR.

COMMANDANT - US COAST GUARD

TEXT

FOR HAROLD GRAVES COMMA PETER ODEGARD COMMA VINCENT CALLAHAN COMMA
INFORMATION MRS KLOTZ ALL IN TREASURY DEPARTMENT PERIOD LAST NIGHTS
TREASURY PROGRAM FIRST THIRTY MINUTES STRUCK AN ALL TIME LOW PERIOD
LAST FIFTEEN MINUTES EQUALLY BAD PERIOD ALTHOUGH WHO READ PERICLES
ORATION SHOULD NOT BE USED AGAIN PERIOD DURING ABSENCE OF KUHN I
DEPEND UPON PETER ODEGARD TO RAISE PROGRAM FROM CHEAP VAUDEVILLE
LEVEL PERIOD HAVE BEEN INFORMED SEVENTH PROGRAM ALSO VERY POOR
PERIOD INSIST TONE OF PROGRAMS MUST IMPROVE.

PHONED:-MRS KLOTZ
MR ODEGARD
MR CALLAHAN'S SEC'Y.
MR SLOAN (FOR MR GRAVES)

2

ter

TOR 1517 NR 16 FROM WU WR/MC
OPERATOR'S RECORD AND DATE

OFFICIAL INITIALS

Defense Savings Staff

August 21, 1941

HON. HENRY MORGENTHAU, JR.
SECRETARY OF THE TREASURY
TADOUSSAC, QUEBEC, CANADA

SORRY SHOW WAS SO BAD. ONLY PART OF SCRIPT REACHED US AND THAT
TOO LATE TO DO ANYTHING ABOUT IT. EXPECTED PAUL MUNI TO READ
SHORTER VERSION PERICLES SPEECH. WILL GET SCRIPT FOR NEXT WEEK
IN TIME TO MAKE WHATEVER CHANGES NECESSARY. HOPE FOR BETTER SHOW.

PETER H. ODEGARD

DEFENSE SAVINGS STAFF

ADVANCE SCHEDULE OF RADIO PROGRAMS

THURSDAY - AUGUST 21, 1941.

Time: 9:15 - 9:30 A.M.
Program: "Myrt and Marge"
Station: WJSV and CBS Network

Time: 10:45 - 11:00 A.M.
Program: "Aunt Jenny"
Station: WJSV and CBS Network

Time: 10:45 - 11:00 A.M.
Program: "What Can I Do?"
Station: WMAL and NBC Blue Network

Time: 12:30 - 12:45 P.M.
Program: "Front Page Farrell"
Station: WOL and MBS Network

Time: 1:45 - 2:00 P.M.
Program: "Arnold Grimm's Daughter"
Station: WRC and NBC Red Network

Time: 9:30 - 10:00 P.M.
Program: "Quiz of Two Cities"
Station: WRC - Washington and WFBR - Baltimore

Time: 11:15 P.M. - 12:00 M
Program: "Music You Want, When You Want It"
Station: WMAL - Washington, D. C.

August 21, 1941.

Honorable F. H. LaGuardia,
U. S. Director of Civilian Defense,
Washington, D.C.

Dear Sir:

By direction of Secretary Morgenthau, and in his absence, I am replying to your letter of August 14, with which you enclosed a memorandum as to the proposed Office of Facts and Figures, together with a questionnaire. The original of the questionnaire, with replies on behalf of the Secretary of the Treasury, is being returned herewith as you requested.

In addition to the three specific inquiries in the questionnaire you state in your letter that you would like a frank expression as to whether the job of civilian morale properly belongs to the Office of Civilian Defense. It would seem that this question is adequately answered by the terms of Executive Order of May 20, 1941, which you cite, containing the words "consider proposals, suggest plans, and promote activities designed to sustain the national morale." In addition it seems to us that the work of cultivating and sustaining a satisfactory state of civilian morale is an essential part of the work of an office of civilian defense.

Secretary Morgenthau expressed to me the belief that great betterment of public morale might be brought about if the Office of Civilian Defense would undertake to encourage well planned speaking campaigns both to the general public and in Army camps.

Very truly yours,

(Signed) Herbert E. Gaston
Herbert E. Gaston
Assistant Secretary of the Treasury.

Enclosure.

OFFICE OF CIVILIAN DEFENSE

WASHINGTON, D. C.

August 14, 1941

The Honorable
The Secretary of the Treasury
Washington, D.C.

My dear Mr. Secretary:

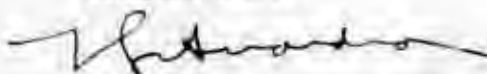
By an Executive Order of May 20, 1941, the President instructed the Office of Civilian Defense to "consider proposals, suggest plans, and promote activities designed to sustain the national morale." Following these instructions I have been studying the field intensively, and in order to carry them out I am considering the establishment of an Office of Facts and Figures, within the Office of Civilian Defense.

Before proceeding further, however, it is my desire to obtain general agreement as to operation, and general aims. Clearly, the value of such an Office must lie in the assistance it can render to departments and existing agencies of the Government. I am, therefore, submitting with this letter the general idea of an Office of Facts and Figures, as suggested by our studies. You will find at the bottom of the attached memorandum a simple form, set up for the expression of your approval, your disapproval, your comments, and so forth. I would appreciate it if you would fill out this form, stating your frank opinion of the idea as presented here, and adding any suggestions you may have. If this project is to be undertaken, it is of fundamental importance that it have the approval of all. I enclose two copies of the memorandum, so that you may retain one in your files.

Besides your approval, disapproval, or comments, concerning this plan, I should like a frank expression from you as to whether you believe that the job of civilian morale properly belongs to the Office of Civilian Defense, or whether you believe that it should be placed somewhere else or whether you believe that there is no need or desirability for a coordinating office of this kind.

Since I am anxious to act as soon as possible, I would appreciate your reply at your earliest convenience. I shall be out of town during the coming week on speaking engagements. If there are any questions or amplifications that you would like in the meantime, I wish you would feel free to call upon Russell Davenport or Captain Robert Kintner, who have undertaken to help me in developing this plan, and who can be reached through my Office. They are familiar with all the details as we have discussed them.

Sincerely yours,



F. H. LaGuardia
U. S. Director of Civilian Defense

Enclosures

31

MEMORANDUM

August 14, 1941

TO: The Secretary of the Treasury

FROM: Mayor F. H. LaGuardia

SUBJECT: Office of Facts and Figures

The functions of an Office of Facts and Figures are extremely important to the defense program. Yet the requirements are extremely simple.

First, in order to make itself conversant with the entire field, the Office would require copies of all the releases sent out by every department and agency in the Government. These copies should be received when released.

Second, the Office would require access to every department and agency for the purpose of gathering further information concerning their activities. Naturally, in seeking this information, the Office would conform to special regulations regarding the release of military, diplomatic, and other departmental secrets. This can very easily be worked out with each department, providing the general principle is agreed upon by all that, with special exceptions, the Office of Facts and Figures is entitled to ask for information to supplement the standard releases, whenever the Office deems that such added information would be of benefit to public morale.

Third, to be effective, the Office should have the authority to make suggestions to department heads and to their public relations offices, concerning their information activities.

These, I believe, are the only requirements for the successful establishment of what we have in mind. I do not feel that it would be proper for our Office to supplant the present publicity or information services. That work is now being done by each department and it should remain with the departments. Our simple function is to clarify, and, we would hope, make more effective, the efforts of agencies already in the field. It is essentially a job of coordination and not of control or regulation.

To this general principle there is only one exception, and that has to do with radio time. At present the radio companies are being deluged with requests for time from all the departments. All these requests are made with the same intention, namely, to help public morale; yet I am assured that they are having quite the opposite effect, and that the public is not reacting well to all the Government time now being taken on the air. In order to make these efforts effective it will be necessary to coordinate and channel all Government radio programs in one office, and this job should belong to an office of facts and figures.

On the subject of radio, we have been considering a program called "Ask Your Government," in which the Office of Facts and Figures would undertake to answer any question that any citizen might ask concerning defense and the national emergency. The information to answer these questions would have to be supplied to us by the departments (subject always to the special restrictions already mentioned). Basically, this would be a large mailing operation, but once a week the questions would be sifted and the best ones asked, and answered, on the air. Such a program would serve two purposes: (1) It would inform us in detail concerning the confusions and perplexities of the average citizen, and (2) would enable us, with the cooperation of the departments, to present an informed and coherent picture of the national effort. The idea of this program is as yet tentative, but it seems to us, and to the radio people consulted, to hold a great deal of promise.

The Office of Facts and Figures would consist of a small group of men and women carefully selected from different occupations having to do with public information—that is, news, features, magazines, radio, movies, clubs, etc. These men, thoroughly familiar with the operation of government, would study the departmental releases and would thus be thoroughly familiar with what the Government is saying about itself at all times. These specialists would be in touch with all parts of the country through their professional contacts. The communications would be two-way: That is, each man would undertake to distribute facts and figures in his field. And would at the same time gather ideas, analyze situations where morale is bad, and determine what might be done to improve morale. In short, these men would be concerned, in short, with facts, figures, and ideas, and with their distribution, in the interests of national unity.

A detailed discussion of the methods of distribution would be too involved for this memorandum. I can summarize them by saying that they will be natural, not forced; they will employ news, not ballyhoo. Our studies show that the first need of the U.S. today is for information, in the absolutely literal sense of that word. It will be the duty of the Office of Facts and Figures to help information to flow freely and rapidly through its natural channels.

In this connection, with the approval of the President, we have already taken steps to establish a speaker's bureau to assist those who are anxious to cooperate with the national defense program.

Possibly other more extended functions for the Office of Facts and Figures would grow out of this work. But for the time being my feeling is that the Office should be set up on a sound base, with the simplest possible aim, namely, to facilitate and make effective what is already in existence.

In addition to the half dozen men constituting the Office of Facts and Figures, I very much desire to have a Government Advisory

1615

-3-

Committee, composed of one representative from each key department, or agency, including Government Reports (Lowell Mellett) and Defense Information (Colonel William Donovan), appointed by the head of the department or agency. This Advisory Committee should meet with the members of the Office of Facts and Figures at least once a week for the purpose of discussing the needs and problems of the department. I feel that this would coordinate government policy and make the Office both practical and helpful.

I would appreciate it if you would express your approval or disapproval of this plan in this space, or make whatever suggestions you may have.

What is proposed seems to be in effect the creation of a new centralizing or coordinating office for Government public relations and information. It is our understanding that such an office already exists in the Office of Government Reports and therefore the creation of a new office on the lines indicated would seem to be an unnecessary duplication. If in his studies of civilian morale the Director of Civilian Defense should find that inadequacy or conflict in the announcement of governmental agencies as to defense programs is contributing to an unsatisfactory state of morale, it would seem wholly proper for the Director to report the situation to the agencies concerned, or to the Office of Government Reports. It is our view that too much centralization is likely to be harmful by obstructing the free flow of information to the press and other agencies of dissemination.

The Treasury is also opposed to the creation of any new agency to control the allocation of radio time to Government Departments and Agencies. So far as Treasury programs are concerned the reports of the principal radio analysts, independent polls and the record of results in the sale of securities seem to us to furnish convincing evidence that these programs are helping rather than hurting public morale.

Do you think that these functions properly pertain to the Office of Civilian Defense, or should they be lodged elsewhere?

A. See above.

Do you believe that there should be any such set-up?

A. See above.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Aug. 20, 1941

TO Mr. Gaston
FROM Mr. Odegard

I have read the letter of August 14, which Mr. LaGuardia sent to the Secretary, with an accompanying memorandum, on the subject of an "Office of Facts and Figures".

For some years many people have felt the need for some central clearing house to correlate the reporting services of the 115 or more information offices scattered throughout the various departments and agencies of the government. As I understand it, the Office of Government Reports was established under Lowell Mellett, to meet this need. To a large extent, of course, it does. In addition to the Division of Press Intelligence which supplies clippings, abstracts and special research information, the OGR includes the United States Information Service. The function of this latter division is described by Mr. Mellett as "a single clearing house in Washington for inquiries concerning all branches of the government".

In any single year from 50,000 to 100,000 such inquiries are received. Congressional requests for information alone now average about 900 a month. This is, of course, exclusive of similar work done by the Division of Field Operations now operating in every state. It is also exclusive of other activities like the maintenance of information booths at the New York World's Fair and the preparation and publication of special reports on governmental organization and operation. It may be that the increased tempo of the defense program makes the need for some more efficiently operated central office of information more urgent.

From my own limited experience, I should guess that, notwithstanding the large number of inquiries handled by the OGR, it is the usual custom now for people inside and outside the government seeking information to go directly to the separate departments and agencies. This will undoubtedly continue to be true unless the proposed Office of Facts and Figures virtually takes over the work of other existing

-2-

information agencies. Barring this, it may be that the new office operating within the same limits as the OGR would be more efficient. But even if this were true, I doubt the wisdom of setting up an entirely new agency.

At the present time, the Office of Government Reports employs approximately 100 people in its Division of Field Operations and 175 in Washington. To build a new and in some ways competing organization, would, in my judgment, be a mistake. Perhaps Messrs. Davenport and Kintner can help Lowell Bullett to be more effective without a new and elaborate staff. This indeed seems to be implied in Mayor LaGuardia's letter. He says:

"I do not feel that it would be proper for our Office to supplant the present publicity or information services. That work is now being done by each department and it should remain with the departments. Our simple function is to clarify, and, we would hope, make more effective, the efforts of agencies already in the field. It is essentially a job of coordination and not of control or regulation."

If the proposal goes beyond this and involves a program of censorship and promotion, it amounts to a revival of the Greel Committee on Public Information, a proposal which ought to be presented frankly and discussed as such.

Mayor LaGuardia admits one exception to his general disclaimer of any intention to go beyond purely factual reporting. He says:

"To this general principle there is only one exception, and that has to do with radio time. At present the radio companies are being deluged with requests for time from all the departments. All these requests are made with the same intention, namely, to help public morale: yet I am assured that they are having quite the opposite effect, and that the public is not reacting well to all the Government time now being taken on the air. In order to make these efforts effective it will be necessary to coordinate and channel all Government radio programs in one office, and this job should belong to an office of facts and figures."

-3-

To us in the Defense Savings Staff this is an alarming proposal. It seems to imply nothing less than general supervision and control, not only of the allocation of radio time but of program content.

The promotional problems of various government agencies and departments, even as they affect the problem of national morale, are not uniform and cannot be standardized. In my judgment they should be left to the people in these agencies best qualified by training and experience to deal with them. I personally doubt the advisability of someone outside the Treasury being in a position to tell the Defense Savings Staff what it should or should not do with its radio time.

The Defense Savings Staff is solicitous of any suggestions for the improvement of its promotional methods or copy, whether for radio, pamphlets, movies, billboards, or other channels of communication. But barring violations of the usual canons of decency, fair play, administration policy and common sense, we prefer to decide on the nature of the appeals we use.

As for the allocation of radio time among various government departments, this had better be left to the existing agencies qualified to apply the standards of "public interest, convenience and necessity" to competing programs. If a new agency is needed to supplement the Federal Communications Commission, the Defense Communications Committee and present intra-industry authorities, it should be established only after careful study and consultation with all parties concerned.

The Defense Savings Staff, I believe, has the most extensive and intensive radio program of any government department. We have been extremely careful to use our time in a manner best calculated to serve the ends we have in view. To reduce guesswork to a minimum we have not only employed our own full time analysts but have had the full cooperation of such polling and rating services as Cooperative Analysis of Broadcasting (CAB), C. E. Hooper, Inc., and the American Institute of Public Opinion. As you know, the Treasury Hour "Millions for Defense" is now rated at the very top by the most reliable of all rating methods - the coincidental survey of C. E. Hooper, Inc. In addition, we have a field organization which soon will reach into every community and voluntary association in the nation. Through it we have tens of thousands of listening posts at the "grass roots" of public opinion.

The Defense Savings Staff is almost the only agency of the Government which seeks to sell a definite commodity within the

-4-

reach of every man, woman and child in the nation. One important measure of our success or failure in building national morale is the cash receipts received in the Treasury from the sale of Defense Bonds and Stamps. We should be very happy to make available to Mayor LaGuardia and Messrs. Davenport and Kintner the statistics not only of these sales but of public opinion surveys relating to our promotional campaign. I mention all this only because of a statement in Mayor LaGuardia's letter that many government radio programs instead of building morale "are having quite the opposite effect".

In all its promotional efforts, the Defense Savings Staff has not acted alone, but has enlisted the active and continuing cooperation of other government departments and of countless voluntary groups representing every interest and section of the American people, and every avenue of communication. The Departments of War, Navy, of Agriculture and Labor, the Office of Education, the OPM and the OGR, have been particularly helpful. In no case either in Washington or in the field have we found ourselves in competition or disagreement with other government agencies. We, of course, stand willing at all times to cooperate with them in any way we can.

There are many other questions raised by Mayor LaGuardia's letter which call for comment. This memorandum is already too long for their discussion here. But until all those most vitally concerned have had an opportunity to give more careful consideration to all that may be involved in the proposed Office of Facts and Figures, I would hesitate to give it unqualified endorsement. The immediate establishment of a speakers bureau might be helpful, especially to explain the meaning and significance of the defense program to men in the camps. A democratic army needs a better understanding of the reasons and purposes for which it exists than ours now has.

To a considerable extent the doubt, confusion and indecision which characterize public opinion are due to improper and ineffective handling of information by government agencies. A case in point are the recent conflicting newspaper stories dealing with the progress of the defense production program. On one day the public is confronted with an highly optimistic progress report; on the next, with an equally discouraging and almost defeatist account of breakdown in the defense effort. This type of report might be avoided by a more consistent and better coordinated plan of public reporting. Therefore, anything which will improve the efficiency of government information services should be encouraged, but beyond this I would not now go.

August 21, 1941.

MEMORANDUM

TO: Commissioner of Customs
FROM: Mr. Gaston

Attached is copy of a letter from Philip Young, Acting Executive Officer, Division of Defense Aid Reports, Office for Emergency Management. Mr. Young tells me that the same or similar letter has been written to agencies concerned with the procurement of defense aid materials with the object of emphasizing to shippers the need for the utmost precaution.

It is suggested that the Collector^s of Customs be advised of the discovery of unauthorized and dangerous material packed with some of the shipments which have arrived in England, with the object that they exercise all practicable vigilance in connection with the inspection of outgoing shipments.

Enclosure.

August 21, 1941.

Memorandum to the Director of Procurement:

Attached is copy of a letter from Philip Young, Acting Executive Officer, Division of Defense Aid Reports, Office for Emergency Management. Mr. Young tells me that the same or similar letter has been written to other agencies concerned with the procurement of defense aid materials with the object of emphasizing to shippers the need for the utmost precaution.

(Signed) Herbert E. Gaston

Herbert E. Gaston
Assistant Secretary of the Treasury.

Enclosure.

C
O
P
Y

Office for Emergency Management
DIVISION OF DEFENSE AID REPORTS
Washington, D.C.

August 12, 1941.

The Honorable

The Secretary of the Treasury

Dear Mr. Secretary:

It is recommended that steps be taken to insure that the packing of material for Defense Aid shipments be so supervised as to prevent the placing of authorized material in the packing cases. There have been several instances reported where unauthorized material has been introduced into the packing. Deliberate sabotage was intended in some of these instances.

Sincerely yours,

(Signed) Philip Young

Philip Young
Acting Executive Officer.

COPY

TELEGRAM SENT -- PLAIN

AUGUST 21, 1941

Noted
H. E. Cochran

AMEMBASSY,

LONDON, (ENGLAND).

3296, Twenty-first,

THE FOLLOWING FROM COMMERCE:

It is necessary to know whether "other gifts" mentioned in customs and excises letter means all other gifts within the specified weight limit or merely playing cards and liquor when sent to individuals. Please reply by cable,

HULL
(PTM)

DCA:RHG:NN EU

TO THE
TECHNICAL
STAFFVBA
VH1

05 AUG 22 05 15 05

RECEIVED
PROVINCIAL
RECEIVED

CHINESE EMBASSY
WASHINGTON

August 21, 1941

My dear Mr. Secretary:

I am requested by the Minister of Finance
to transmit to you the following telegram under date August 19,
1941:

"Please inform Secretary of Treasury
action has already been taken with regard
to paragraphs No. 1, No. 2 and No. 3 of
memorandum of May 26, 1941 covering Chinese
stabilization board and the two stabiliza-
tion funds namely (1) a decree has been
issued establishing the stabilization board
and the stabilization funds (2) Minutes of
the organization meeting of the board have
been prepared (3) The Chinese Government
has entered into an agreement with the Chi-
nese Government banks covering the contri-
bution of twenty million United States Dol-
lars by such banks to the United States
dollar and Chinese Yuan Stabilization fund
and the subordination of the claims of
such banks to the terms of the agreement
dated as of April 1, 1941, between the
National Government of China, the Cen-
tral Bank of China, and the Secretary
of Treasury of the United States. The
above-mentioned sum was paid to the
Federal Reserve Bank on August 14, 1941.
Documents are being forwarded under
separate cover.

(Signed) H.H. Kung."

I am, my dear Mr. Secretary,

Very sincerely yours,

(Signed) Hu Shih

Honorable Henry Morgenthau, Jr.
Secretary of the Treasury
Department of the Treasury
Washington

CONFIDENTIALP A R A P H R A S E

A telegram (no. 1132) of August 21, 1941 from the American Consul General at Shanghai reads substantially as follows:

In general the action which the stabilization committee took in giving exchange cover at five and five-sixteenths cents and three and five-thirty seconds pence to merchants for certain qualified imports from the United States and sterling areas into Shanghai has been welcomed by Chinese and other bankers. This action has to some extent relieved the pressure on the open market and halted the steady decline in rates which was evident before the action was taken. However, the development of a new black market at much lower rates than the committee's selling rates has dismayed some persons. This new black market was made possible on account of unrestricted trading in amounts constituting deposits in United States dollars in the licensing banks, involving also all export bills used for cover for unbanned articles from the sterling areas and from the United States and for imports of articles on the banned list of July 4, 1939.

On account of this situation the stabilization committee is practically compelled to pay for all the
qualified

- 2 -

qualified essential imports from the sterling areas and from the United States without being able to recoup the exchange loss by using the accruing exchange resources from articles exported to the sterling areas and the United States. This situation is somewhat like the very costly Chinese official system adopted in Shanghai in 1938. Some concern is felt also as to whether stabilization funds will be drawn upon to pay for imports which will probably be hoarded although they seem legitimate.

Another viewpoint, however, which takes into consideration the numerous irregularities existing in the complicated situation at Shanghai, recognizes the difficulty of planning a working system which has no loopholes. Since speculation on a large scale such as was rampant before the freezing order is impossible now, it is anticipated that the black market trading will be relatively small in volume. Therefore, it is believed probable in some quarters that for the time being the committee's rates and the black market rate may not be widened very much although the spread may be large ultimately. Although there will naturally be a rise in price in luxuries and other banned articles, it seems more probable that staple commodities will remain more or less stable in price subject to freight rate fluctuations.

Copy:wec:8-28-41

BJ

C
O
P
Y

PLAIN

Hong Kong via N. R.

Dated August 21, 1941

Rec'd 2:57 p.m., 22d

Secretary of State,

Washington.

317, August 21.

Hong Kong Government Gazette extraordinary of August 20 revises list of countries for which export or reexport licenses on all goods from Hong Kong are required. Former list was dated August 2, 1940. Revised list omits Rumania, Bulgaria, Greece, Yugoslavia, Hungary, and Finland which have meanwhile been gazetted as enemy territory and adds Japan (Japan proper, Korea, Formosa, Kiraffuto, Kwangtung Leased Territory, islands in the Pacific under Japanese mandate) and Manchuria. Applications for export licenses must specify in as great detail as possible the route by which the goods concerned will reach their destination. Issuing officer is the Hong Kong Controller of Trade.

Sent to Department, repeated to Shanghai.

SOUTHARD

NPL

Copy:hr:10-2-41.

C
O
P
YDEPARTMENT OF STATE
WashingtonIn reply refer to
EA 840.51 Frozen Credits/3120

August 21, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith a paraphrase of telegram No. 20, dated August 18, 1941, from the American Consulate in Kunming concerning the banking facilities in that district with particular reference to the Kunming branch of the Bank of Indochina.

Enclosure:

Paraphrase of
telegram No. 20,
August 18, 1941,
from American
Consulate, Kunming.

Copy:lg 8/23/41

C
O
P
Y

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Kunming
TO: Secretary of State, Washington.
DATE: August 15, 1941, noon.
No.: 20.

In addition to the Bank of Indochina three banks in Kunming have for more than a year engaged in foreign exchange business. Two of these are the Bank of China and the Commercial and Savings Bank. It would appear, therefore, that the facilities for transacting foreign exchange business are adequate. It is possible, however, that clients of the Bank of Indochina might be deprived of certain special advantages of established banking relations if they should be forced to transfer their dealings from the Bank of Indochina to other institutions.

The Kunming branch of the Bank of Indochina is estimated to account for less than one-third of all commercial banking business done here. A larger part of this is said to be connected with financing imports due to the fact that export shipments are small except for those of commodities subject to monopoly by Government agencies, or subject to exchange control regulations. The Government regulations require that in such cases exchange transactions must be handled by the Chinese Government banks.

Most of the foreign exchange transactions originating in Kunming are ultimately cleared in Shanghai because of the smallness of the local supply and the fact that cover has to be obtained in

Shanghai. The Bank of Indochina is understood to operate through an account with the Shanghai office of the Chase Bank, and the Consulate suggests that details may be obtained from that office. Remittances of funds between Kunming and Shanghai are reliably reported to have been made via the Bank of China, but for the past two months no transactions of this character have occurred.

The Consulate refers to its despatch No. 261 of July 16, 1941 for more complete information on the exchange market in Kunming.

EA:HGW:MCE

Copy:lg 8/23/41

DEPARTMENT OF STATE
Washington

In reply refer to
RA 840.51 Frozen Credits/3119

August 21, 1941

The Secretary of State presents his compliments
to the Honorable the Secretary of the Treasury and
transmits herewith a copy of telegram No. 1054, dated
August 19, 1941, from Vichy, concerning Mr. Leon Thebaud.

Enclosure:

From American
Embassy, Vichy,
No. 1054,
August 19, 1941.

eh:copy

C
O
P
Y

TEM

GRAY

(Paris)
Vichy

Dated August 19, 1941

Rec'd 8:42 a.m. 20th

Secretary of State,

Washington.

1054, August 19, 7 p.m.

Department's instruction no. 145, July 19, 1941.

Leon Thebaud left Vichy allegedly for Haiti via Lisbon and the United States on July 29th. At that time, he stated that he expected to return to France in about four months.

MATTHEWS

WSE

August 25, 1941

NOTE: State Dept. informed Treasury that they do not give out "Department's instructions" but did state that this particular Reference No. 145, July 19, 1941, was merely an inquiry as to the whereabouts and activities of Leon Thebaud.

F.D.

DEPARTMENT OF STATE
WASHINGTON

August 21, 1941.

C
O
P
Y

In reply refer to
2A

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses one copy of telegram No. 458, dated July 1, 1941, to the American Embassy, Rome, and four copies of telegram No. 468, dated July 2, 1941, to the American Embassy, Rome, transmitting the text of an aide memoire which was handed to the German Charge on June 29, and instructions issued by the Treasury Department to all Federal Reserve Banks in regard to the disposal of certain property.

Enclosures:

To Embassy, Rome,
No. 458, July 1, 1941.

To Embassy, Rome,
No. 468, July 2, 1941.

Copy:wec:8-23-41

TELEGRAM SENT

IES

PLAIN

July 1, 1941 noon

AMERICAN EMBASSY,

ROME

NO.: 458

Following is the text of an aide memoire handed to the German Charge yesterday:

QUOTE. The procedure outlined below is conditioned upon the German Government according reciprocal treatment.

I. Consular Establishments

A. In order that appropriate consideration may be given for the issuance of the requisite licenses permitting the German Government to make financial arrangements for the withdrawal of its consular establishments in the United States, the Charge d'Affaires ad interim of Germany is requested to furnish this Government with a list of the various official accounts of each consular establishment whether in the name of the consular establishment, any individual or otherwise, indicating the name of the account, the name and address of the bank in which maintained, and the names and addresses and official positions of the persons having signing authority over the account.

B. The Charge d'Affaires is requested to furnish this Government with a statement of the funds necessary: (1) for the operation of the establishment until the date of its closure; (2) for the closing of the establishment and the necessary liquidation of any obligations of the establishment; and (3) for the transportation of personnel.

C. Upon the receipt of satisfactory data as requested in A and B, prompt consideration will be given

-2-

given to the issuance of licenses permitting the payment of the expenses under reference from the official funds of the consular establishment. If the funds of the consular establishment are not sufficient for this purpose, the Charge d'Affaires is requested to indicate the source from which additional funds are to be obtained so that prompt consideration may be given to the requisite licenses.

On or before July 15, 1941 any funds remaining in the official accounts of the consular establishment should be paid into one of the official accounts maintained on behalf of official German representation in Washington or into an account of the Reichsbank with the Federal Reserve Bank of New York.

II. Withdrawal of the Personnel of Consular Establishments

A. The Charge d'Affaires is requested to furnish this Government with a list of the officers, agents, clerks, and employees of each consular establishment, together with the names and addresses of the banks in which such persons maintain accounts and the name of the account in each case.

B. Under General License No. 11, \$500 per month may be withdrawn from the bank accounts of the personnel under reference for living and traveling expenses in the United States. If more than this amount is required by any such person for living expenses and expenses incident to travel and the liquidation of obligations, the Charge d'Affaires is requested to furnish a list of such persons and the amounts required by each. Upon receipt of this information prompt consideration will be given to the issuance of licenses permitting the withdrawal of sums in excess of \$500 for the expenses under reference. Upon request the Treasury Department will endeavor to make arrangements whereby any personal funds and securities remaining in the accounts of such persons, after such withdrawals, are converted into reichsmarks and made available to such persons. At the time of departure each person will be asked to declare the amount of United States currency, securities and other dollar assets in his possession.

III. - Withdrawal of Agencies Connected with the German Government

A. Each

A. Each agency must furnish this Government with a list of the bank accounts maintained by the agency, whether in its name or the name of any individual or otherwise, indicating the name of the account, the name and address of the bank in which maintained and the names and addresses and official positions of the persons having signing authority over the account.

B. Each agency is requested to furnish this Government with a statement of the funds necessary: (1) for the operation of the agency until the date of its closure; (2) for the closing of the agency and the necessary liquidation of any obligations of the agency; and (3) for the transportation of the personnel connected with the agency.

C. Upon receipt of satisfactory data as requested in A and B, prompt consideration will be given to the issuance of licenses permitting the payment of the expenses under reference from the bank accounts of the agency.

IV. Withdrawal of Personnel of Agencies Connected with the German Government

A. The personnel of agencies connected with the German Government must furnish the Treasury Department with a list of bank accounts maintained by them in their name or otherwise, indicating the name of the account and the name and address of the banks in which the accounts are maintained.

B. In case such personnel need funds in excess of \$500 per month permitted under General License No. 11 in order to meet the expenses and obligations incident to their departure from the United States, prompt consideration will be given by the Treasury Department to the issuance of licenses to meet such expenses.

V.

A. The Charge d'Affaires is requested to furnish this Government with a list of the various official accounts of the official German representation in Washington, whether in the name of the representation, any individual or otherwise, indicating the name of the account, the name and address of the bank with which maintained, the names, addresses and official positions of the persons having signing authority over the account, the nature of the payments customarily made from the account.

AF -4-

the account, and the nature, purpose, and amount of the monthly payments which it desires to make from each account. The Charge d'Affaires is also requested to furnish this Government with information as to how it is proposed to replenish such accounts, indicating the source of funds to be used in replenishing such accounts and the amount of funds which it is desired to transfer to each such account monthly.

B. Upon receipt of satisfactory data concerning such accounts, prompt consideration will be given to the issue of a monthly license permitting the necessary payments from these accounts. Such payments are to be made solely for the official expenditures of the German representation in the United States. Banks maintaining these accounts will make appropriate monthly reports to the Treasury Department.

VI. Personal Accounts of Officials Connected
the Official German Representation in
Washington.

A. The Charge d'Affaires is requested to furnish this Government with a list of the personnel of the official German representation in Washington, indicating in each case the name of the account and the name and address of the bank in which it is carried. Under General License No. 11, \$500 per month may be paid out without any further license for living and traveling expenses in the United States of the person in whose name the account is maintained and his family. Accordingly, it is not anticipated that licenses will be issued in those cases in which the accounts can operate within the provisions of General License No. 11. Should additional amounts be required, prompt consideration will be given to the issuance of licenses allowing a withdrawal of such additional amounts.

B. The Charge d'Affaires is requested at the time of furnishing the list on behalf of his Government to give assurances that such accounts contain only personal funds and that such funds will be used

AF -5-

used only for the personal expenses of the account holder and his family within the United States and that this Government will promptly be advised in the event that the account holder leaves the United States or ceases to be connected with the mission.

VII.

The licenses referred to herein are issued by the Secretary of the Treasury pursuant to Executive Order No. 8389 of April 10, 1940, as amended, which, among other things, prohibits banks and banking institutions from making transfers of credit or permitting withdrawals from accounts in which Germany or nationals thereof have an interest, except under licenses and regulations issued by the Secretary of the Treasury. The issuance of such licenses will be facilitated if the Charge d'Affaires submits with the data requested herein a statement of the United States currency, securities and other dollar assets at the disposal in the United States of the German official representation and consular establishments in the United States held either in their names or possession or in the name or possession of individuals. Such data will be required of the agencies connected with the German Government and their personnel.

UNQUOTE.

WELLES, Acting
(DA)

BU:JWR:AMR

Repeated mutatis mutandis to Rome as no. 458, June 30, 1941, by Department.

Copy:wec:8-23-41

PARAPHRASE OF TELEGRAM RECEIVED**FROM: American Embassy, Rio de Janeiro, Brazil.****DATE: August 21, 1941, 7 p.m.****NO.: 1127**

Reference is made to the Embassy's telegram of August 13, 2 p.m., No. 1070.

Aranha has received a protest from the Japanese Ambassador regarding the refusal of the Bank of Brazil to permit the use of the dollar credits by the Yokohama Specie Bank.

CAFFERY**840.51 Frozen Credits/3153****EA:HQW:PAK**

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Panamá, Panama.

DATE: August 21, 1941, 6 p.m.

NO.: 198

RUSHED

Reference is made to telegram No. 242, dated August 20, 5 p.m., from the Embassy.

In the circumstances, the Department can no longer request the authorities of Panamá to withhold the confirmation of the cancellation of the Panamanian registry of the SANTA HELENA.

HULL
(SW)

RA:JCC:NGL IN A-L

EA:PAK

819.852/46

RECEIVED
OFFICE OF THE
SECRETARY OF THE
NAVY

1841 SEP 23 PM 15 55

RECEIVED
OFFICE OF THE
SECRETARY OF THE
NAVY

DEPARTMENT OF STATE
Washington

In reply refer to
EA 840.51 Frozen Credits/3117

August 21, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith a paraphrase of telegram No. 453, dated August 20, 1941, from the American Legation, Lisbon, concerning the Portuguese general license.

This Department has furnished the text of the general license as requested in the Legation's telegram.

Enclosure:

Paraphrase of
telegram from
American Legation,
Lisbon, August 20, 1941.

eh:copy

C
O
P
Y

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Lisbon.

DATE: August 20, 1941, 11 a.m.

NO. : 453

Because of a divergence of opinion in local banking circles regarding the terms of the Portuguese general license unblocking Portuguese accounts in the United States, the Legation would appreciate receiving a resume by telegraph and a copy of the complete text by pouch.

FISH

EA:HGW:MCE

sh:copy

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 21, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	\$252,000
Purchased from commercial concerns	\$20,000

Open market sterling was quoted at $1/4$. The only reported transaction consisted of \$1,000 purchased from a commercial concern.

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

Canadian dollar	10-3/4% discount
Argentine peso (free)	.2380
Brazilian milreis (free)	.0505
Colombian peso	.5800
Mexican peso	.2070
Uruguayan peso (free)	.4375
Venezuelan bolivar	.2750
Cuban peso	1-1/8% discount

In the unofficial exchange market in Shanghai, the yuan fell 7/32¢ to 4-5/8¢, the lowest quotation since May 1940.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Central Bank of the Colombian Republic shipped \$2,480,000 in gold from Colombia to the Federal for its account, disposition unknown.

The State Department forwarded a cable to us stating that the National Bank of India, Bombay, shipped \$163,000 in gold from India to the Chase National Bank, New York, for sale to the New York Assay Office.

In London, spot and forward silver were again fixed at 23-7/16d, equivalent to 42.55¢.

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

We made one purchase of new production silver amounting to 50,000 ounces under the Silver Purchase Act. This silver, which was bought for forward delivery, came from various foreign countries.

BRITISH EMBASSY,
WASHINGTON.

August 21st, 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,

R. I. Campbell

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

TELEGRAM FROM LONDON DATED AUGUST 18th, 1941

During attack by U Boats a.m. August 18th on outward bound convoy 520 miles east of Ushant Norwegian destroyer Bath and one small British ship sunk. Further attack made later casualties not known. U. S. S. Picotee overdue feared lost. She was escorting ship to Iceland.

2. August 18th. 22 Blenheim sent with fighter escort to attack engineering works at Lille, shell factory at Warquise and shipping off the Dutch coast. 3 small trawlers were sunk. Conditions intermittently cloudy rendered the success of the attack on the first two targets doubtful. One Blenheim lost. About three hundred and seventy fighters took part and destroyed 3 enemy fighters. We lost 3 Spitfires.

3. Night of August 18th August 18th over 120 aircraft despatched from United Kingdom to attack Cologne, Duisburg and Dunkerque. Visibility good, bombs burst in all target areas. At Cologne 4,000 lb. bomb dropped close neighbourhood of main station. Eight aircraft missing.

4. Seven Swordfish from Malta attacked south bound convoy of 3 merchant vessels 1 tanker escorted by 6 destroyers at 20.45/17 in position 20 miles west of Laredo. Believed several ships hit by torpedo and one known destroyed estimated 2,000 tons.

5. Tobruk. Our patrol activity continues. Enemy heavily shelled Medawar salient night of August 16th-17th doing little damage.

6. Russia. Germans closing in on Novgorod. German drive towards Dnieper River progressing especially in centre where spearheads approaching Nikopol.

RESTRICTED

G-2/2657-220; No. 473 M.I.D., W.D. 11:00 A.M., August 21, 1941

SITUATION REPORTI. Eastern Theater.

Ground: German operations of great violence continue against Leningrad. The German High Command states that large Russian forces have been decisively defeated in the Gomel area.

In the Ukraine, Kherson has been captured by the Germans together with the Russian bridgeheads west of the Dnepr River at Kanov, Cherkasi, Kremenchug, and Verkhne-Dneprovsk.

Air: German planes inflicted heavy losses on Russian troops leaving Odessa and Ochakov by sea. Russian troops evacuating the Lake Ladoga area were also attacked by Finnish air forces.

II. Western Theater.

Air: Heavy forces of British bombers following up a dawn attack on north France were reported crossing the Channel in the direction of the Netherlands and northwest Germany. Boulogne and Calais were attacked during daylight. German night attacks on eastern England continued light.

III. Middle Eastern Theater.

Air: The Suez Canal was bombed during the night.

RESTRICTED

Ste. Marguerite Salmon Club,
Rivière Ste. Marguerite,
Tadoussac, P. Q.

8/22/41

Station,

1. Give truck message for Miss Wais.
2. Stop 4 Y. Times.
3. Watchman Tues. Farm.
4. Send West mail via C. Grand Place Monday
5. Notify Bob ^{Préville} change in Plans.

August 22, 1941.
Tadoussac (Canada)

Herbert
Gaston:

..... ah - the motors for the tanks.

H.M.Jr:

What's that Herbert?

G:

On that Vimalert deal - the British motors for the tanks.

H.M.Jr:

Oh yes.

G:

I thought - ah - the British seem to want to go ahead without consulting us and enter into that contract and I thought we'd better just stay away from it entirely and not try to inject ourselves. I didn't think we would accomplish anything but would just get messed up in it, so I made it plain that we weren't.....

H.M.Jr:

Simply doing it without our O.K?

G:

That's right.

H.M.Jr:

What?

G:

That's right. That's what they tell me.

H.M.Jr:

Well I'd have a written record.

G:

I told Brown, of Lend-Lease, that I wanted it understood that we were not taking any action and he said that was entirely understood.

H.M.Jr:

Hello.

G:

Yes.

H.M.Jr:

O.K.

G:

Ah - General Burns and Phil Young were in today and wanted me to speed up Treasury Procurement and I'm going to have a talk with Cliff Mack.

H.M.Jr:

Ah-ha.

G: Ah - Donovan sent Captain James Roosevelt over here to work out liaison with his committee and we're working that out.

H.M.Jr: I see.

G: Cochran fixed it up to send Cassidy to London and he's leaving on the plane tomorrow to replace Coe to be back on the 15th.

H.M.Jr: Good.

G: Also the man Hewlett is going out East to join Fox. He wasn't able to get the kind of help he wanted personally. Then there's two men going to the Philippine's to take the place of - from the Philippine's to Shanghai and Hong Kong because Fox needed more help in connection with frozen funds.

H.M.Jr: Well Herbert, as far as all of those things are concerned, it's alright isn't it?

G: Yep.

H.M.Jr: I can wait till I get back.

G: Right.

H.M.Jr: It's kind of difficult hearing on this phone.

G: Yes.

H.M.Jr: I'd rather if you could write it out and give it to Sinton - he can bring it up Monday.

G: Alright, I've written it out. (Laughs).

H.M.Jr: Alright. How do you feel?

G: I'm feeling first rate. Eccles called me up to tell me that he hoped we wouldn't do any long term financing in September and I'm giving you a memorandum on that.

H.M.Jr: Alright, now is Sullivan there?

G: Sullivan is here and Peter Odgaard is here.

- 3 -

H.M.Jr: Well let me talk to John a minute.

G: Right.

John
Sullivan: Hello Mr. Secretary. Are you catching any?

H.M.Jr: How are things down your alley?

S: Perfect.

H.M.Jr: Perfect.

S: Perfect.

H.M.Jr: Are you serious?

S: Certainly I'm serious.

H.M.Jr: All right.

S: Do you want to know what the tax bill is?

H.M.Jr: What? (Laughs)

S: Do you want to know what the tax bill is going to be?

H.M.Jr: Well I'm a little curious, yes.

S: Yes, well they're going to broaden the base.

H.M.Jr: Yes, I knew that.

S: And they're going to take out the tax on billboards and radio stations. I think I've got a pretty good chance of getting rid of the use tax on automobiles. I think I have a fighting chance of a half cent a gallon on gasoline and a half cent a pack on cigarettes. We may lose that 10 per cent on invested capital companies. I'm not sure about it. I had Bob LaFollette out to dinner Wednesday night and I had a long conference with Prentis Brown today. They think it's better to have the fight on tax exempts in the Administrative Amendment bill. I told them I'd report that to you. There's going to be a fight for mandatory joint returns; ah - George is interested in it; Berkley is the other way; there was a story on the ticker the other day that the President doesn't want it under any condition.

- 4 -

H.M.Jr: What's that?

S: That the President doesn't want it on any condition.

H.M.Jr: On any condition.

S: And is supposed to so have advised them, that is, Connally, George and Barkley when they were at the White House.....

H.M.Jr: I wouldn't talk too freely on this phone. If you could write me a letter and give it to Lieut. Sinton Monday, I'd be glad to know what's happened.

S: I will, sir.

H.M.Jr: I'd be a little careful on this phone.

S: Yes sir, I didn't understand.

H.M.Jr: But I gather things are alright.

S: Fine.

H.M.Jr: You're feeling all right.

S: You bet. We'll be out of the Senate by the 6th.

H.M.Jr: Good.

S: Two weeks from tomorrow.

H.M.Jr: Send me up a letter Monday with Lieut. Sinton.

S: Yes, indeed I will. Are you catching any?

H.M.Jr: What's that?

S: Are you catching any?

H.M.Jr: I don't hear you.

S: Are you catching any fish?

H.M.Jr: Well there's no salmon but we caught lots of speckled trout.

- 5 -

S: Good. You're having a good time.

H.M.Jr: All right.

S: Good. Whom do you want to talk to?

H.M.Jr: Just Odegard a minute.

S: Right.

Peter
Odegard: Hello

H.M.Jr: Hello Peter.

O: How are you?

H.M.Jr: I'm fine. I hope you passed my telegram along to where it did some good.

O: I did and they're in my office now. We're talking about next week's show.

H.M.Jr: Did you listen to it?

O: Yes.

H.M.Jr: Did you ever hear anything worse?

O: Ah - yes (laughs).

H.M.Jr: What?

O: Yes, but with some reservations.

H.M.Jr: I want to tell you about the telegram I wanted to send but my family wouldn't let me.

O: (Laughs)

H.M.Jr: I said, I want to say "For Heaven's sakes, take the program out of the gutter".

O: (Laughs) Well you see the trouble is - as you know the trouble is you have these comedians like Jolson and Milton Berle and next week they have Eddie Cantor and the kind of stuff that they do is pretty low stuff but we'll try to either shorten it or elevate it a little bit and I think you'll like the program, as a matter of fact, this week.

- 6 -

H.M.Jr: Well they ought to shorten it, elevate it or eliminate it.

O: Yes (laughs). They are going to have an Oberler play and Rubinooff.....

H.M.Jr: Don't anybody dare put one of those Certificate Awards on my desk for that TERRIBLE woman who sang that night, and the man.

O: Oh yes.

H.M.Jr: I'll never sign any Treasury Certificates for them.

O: (Laughs) Yes, well I'll pass that on. I hope you'll like.....

H.M.Jr: Tony Pastor must have turned over in his grave.

O: Who?

H.M.Jr: Tony Pastor.

O: Tony Pastor.

H.M.Jr: Yes.

O: Oh that was the week before.

H.M.Jr: What?

O: Was that this last week?

H.M.Jr: The 8th program.

O: Oh yes, well I think he probably did. You see Paul Muni was to read the thing and he backed out.

H.M.Jr: Did he die?

O: No he just couldn't do it the last minute and they got this fellow Gable to do it.

H.M.Jr: Well he's terrible.

O: Yes, he wasn't good.

- 7 -

H.M.Jr: The thing he's got is his name and that's the wrong name.

O: Yes (laughs) that's right.

H.M.Jr: All right, Peter, take care of yourself.

O: You bet, have a good time.

H.M.Jr: And if Mrs. Klotz would go to her room I'd like to talk to her. Does anybody else want to talk to me.

O: Ah - there's no one else here.

H.M.Jr: Good.

O: I'll tell Mrs. Klotz.

H.M.Jr: If you please.

O: She's in her room now.

H.M.Jr: Thank you.

O: Goodbye.

H.M.Jr: Goodbye.

August 22, 1941

Dear Jack:

Please accept my sincere thanks for your letter dated August 15, 1941, with which you enclosed a copy of a paraphrase of Mr. Vincent's cablegram concerning Gee, together with a letter appointing Mr. Goadway as Special Assistant to the Ambassador.

Will you be good enough to cable the Ambassador that Mr. Goadway is leaving New York tomorrow, August 23, on the Clipper for Lisbon, and thence by air to London. It is understood that Mr. Gee will remain in London a few days with Mr. Goadway and will then return to Washington by September 15.

Faithfully yours,

(Signed) H. Merle Cochran

H. Merle Cochran
Technical Assistant to the Secretary

John G. Edwards, Esquire,
Chief, Division of Foreign Service
Personnel,
Department of State.

EMC:lap-S/22/41

JUN 22 1941

Sir:

The assistance of the Department of State would be sincerely appreciated in the following circumstances:

It will be recalled that a few weeks ago several experts were sent from the Treasury Department to Hawaii and the Philippine Islands to assist in the administration of regulations under Foreign Funds Control. Among these were Messrs. Lehman C. Aarons and Richard P. Aikin. Both of these men are at present in Manila.

Urgent requests have been received by cablegram from Mr. A. Manual Fox, the American representative on the Chinese-American-British Stabilization Board at Chungking for American experts to be sent to Hong Kong and Shanghai to assist in interpreting our Control regulations. The Treasury has discussed this question with Assistant Secretary of State Acheson and the decision has been taken to order Mr. Aarons to proceed to Shanghai and Mr. Aikin to Hong Kong as early as possible. A communication in this sense has been sent to the American High Commissioner at Manila.

The Treasury Department is satisfied as to the American citizenship of its two employees above mentioned and encloses photostatic copies of documents on file with this document supporting that fact. The Treasury recommends that passports be issued to them to enable them to proceed to their destinations. It would be appreciated if instructions could be sent by radio to the High Commissioner at Manila toward this end, with the understanding that any further documentary proof will be submitted later if needed.

Respectfully yours,

Acting Secretary of the Treasury.

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

BB:ael 8/22/41
Initialed: HMC BB

CITY OF CHESTER
PENNSYLVANIA

DEPARTMENT OF PUBLIC SAFETY
W. J. MCDOWELL, DIRECTOR

April 21, 1941.

TO WHOM IT MAY CONCERN:-

This is to certify that Richard P. Aikin was born on the Sixteenth day of February, 1905, at #1010 Madison Street, in the City of Chester, County of Delaware and State of Pennsylvania.

Maiden name of Mother: Jean Cheetham.

Name of Father: Hugh C. Aikin.

Attendant: Dr. D. P. Maddux.

The above is a true transcript from the records of this office. Witness my hand and official seal this Twenty-first day of April, 1941.

Timothy M. Barry

Health Officer.

U. S. TREASURY DEPARTMENT

OFFICE OF THE SECRETARY C.C. GENERAL COUNSEL
(Office)

AFFIDAVIT

Required by the
EMERGENCY RELIEF APPROPRIATION ACT

"I, LEHMAN C. AARONS do solemnly swear
(or affirm) that (1) I am a citizen of the United States, and that
(2) I do not and will not advocate the overthrow of the Government
of the United States, and that (3) I am not a member of an organiza-
tion and will not become a member of an organization that advocates
the overthrow of the Government of the United States.

I further solemnly swear (or affirm) that (4) I am not an alien,
nor a Communist, nor a member of any Nazi Bund Organization, and
that I will not become a Communist or a member of any Nazi Bund Organ-
ization during such time as I am an employee of the Federal Government.

Lehman C. Aarons
(Signature)

Subscribed and sworn to before me at Washington, D. C.,

this 18th day of July, 1943

(Name) Immanuel

NOTARY PUBLIC, D. C.

(Title) My Commission expires July 31, 1943

August 22, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

Marriner Eccles called me today to say that he was leaving tonight to be gone for three or four weeks and he would like to give us his thoughts on September financing, if there should be any, a subject on which he had not had an opportunity to talk to the Secretary although he had mentioned it briefly to Mr. Bell.

Mr. Eccles hopes there will be no long term securities offered in September or at any time up to December, but that such new money as we may require may be procured by means of bills. His reason was that the market today is based on a large volume of excess reserves. There are few long term taxable bonds outstanding. The two issues out are both selling on a two per cent yield basis. If there should be any new long term financing in September it would naturally be priced at near today's market. This would mean in effect freezing of the present situation. By that he meant that our hands would be tied as to any action to change reserve requirements. We have not yet used the present power to increase reserves, which amounts to about a billion and a quarter. He thinks Federal Reserve should consider with the Treasury an increase in the reserve requirements up to the limit of existing power. Not only should this be done before any new long term securities are issued, but he thinks that the Treasury and the Federal Reserve should join in saying that it seems advisable to get further powers for increasing reserve requirements and that both these things should be done so that the market can absorb their effect before any new long term securities are put out. Otherwise he thinks the Administration, including the Federal Reserve as well as the Treasury, would be open to charges of bad faith.

Copy to:
Mr. D. W. Bell

TREASURY DEPARTMENT

FOR RELEASE, MORNING NEWSPAPERS,
Friday, August 22, 1941.

The Secretary of the Treasury, by this public notice, invites tenders for \$100,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated August 27, 1941, and will mature November 26, 1941, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$500,000, and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p.m., Eastern Standard time, Monday, August 25, 1941. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

- 2 -

guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on August 27, 1941.

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

- 3 -

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

-000-

22nd August, 1941.

Dear Mr Morgenthau

I have received from Mr. Winant the gramophone record which you asked him to forward to me and I send you my warmest thanks. Both songs are very effective and I think it is an excellent way of popularising the saving idea.

May I take this opportunity of thanking you for the very kind welcome you have given first to Phillips then to Keynes? I have heard from them both how very helpful you have been throughout, and I am really very grateful.

*With our good wishes
Yours truly
Herbert A. Gold*

Henry Morgenthau, Esq.

DEFENSE SAVINGS STAFFADVANCE SCHEDULE OF RADIO PROGRAMS

FRIDAY - AUGUST 22, 1941.

* * * * *

Time: 9:15 - 9:30 A.M.
 Program: "Ellen Randolph"
 Station: WRC and NBC Red Network

Time: 8:00 - 8:30 P.M.
 Program: "Great Plays"
 Station: WJSV and CBS Network

Time: 8:00 - 8:30 P.M.
 Program: "Waltz Time"
 Station: WRC and NBC Red Network

Time: 8:00 - 8:30 P.M.
 Program: Vox Pop
 Station: WMAL and NBC Blue Network

Time: 8:30 - 8:45 P.M.
 Program: "Your Government and Mine"
 Station: WINX - Washington, D. C.
 Mr. Frank King of the Defense Savings Staff
 will be interviewed.

Time: 8:30 - 9:00 P.M.
 Program: "Hollywood Premiere"
 Station: WJSV and CBS Network

Time: 9:00 - 9:30 P.M.
 Program: "Wings of Destiny"
 Station: WRC and NBC Red Network

Time: 11:15 P.M. - 12:00 M
 Program: "Music You Want, When You Want It"
 Station: WMAL - Washington, D. C.

August 22, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

SUBJECT: Second Meeting of the Economic Defense Board.

The Economic Defense Board met in the Vice President's Office at the Capitol at 9:30 A.M., August 20, 1941. Those present were:

The Vice President
Assistant Secretary Acheson, State Department
Assistant Secretary Gaston, Treasury Department
Acting Attorney General Biddle
The Secretary of Agriculture
The Secretary of Commerce
Mr. Winfield Riefler

(1) AFRICAN OILS

Dean Acheson summarized orally a prepared statement. The principal problem related to palm and peanut oils from the Dakar vicinity and there seemed to be little, if anything, we could do at this moment. It was believed peanut oil was being used as fuel for diesel engines in French submarines. Ullman, of Harry White's shop, had prepared a statement on the North African oil situation, but this related almost exclusively to olive oil from the North African coast, a subject which was regarded as of only minor interest.

(2) SOUTH AMERICAN PRIORITIES

Acheson said the State Department is perturbed over the situation with respect to getting priorities for the shipment of essential goods to South America. They are continually given the run around between OPM, Army and Navy, which seemed to attach little importance to our supplying minimum South American requirements. Wallace said Sam Rosenman had discussed with him a new Executive Order clarifying the responsibility of OPM and OPACS and probably setting up a new coordinating

- 2 -

authority. He wondered whether this new authority would be the one to handle such questions as this, but after some discussion it was agreed that the Economic Defense Board should assume that it had jurisdiction over the subject for the present and the Vice President instructed that OPM, the Army and Navy be informed that the matter of South American priorities will be the principal subject for discussion at the next meeting of the Board.

(3) The Vice President again reverted to the subject of Japanese trade, which he had mentioned at the initial meeting, as the first problem facing the Board. Dean Acheson said that he could contribute little to the Japanese trade situation and policy since this was a matter of confidential discussion between the President and Secretary Hull.

(4) Jesse Jones said he had been asked to work on the problem of a subsidy price for high cost copper producers. The subject was not further developed.

(5) The Vice President said he had asked Win Riefler to sketch out what he believed to be the proper staff organization for the Economic Defense Board and had asked Mr. Riefler to attend the meeting for that purpose. Riefler had nothing written to present but said orally that his general idea was that the functions were divided among intelligence, administration and legal advice. He sub-divided intelligence to include liaison with government agencies, general economic intelligence and planning. The question was raised whether the general economic intelligence proposed would be duplicated by Colonel Donovan's office. Wickard hazarded the guess that Donovan would not deal with basic economic information, but I volunteered that I had a contrary impression, having been informed that the office of Dr. James Finney Baxter, President of Williams College, who is to head one of the divisions under Donovan, would concern itself with the most detailed historical, economic and political information. Riefler was asked to reduce his ideas to paper.

(6) Secretary Wickard mentioned his interest in the requisition bill pending in Congress. He believed the language in

- 3 -

it was sufficiently broad to cover food. Acting Attorney General Biddle said there was no question that it was. Wickard said there was a real need for it and he cited a situation with respect to salmon. To supply British needs Agriculture had taken an option on forty per cent of the packers' output, but the difficulty would come in exercising the option. Bids would have to be requested and the packers might very easily fail to bid on the ground that they could not comply with the specifications. The option thus would have very little meaning. Power of requisition would enable the Government to take everything it optioned and would eliminate the bid difficulty.

(7) Jesse Jones asked me during the meeting how much gold the Russians had in the United States. I told him I thought none at all, that it was my belief they were turning it into cash as fast as it arrived. He asked how much cash they had and I was unable to tell him but promised to get him the figure. (I called him on Thursday to tell him that on August 19 there was \$10,306,000 in the Federal of New York and a week earlier there was approximately nine million in various Russian accounts in the Chase. Later in the day I was able to give him more recent figures, showing a total of approximately twenty-two millions, of which it was inferred that ten million was in the Federal and the balance in the Chase. He asked me over the phone also for figures on Russian gold production, which I obtained from Harry White's office and gave to him.)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 22, 1941

TO Ferdinand Kuhn, Jr.
FROM Alan Barth

THE AFTERMATH OF THE CONFERENCE

Editorial appraisal of the shape of things since the historic conference at sea presents a striking contrast: hopefulness over the trend of affairs abroad, dismay over conditions in the United States.

Optimism

The atmosphere of decision and direction which followed the Roosevelt-Churchill meeting gave the press a fresh feeling of buoyancy -- perhaps of overconfidence -- about the progress of the war. It was commonly assumed that the President and the Prime Minister made concrete plans for joint British and American action. The steps which grew out of their conference -- announcement that representatives would go to Moscow to discuss large-scale aid to the Soviet Union and that war planes would be flown to the British in the Near East -- fortified the feeling that full speed ahead had become the order of the day. Editorial writers expressed delight that the initiative had at last been wrested from the Axis.

Even the shipment of supplies to Russia is accepted much more readily, now that it has been removed from the domain of discussion and made a settled policy. The eloquent appeal on this score delivered recently by Supreme Court Justice Murphy gave voice to what now appears to be the prevailing editorial sentiment.

Direct and dramatic presidential action conveying a sense of strong leadership has invariably produced this sort of response; disheartenment and disagreement have always been most pronounced during periods of inaction and seeming indecision.

Pessimism

Editorial optimism concerning foreign affairs is offset, however, by deep discouragement over conditions at home. There is widespread agreement in the press with President Roosevelt's observation that the people of the United States have not yet awakened to their danger. And there is a general conviction that defense production has been inefficient and inadequate.

A number of influential commentators attribute the national apathy to lack of leadership, asserting that the Administration has not treated the public with sufficient seriousness and candor. The bulk of the press, including many newspapers in sympathy with Administration foreign policy, insist that the alleged failure of the defense program is due to the President's refusal to appoint a single responsible production chief.

Criticisms of defense production are almost always made without any frame of reference. The public, consequently, is bewildered and dismayed -- a state of mind which can scarcely contribute to its morale. According to the latest Gallup Poll figures, only 39 per cent of the people expressed themselves as satisfied with the progress of national defense. It is extremely difficult to assess this progress. The people have been alternately advised that production is ahead of schedule or behind schedule; but the schedule has never been defined. Glowing figures concerning one aspect of defense are followed by a gloomy partial picture of shortages implying that the whole defense effort has bogged down. Defense officials themselves have contributed in no small measure to this confusion by their contradictory and incomplete reports.

The newspapers, of late, have been particularly exercised over what they believe to be a low level of morale in the country's armed forces. As General Marshall observed recently, "Naturally it has been affected by the public discussion of the length of service." A few days earlier General Lear declared, "If the morale is poor, it is only because the morale of the people is poor." Both public and military morale may well be the product of ignorance or uncertainty as to the true scope and purpose of the defense effort.

Peace Aims

It is clear that the Anglo-American declaration of peace aims met a long-felt need in the United States. For several months the editorial pages of American newspapers have given considerable space to discussions of the new international order which must grow out of the current suffering and chaos. There is general agreement among them on certain basic principles:

1. That international law must depend upon collective security.
2. That Anglo-American cooperation must constitute the nucleus of any future system of collective security.
3. That any peace to be enduring must take into account the economic imperatives of the Twentieth Century and must aim at the reduction of artificial restraints upon international trade.
4. That the peace must not be punitive. As yet, there is little disposition in the United States to blame the German people for the crimes of their Nazi Government.

The eight points agreed upon by President Roosevelt and Prime Minister Churchill satisfied these principles to a singular degree. Considered individually and apart from their psychological or political value, they met with a very high degree and a very wide range of enthusiasm. Only the third of the eight points, that which expressed a desire "to see sovereign rights and self government restored to those who have been forcibly deprived of them" came in for any considerable measure of criticism. The accent in American thinking in regard to the reorganization of

Peace Aims

It is clear that the Anglo-American declaration of peace aims met a long-felt need in the United States. For several months the editorial pages of American newspapers have given considerable space to discussions of the new international order which must grow out of the current suffering and chaos. There is general agreement among them on certain basic principles:

1. That international law must depend upon collective security.
2. That Anglo-American cooperation must constitute the nucleus of any future system of collective security.
3. That any peace to be enduring must take into account the economic imperatives of the Twentieth Century and must aim at the reduction of artificial restraints upon international trade.
4. That the peace must not be punitive. As yet, there is little disposition in the United States to blame the German people for the crimes of their Nazi Government.

The eight points agreed upon by President Roosevelt and Prime Minister Churchill satisfied these principles to a singular degree. Considered individually and apart from their psychological or political value, they met with a very high degree and a very wide range of enthusiasm. Only the third of the eight points, that which expressed a desire "to see sovereign rights and self government restored to those who have been forcibly deprived of them" came in for any considerable measure of criticism. The accent in American thinking in regard to the reorganization of

Europe is upon economic, rather than political, freedom; and there is some doubt as to the wisdom of restoring complete economic sovereignty to all of the little states set up after the World War.

The overwhelming majority of American editorial commentators now insist that there can be no American security in an anarchic world and that America's power and greatness impose the obligation to participate in the maintenance of world order. Isolationism, in the sense in which this term was employed in the 1920's, is today almost as extinct in the United States as ancestor worship. What passes for isolationism nowadays is no more than an aversion to war. The people of this country, if their newspapers reflect their basic attitude, are ready and eager for international cooperation in the establishment of peace.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 22, 1941

TO Ferdinand Kuhn, Jr.
FROM Herbert Merillat

PRESS OPINION ON TAXES:
SOCIAL SECURITY TAX PLAN

Despite Treasury denials that any compulsory savings plan was under serious consideration, the press was quick to call the social security tax program outlined by Secretary Morgenthau an American version of the Keynes plan. Accordingly, press reaction to the proposal is here reported against a background of previous discussion of the English and other schemes for compulsory savings.

Background

Ever since the tax program got under way last Spring, there has been sporadic discussion in the press of various payroll and gross income tax plans. All of these seek to tap the incomes of those who now pay little or no income tax, with or without a program of post-war benefits.

The suggestion of a 5% salary and wage tax, reported last March as emanating from "Congressional fiscal experts", got a mixed reception. Most papers were noncommittal, but remarked that wage earners must expect to bear a larger share of the tax burden than they have in the past. Many approved the idea of

tapping low incomes, but urged the use of the net income tax, rather than a gross income tax, for this purpose. The payroll tax rumor was generally considered as a trial balloon, not to be taken very seriously for the time being, but a warning of what might come.

The British Budget announced in April, adopting a modified version of the Keynes plan for compulsory savings, evoked scattered newspaper comment to the effect that some such plan might eventually become necessary in this country. It was felt, however, that compulsory savings should be a last resort, and that full opportunity should be allowed for the voluntary purchase of defense bonds before any enforced savings plan is considered. Those who examined the merits of the Keynes plan felt that the chief objection was the difficulty of paying the promised post-war benefits. The idea of compulsory savings tied to a wage tax, preferably a net income tax, gained a few advocates.

The appearance of Keynes in this country caused renewed discussion of his plan. Most of it, however, took the form of personal attacks on the originator of "pump-priming." By this time a few influential papers, of varying political complexion, had endorsed the English plan of compulsory savings and predicted that something similar would be necessary in this country.

Reaction to Secretary Morgenthau's Announcement

The Secretary's announcement of plans for changes in the social security taxes brought to a head this desultory discussion. Editorial comment since has consisted mostly of weighing the pros and cons, with emphasis on the cons. Some papers have reserved final judgment until the proposal is explained in more detail. Others opposed it at once. None has given it unqualified approval.

All commentators agree that the proposed changes would work as a powerful check on inflationary tendencies. Other merits seen in the plan by various writers are: (1) it provides a desirable system of benefits for wage earners as a cushion for post-war shocks; (2) it utilizes a tried tax plan which could easily be adapted to new ends, obviating the need of laying new and untried taxes.

Objections to the plan are mainly:

1. The social security system should not be used as a means of emergency financing. Behind expressions of solicitude for the soundness of social insurance are apparent fears that expanded benefits for employees would become permanent.

2. The increased taxes would apply to employers as well as employees. The conservative press does not object to increased taxes on employees, but urges that greater taxes on employers, levied without regard to ability to pay, would be unfair. It

points out that many firms have suffered, rather than benefited, under the defense program and therefore are less able to pay taxes. Accordingly these papers favor a payroll tax, general withholding tax, broader net income tax, or a sales tax, as a means of tapping wage earners' income.

3. The Nation's objections, of course, take a different form. This journal approves the provision of a dismissal or separation wage tax as a check on inflation and as a means of providing desirable post-war benefit. It objects, however, to an increase in the payroll tax for old-age benefits as "a frontal attack on the living standards of the lowest-income groups."

More About Joint Returns

The almost solid front of newspapers opposing the mandatory joint return provision and celebrating its defeat has been broken by a considerable number which appeared as champions of the measure after its defeat in the House. These papers are mostly in New England and the Middle West. Their arguments indicate that the report of the Ways and Means Committee and the debate in the House had clarified the issue. These papers pointed out that residents of the community-property states and a few wealthy citizens alone stood to gain by defeat of the provision, at the expense of the generality of taxpayers.

- 5 -

The overwhelming majority of papers, however, have congratulated the House on rejecting a provision which has gained a remarkable collection of epithets.

An interesting sidelight is the distribution of laurels to those who led the fight against joint returns. The Houston Post considered it a one-man victory for Representative Milton West of Brownsville, Texas. The Los Angeles Times gave credit to the Los Angeles and California State Chambers of Commerce for laying out "the plan of campaign which convinced Congress of the inequity of the scheme." With candor it outlines that plan: "Had the argument been based merely on the unfairness of joint returns to the citizens of the eight community-property States, it might not have prevailed. When opposition was put on the much broader base that it adopted an archaic view of women's property rights and was a tax on marriage, the battle was won." But the Charleston (South Carolina) News and Courier gave first honors to Bishop Manning. "The leadership of Bishop Manning, in which he was joined by clergymen of the Roman Catholic and other churches, aroused the conscience of the country and rescued women from the attack on their liberties that the proposal contained."



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

August 22, 1941

MEMORANDUM TO THE SECRETARY:

Weekly Report - Lease-Lend Purchases
(8/15 - 8/22/41)

<u>Requisitions</u>	<u>Estimated Cost</u>
Cleared by O.P.M.....\$	206,697,252.17
Awaiting clearance by O.P.M.....\$	28,645,744.75
Total Pending Requisitions.....\$	230,342,996.92
Less Requisitions for metals and textiles, where contracts will be made for term periods and allocations required from O.P.M.....\$	
	128,164,124.89
Total Pending Requisitions for Spot Purchases \$	102,178,872.03
Purchases to 8/15/41.....\$	110,266,886.42
Purchases 8/15 to 8/22/41..	4,651,838.74
Total to 8/22/41.....\$	114,918,725.16

There have been delays in steel shipments due to lack of mandatory priorities. The matter has been taken up with OPM and I was informed yesterday that mandatory priorities for steel will be inaugurated September 1st, and that current deficiencies will be obtained through September under mandatory priority ratings.

Clinton E. Mack
 Clinton E. Mack
 Director of Procurement

Attachments-6

<u>CONTRACT NUMBER</u>	<u>CONTRACTOR'S NAME</u>	<u>RE-181- 71022</u>	<u>COM. CODE</u>	<u>QUANTITY</u>	<u>TOTAL VALUE</u>
DA-TPS-787	The Texas Co. (China) Ltd.	China	Aviation Gasoline	4,685,000 gals.	\$ 1,563,475.00
DA-TPS-870	L. S. Ginn & Co.	U.R.	Books, Blank	30,000	9,026.50
DA-TPS-884	Morey Mch. Co. Inc.	"	Millers (2) and Shaper (1)		8,800.00
DA-TPS-790	Western Corp.	"	Thrust Roller Bearings	1,000	4,375.00
DA-TPS-841	American-La France Foamite Corp.	"	Cylinders & Carbon Dioxide Gas		6,467.20
DA-TPS-885	Bennett-Rafkin Machine Tool Co. Inc.	"	Boring Milling & Drilling Mchn.		9,000.00
DA-TPS-886	McCabe & Sheeran Mch. Corp.	"	Drill, Radial		5,150.00
DA-TPS-842	Plastics Finishing Corp.	"	Glass Substitute		17,324.20
DA-TPS-881	Lockheed Aircraft Corp.	"	Lockheed Airplane		51,100.00
DA-TPS-839	Atlas Bolt & Screw Co.	"	Bolts Machine		4,125.50
DA-TPS-877	Eastman Kodak Co.	"	Sheeting Acetate	50 rolls	2,023.50
DA-TPS-840	U.S. Steel Export Co.	"	Compressed Air Cylinders	700	12,245.00
DA-TPS-784	The Goodyear Tire & Rubber Co.	"	Stores & equipment for repair of tires		6,590.46
DA-TPS-772	Eycyrus-Erie Co.	"	Cranes	10	71,023.50
DA-TPS-655	Black Mt. Company	"	Spare parts for Mack Vehicles		47,291.84
DA-TPS-876	Le Page's Inc.	"	Photo Engraving Glue		513.00
DA-TPS-922	Pacific Coast Spruce, Inc.	"	Sitka Spruce	2,000,000 FEET	307,500.00

200
100

<u>CONTRACT NUMBER</u>	<u>CONTRACTOR'S NAME</u>	<u>REQUISITIONER</u>	<u>COMMODITY</u>	<u>QUANTITY</u>	<u>TOTAL VALUE</u>
DA-TPS-931	Weyerhaeuser Sales Co.	U.K.	Douglas Fir	300,000 FBM	143,370.00
DA-TPS-930	Pacific Coast Spruce, Inc.	"	Douglas Fir	500,000 FBM	300,000.00
DA-TPS-858	Oliver Farm Equip. Co.	"	Plows, Drills, Harrows		182,685.13
DA-TPS-795	General Electric Supply Corp.	"	Insulators	10,000	4,430.00
DA-TPS-844	Bonney Forge & Tool Works	"	Wrenches	1,000	540.00
DA-TPS-845	The Vlchek Tool Co.	"	Wrenches	1,000	650.00
DA-TPS-917	Bendix Aviation Corp. Scintilla Magneto Div.	"	Raw materials for manufacture of Magnetos		4,126.87
DA-TPS-868	Eastman Kodak Co.	"	Photographic Chemicals		2,047.28
DA-TPS-787	Eugene Donzelot & Son	"	Leptandra Root	1100 lbs.	253.00
DA-TPS-407	Commercial Acetylene Supply Co. Inc.	"	Cylinders & Acetylene Gas		52,800.00
DA-TPS-718	The Dow Chemical Co.	"	Antipyrine	40,000 lbs.	80,000.00
DA-TPS-875	Superior Air Products Co.	"	Cylinders & Acetylene Gas		14,250.00
DA-TPS-941	White Wood Product Co. Inc.	"	Lumber Hardwood	90,000 FBM	6,330.00
DA-TPS-791	Ford Motor Co.	"	Bearings Ford		6,920.50
DA-TPS-746	The Ridge Tool Co.	"	Extractors, Screw		1,039.96
DA-TPS-846	Snap-On Tools Corp.	"	Wrenches		5,356.80

<u>CONTRACT NUMBER</u>	<u>CONTRACTOR'S NAME</u>	<u>REQUISITIONER</u>	<u>COMMODITY</u>	<u>QUANTITY</u>	<u>TOTAL VALUE</u>
DA-TPS-847	The Mansfield Tire & Rubber Co	U.S.	Tires & Tubes	840	\$ 5,103.00
DA-TPS-783	The Firestone Tire & Rubber Co.	"	Tires & Tubes	980	10,334.55
DA-TPS-916	Bower Roller Bearing	"	Bearings	10,000	28,150.00
DA-TPS-857	Minn-Moline Power Impl. Co.	"	Grain Mills, Harrows, Plows, Drills		38,802.61
DA-TPS-803	Alabama Mills, Inc.	China	Gray Cotton Sheetings	75,000 yds	9,975.00
DA-TPS-804	" " "	"	" " Drill	25,000 "	3,175.00
DA-TPS-805	" " "	"	" " Sheetings	60,000 "	5,775.00
DA-TPS-820	Washington Mills Co.	"	" " " "	721,000 "	69,396.25
DA-TPS-821	Chadwick-Hoskins Co.	"	" " Print Cloth	300,000 "	24,511.00
DA-TPS-822	Columbus Manufacturing Co.	"	" " Sheetings	400,000 "	44,234.00
DA-TPS-825	Joseph Bancroft & Sons Co. of Pa	"	" " " "	25,000 "	4,031.25
DA-TPS-829	Batavia Mills, Inc.	"	" " Jeans	100,000 "	15,965.00
DA-TPS-830	" " "	"	" " Drill	25,000 "	3,631.25
DA-TPS-831	Anniston Mfg. Co.	"	" " " "	200,000 "	31,775.00
DA-TPS-836	Eastman Cotton Mills	"	" " " "	65,000 "	9,813.00
DA-TPS-837	Eddington Fabrics Corp.	"	" " " "	134,000 "	20,443.75
DA-TPS-920	The Jackson Crankshaft Div. of Muskegon Motor Specialties Co.	U.S.	Drop Forgings	1,000	199,500.00

DA-TPS-827

CONTRACTOR'S NAME

ORIGINATOR

COMMODITY

QUANTITY

TOTAL VALUE

DA-TPS-827	Southeastern Cotton, Inc.	China	Cotton	210,000 Yds	\$	32,250.00
DA-TPS-832	" " "	"	"	360,000 "		55,375.00
DA-TPS-833	" " "	"	"	240,000 "		33,087.50
DA-TPS-834	" " "	"	"	300,000 "		45,975.00
DA-TPS-926	The Titanium Alloy Mfg. Co.	U.K.	Ferro Carbon Titanium	44,800#		3,584.00
DA-TPS-936	Electro Metallurgical Sales Corp	"	Calcium Manganese Zirconium	30 GT		8,298.00
DA-TPS-799	J. W. Valentine Co. Inc.	China	Cotton	3,100 Yds		402.00
DA-TPS-800	" " " " "	"	"	9,000 "		870.50
DA-TPS-801	" " " " "	"	"	309,000 "		46,074.10
DA-TPS-802	" " " " "	"	"	75,000 "		9,947.50
DA-TPS-806	Southeastern Cottons, Inc.	"	"	885,000 "		141,600.00
DA-TPS-807	" " " "	"	"	400,000 "		33,505.00
DA-TPS-808	" " " "	"	"	70,000 "		9,687.50
DA-TPS-809	" " " "	"	"	165,000 "		21,084.00
DA-TPS-810	" " " "	"	"	185,000 "		18,393.55
DA-TPS-812	" " " "	"	"	55,000 "		5,468.15
DA-TPS-813	" " " "	"	"	1,000,000 "		150,000.00

Regraded Unclassified

CONTRACT NO. PER	CONTRACTOR'S NAME	REQUISITIONER	COMMODITY	QUANTITY	TOTAL VALUE
DA-TPS-814	Southeastern Cottons, Inc.	China	Cotton	300,000 Yds	\$ 49,100.00
DA-TPS-815	" " "	"	"	900,000 "	142,125.00
DA-TPS-816	" " "	"	"	500,000 "	80,437.50
DA-TPS-817	" " "	"	"	80,000 "	10,075.00
DA-TPS-824	Ketcham and Bell	"	"	130,000 "	18,166.80
DA-TPS-826	Southeastern Cottons, Inc.	"	"	419,000 "	38,148.89
DA-TPS-907 (Adj.Ded.)	Russell Burdsall & Ward Bolt & Nut Co. U.K.				- 25,725.00
DA-TPS-753	The Buffalo Bolt Co.	U.K.	Nuts	50 GT	16,750.00
DA-TPS-923	Bethlehem Steel Export Corp.	"	Nuts	25 GT	8,568.75
DA-TPS-308-1 (Adj.Ded.)	Bethlehem Steel Export Corp.	"			- 812,370.96
DA-TPS-559 (Adj.Add.)	Willys-Overland Motors, Inc.	"			4,669.75
DA-TPS-862	International Minerals & Metals Corp.	"	Zinc	1,010,000#	76,861.00
DA-TPS-260-22	Bethlehem Steel Export Corp.	"	Hi Carbon Chr. Steel 21½ GT		5,148.98
DA-TPS-949	Parker-Kalon Corp.	"	Screws	14.742 GT	29,457.27
DA-TPS-950	The Progressive Mfg. Co.	"	Screws	99,500 Gross	4,782.40
DA-TPS-801 (Adj.Ded.)	U. S. Steel Export Corp.	"			- 109.02

<u>CONTRACT NUMBER</u>	<u>CONTRACTOR'S NAME</u>	<u>REQUISITIONER</u>	<u>COMMODITY</u>	<u>QUANTITY</u>	<u>TOTAL VALUE</u>
DA-TPS-548 (Adj.Add.)	Ford Motor Co.	U.K.			\$ 67.50
DA-TPS-754 (Adj.Add.)	U.S. Steel Export Co.	"			15.75
DA-TPS-757 (Adj.Add.)	Republic Steel Corp.	"			490.25
DA-TPS-761 (Adj. ded.)	Granite City Steel Co.	"			- 195.50
DA-TPS-139-1	Schiavone-Bonomo Corp.	"	Iron & Steel Scrap	310 GT	7,027.70
DA-TPS-952	The Pittsburgh Screw & Bolt Corp	"	Rivets	86½ GT	9,450.25
DA-TPS-550 (Adj.Ded.)	Ford Motor Co.	"			- 38.25
DA-TPS-555 (Adj.Ded.)	Ford Motor Co.	"			- 1,728.00
DA-TPS-546 (Adj.Add.)	Ford Motor Co.	"			.60
DA-TPS-545 (Adj.Ded.)	Ford Motor Co.	"			- 27.00
DA-TPS-953	Keasby & Mattison Co.	"	Asbestos cement pipe & fittings		313,741.38

Total Purchases 8/15 to 8/22/41.....\$ 4,651,838.74

C
O
P
Y

BS

PLAIN

London

Dated August 22, 1941

Rec'd 9:43 a.m.

Secretary of State,

Washington.

3806, Twenty-second.

Your 3296, Twenty-first.

Other gifts mentioned in customs and excise letter means all other gifts. There are no customs restrictions on gifts to individuals within the weight limit except items subject to excise which are covered by the procedure outlined in Embassy's despatch 1136, August 6.

WINANT

NPL

Copy:bj:8-27-41

COPY

SECTIONS ONE AND TWO

TELEGRAM FROM AMERICAN EMBASSY, LONDON, ENGLAND

DATE: August 22, 1941, midnight

NO.: 3824

CONFIDENTIAL

The British Treasury states that it has not yet received the text of the Anglo-Soviet financial and supply agreement but it has given the Embassy the following statement concerning the agreement which is based upon a telegraphic summary thereof received from the British Ambassador in Moscow.

"One. The agreement is concerned with the exchange of and payment for supplies between the Governments of the United Kingdom and the U.S.S.R. or organizations appointed by them to carry out the exchange. It is not concerned with the supply of war material proper (which is being separately dealt with) or with such private trading as may subsist between the sterling area and U.S.S.R. which it may be presumed will continue to be paid for in free sterling or dollars.

Two. Lists of the goods to be delivered under the agreement will be drawn up and agreed to between the two governments from time to time. In cases where the Soviet Government requests the United Kingdom Government to arrange on an agency basis for the purchase of goods outside the British Empire, payment for such goods will not be made under the terms of the agreement.

Three. Goods will in general be delivered f.o.b. port
of

- 2 -

of shipment or when carried on ships under the control of the seller c.i.f. port of discharge.

Four. Prices will be calculated in sterling on an f.o.b. basis and will be based on world prices. However, where the Government of the United Kingdom have an agreement with any foreign government, concluded after September 2, 1939, for the supply of a particular commodity, the Union of Soviet Socialist Republics will receive most-favored-nation treatment as regards the price of that commodity.

Five. Arrangements for insurance of Soviet ships and cargoes will be negotiated between the Soviet Trade Delegation in London and the appropriate authorities.

Six. The Bank of England and the state bank of the Union of Soviet Socialist Republics will arrange for a sterling account to be opened at the Bank of England through which all payments either way for goods supplied under the agreement will be made. In addition the Union of Soviet Socialist Republics may pay from the account their liabilities in respect of Soviet Government bills issued under the 1936 export credits guarantee agreement; the two banks may also agree upon other payments to be made through the account.

Seven. ~~XXXX~~ Debit balances against the Union of Soviet Socialist Republics on the account will be settled every three months:

(A) 40% by the sale of dollars or gold or of such platinum as the Government of the United Kingdom may agree

- 3 -

agree to purchase, and (2) 60% by an advance by the Government of the United Kingdom.

Eight. The above advances will be repayable by the Soviet Government in five annual installments beginning at the end of the third year in sterling or dollars at the option of the Soviet Government. Interest at the rate of 3% per annum is payable half yearly. The amount of the advances is not to exceed pounds 10,000,000 but it is understood that when this amount is reached negotiations will be opened for such further amounts as may be necessary.

WINANT.

PARAPHRASE OF SECTIONS THREE AND FOUR, TELEGRAM NO. 2824 dated August 22, 1941, from the American Embassy, London

Informal discussions with officials of the Economic Warfare Ministry were held prior to the announcement by Mr. Jesse Jones that money would be loaned to the Soviet by the United States in order to finance war purchases in our country. From these discussions there developed the following background information:

The requests for credits received from the U.S.S.R. were larger than was anticipated by the British at first, especially since in the beginning the impression was received from the Russians that they would not need credits. It is the feeling of the British that in reality the transaction will mean an increase in the dollar obligations of the U.K., since goods which the U.S.S.R. wants generally have involved dollar payments by Great Britain for raw materials, or represent dollars that would otherwise have been received when they involve products such as rubber and tin. The current value of the goods which Russia has purchased from Great Britain for war purposes is now greater than the value of the sales to Great Britain by Russia by around 10 million pounds. Furthermore, it is expected that there will be a considerable increase in this margin.

It is the belief of some British officials that there is not much likelihood that repayment of these war credits will ever be made. However, it is said that the higher authorities are taking a "realistic" view, and look on the expenditure

- 5 -

expenditure as being as necessary as the money which is spent to equip the military forces of Great Britain. It would have been the British preference that the U.S.S.R. should in the beginning depend completely on their holdings of gold and dollars. However, for two reasons the British were not able to insist on this argument. They were, (1) Obviously the holdings of gold and dollars by the U.S.S.R. were sufficient for only a short war, and it could not be assumed that such would be the case. (2) The assertion was made by the U.S.S.R. that they required all of their dollar and gold holdings to pay for things bought in the U.S. where it seemed that public opinion would not permit the granting of credits to the U.S.S.R. There was no difficulty on this point so far as the British public was concerned. As of incidental interest the officials of the Ministry of Economic Warfare said that on economic and trade matters dealings with the Russians here in London are said to be much handicapped since the U.S.S.R. does not have any trade representatives here who are willing to make responsible decisions on the various questions.

The Embassy requests that the Treasury be informed of the foregoing.

END OF MESSAGE.

WIMANT.

C
O
P
Y

BRITISH EMBASSY,
WASHINGTON, D.C.,
August 22nd, 1941.

With the Compliments of

Mr. Noel F. Hall

Copy of letter dated August 22nd
sent to Mr. Dean Acheson

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

Copy:lg 8/23/41

C
O
P
YSAFE HAND

BRITISH EMBASSY,

WASHINGTON, D.C..

August 22nd, 1941.

My dear Mr. Acheson,

Freezing Order and Japan

With reference to my letter of August 12th.

You have probably seen various stories in the press about negotiations between H. M. Government and the Japanese for a barter agreement. In particular, publicity has been given in London to a press story from a Japanese newspaper in Singapore to the effect that negotiations were proceeding between the Bank of England and the Yokohama Specie Bank for a barter trade agreement providing for Indian cotton, Australian wool and certain Malay products against Japanese cement, textiles and certain foodstuffs.

Even after the denial of the existence of negotiations for any such agreement, the rumours continued so persistent that H. M. Government issued the following statement:-

"Rumours of negotiations for a barter trade agreement between Great Britain and Japan have arisen out of a communication to Yokohama Specie Bank of information as to banking machinery which they would be permitted to use in connection with any movement of goods, which might exceptionally be licensed in the future. The position is that in order to ensure that the effect of the freezing order will be fully maintained, frozen funds will not be released to finance exports to Japan. Arrangements are, however, being made to secure that if in any particular case it is decided to license imports, payment for such licensed imports will be made to a clearing account, the balance on which will be available only to pay for licensed exports. Export licences will be granted for approved goods only within the limit of funds available on the clearing account. Similar arrangements are being made in other parts of the Empire.

Mr. Dean Acheson,
Assistant Secretary of State,
State Department,
Washington, D.C.

MR:TMH
COMM:lg:7-22-41

- 2 -

The maintenance of Diplomatic and Consular representation will be financed in a similar way."

I am sending a copy of this letter to Mr. Cochran for his information.

Yours sincerely,

(Sgd) Noel F. Hall

cc for Mr. Cochran

Copy:wec:8-23-41

August 22, 1941

Mr. Liversay

Mr. Cochran

Will you kindly send the following cablegram:

"American Embassy,

Chungking.

For Fox from Secretary of Treasury.

Reference my 179 of August 2. Soong received authorization from Kung for Hewlett's appointment and has arranged transportation to Hong Kong. Hewlett will sail from San Francisco August 29 on steamship President Monroe for Hong Kong. He will call at the American Consulate General, Hong Kong for instructions from Fox and will look to Fox to arrange transportation beyond Hong Kong.

Reference your 333 August 5. Hewlett taking with him supply of documents on Foreign Funds Control."

HMC:lap-S/22/41

TELEGRAM SENT

LET

GRAY

August 22, 1941

5 p.m.

AMEMBASSY,
CHUNGKING.

199

FOR FOX FROM SECRETARY OF TREASURY.

Reference my 179 of August 2. Soong received authorization from Kung for Hewlett's appointment and has arranged transportation to Hong Kong. Hewlett will sail from San Francisco August 29 on steamship President Monroe for Hong Kong. He will call at the American Consulate General, Hong Kong, for instructions from Fox and will look to Fox to arrange transportation beyond Hong Kong.

Reference your 333, August 5. Hewlett taking with him supply of documents on Foreign Funds Control.

HULL
(FL)

EA:FL:PAK

August 22, 1941

Mr. Liversy

Mr. Cochran

Will you kindly send the following cablegram:

"American Embassy,

Chungking.

For Fox from Treasury Department.

Reference your JJJ August 5 and JJJ August 5. High Commissioner at Manila has been requested to radio to you revised texts of following General Licenses: 2, 5, 12, 13, 14, 15, 18, 19, 20, 21, 22, 25, 26, 27, 28, 29, 31, 32, 33, 40, 42, 43, 44, 46, 47, 47A, 49, 50, 51, 52, 53; also General Balings No. 4 and No. 9. The texts of such licenses will also be reported to American Consulate General at Shanghai for Taylor and American Consulate General at Hongkong for Froese. Hewlett will bring complete sets of all documents pertaining to Foreign Funds Control."

11/11/41 Ms. M. G.
" BB

HMC:lap-5/22/41

Noted
H. M. Cochran

COPY

TELEGRAM SENT

PLAIN

August 22, 1941.

AMEMBASSY,

CHUNGKING.

198, twenty-second.

FOR FOX FROM TREASURY DEPARTMENT.

Reference your 332, August 5, and 333, August 5. High Commissioner at Manila has been requested to radio to you revised texts of following General Licenses: 2, 5, 12, 13, 14, 15, 18, 19, 20, 21, 22, 25, 26, 27, 28, 29, 31, 32, 33, 40, 42, 43, 44, 45, 47, 47A, 49, 50, 51, 52, 53; also General Rulings No. 4 and No. 9. The texts of such licenses will also be repeated to American Consulate General at Shanghai for Taylor and American Consulate General at Hong Kong for Freese. Hewlett will bring complete sets of all documents pertaining to Foreign Funds Control.

HULL
(FL)

EA:FL:PAK

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Chungking, China, via

DATE: August 22, 1941, 9 a.m.

NO.: 362

STRICTLY CONFIDENTIAL.

FOR THE SECRETARY OF THE TREASURY FROM FOX.

1. The Board has received a copy of a petition from Hong Kong which the Bankers Association of that city sent to the Ministry of Finance under date of August 16. This petition sets forth the difficulties that have been confronted by the Chinese banks by reason of their being located in a sterling area and their being subject to the U.S. freezing order.

The petition states that in Hong Kong 90 percent of the population and the owners of most of the property are Chinese. Yet, in spite of this, activities must be confined now to the sterling area and remittance to China are limited. It is further stated that only two out of eleven banks which are permitted to deal in foreign exchange are Chinese. --The two banks are: Bank of Communications and the Bank of China.--

With a view of assuring the smooth functioning of legitimate business, the petition requests the Ministry to complete the mechanism for the controlling of assets of Chinese nationals in the U.S. and Great Britain. The petition further requests the Ministry to try to obtain permission from the British and Hong Kong Governments for a certain

-2-

certain number of Chinese commercial banks to deal in foreign exchange in order to meet the legitimate commercial needs and to obtain the abolition of requisitioning of properties of Chinese nationals who reside in Hong Kong and who are particularly concerned about their property in the United States of America.

2. The steps which were outlined in the list of May 26 were completed on the twenty-first of August. The documents were turned over to the Finance Minister in order that they might be transmitted to Washington, D. C.

The decrees which was issued by the Minister of Finance may comply with legal requirements, but I am not entirely satisfied with the decrees as it was issued.

GAUSS

EAI/PAE

C
O
P
Y

SHANGHAI

AUGUST 22, 1941.

FROM: M. R. NICHOLSON, U.S. TREASURY ATTACHE

TO: DIVISION OF INVESTIGATIONS AND PATROL (FOR ALDER)

REGARDING ANONYMOUS LETTER RE MURDER OF FOX TAYLOR HALL PATCH X
IN OUR OPINION ABOVE LETTER WAS INSTIGATED BY LOCAL GERMAN GESTAPO
X SAID LETTER IS WRITTEN IN CONTINENTAL STYLE BOTH AS TO TEXT AND
HAND WRITING X IT IS DEFINITELY NOT OF RUSSIAN OR CHINESE ORIGIN
AS THE SIGNATURE QUOTE THE BLUE SHIRT ORGANIZATION UNQUOTE IS A
STUPID GIVEAWAY FOR REASON THAT A GENUINE BLUE SHIRT MESSAGE
WOULD HAVE BEEN WRITTEN IN CHINESE AND THE ALLEGED INFORMATION
IT CONTAINED WOULD HAVE BEEN TELEGRAPHED TO CHUNG KING AND
HANDLED FROM THERE AND FURTHER THERE IS AT PRESENT NO BLUE SHIRT
ORGANIZATION IN SHANGHAI X WE ARE WATCHING SITUATION CLOSELY AND
EXPECT FURTHER MESSAGE IN EFFORT TO CARRY ON TERRORISTICAL
CAMPAIGN X BEING FORWARD IN CLIPPER MAIL ARE COPIES OF THE LETTER
AND CONFIRMATION OF CABLES

Copy: hbr: 8-28-41.

NOTE: This message was badly mutilated
in transmission and had to be retransmitted
from Shanghai, thus causing the delay.

246

TREASURY DEPARTMENT
UNITED STATES COAST GUARD
WASHINGTON

247

22 August, 1941.

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

Message from Mr. Nicholson.

W. H. Taylor, alternate member of the Chinese Currency Stabilization Board, currently acting as observer for the Board in Shanghai, telegraphed the following to me:

1. As familiarity with American freezing orders and general business increases, so uncertainties lessen in the local market on this account. Banks report legitimate importers and exporters are cooperating to iron out difficulties. The biggest and most frequent complaints come from individuals wishing to remit small sums to America for specific purposes.

2. It is pointed out by American banks here that British banks empowered buy checks on Chinese blocked accounts for moderate amounts to meet contractual obligations in China, such as salaries, insurance premiums, house rents, living expenses, etc. Both Citic Bank and National City Bank urge they be allowed to issue drafts on United States, providing such drafts are not issued in favor of any blocked nationals. If approved, suggest that upper limit per transaction or per month be set at \$500.

3. National City Bank protests against freezing of its sterling accounts in London, pointing out asset of British banks free in New York. The situation is further complicated through the action of

- 2 -

the Chinese Currency Stabilization Board empowering American banks and British banks, including National City Bank, to sell sterling at official rates to merchants. National City Bank would have its London account freed if the bank would freeze its Shanghai sterling accounts, but such action it claims would be illegal.

4. British banks are guided in part concerning American orders by the actions of American banks. They have been granted considerable leeway under British freezing regulations.

5. In Chinese circles, the sharpest criticism comes from commercial banks. They assert that at least trusted commercial banks should have been licensed to finance import and export transactions. These banks are conferring regularly with Central Bank of China, Bank of China, Bank of Communications, and Farmers Bank, and thus far major problems have been settled amicably. American banks, British banks, and Chinese bankers fail to understand why three Sassoon banks' underwriters back American Express and Thos. Cook are included in license 59. * Assertion is made that Sassoon banks are private holding or financial development companies and others are not engaged in physical trade financing. Of these only American Express admitted to Shanghai Foreign Exchange Bankers Association.

7. American banks are striving to abide by regulations, but should be advised officially by head offices not to allow local U. S. dollar deposits to be used in such a way as to defeat the intent

*This number may be garbled.

- 3 -

of the freezing orders. This is merely a precautionary suggestion.

8. Since July 26th Shanghai market rates have been weak, falling to four and three quarters. Later they firmed slightly on the announcement of the Chinese Currency Stabilization Board on the 18th to cover at five and eleven thirty seconds for preferential imports. Expected that following the action of the Chinese Currency Stabilization Board, two rates will henceforth prevail, an official rate for authorized imports and black market rate for other imports and exports. There is great uncertainty among bankers here regarding probable trend of spread between these rates.

Copy: hbr: 8-22-41

S E C R E T

TRB

PLAIN

COPY

Shanghai via N. R.

Dated August 22, 1941

Rec'd 12:40 p.m., 23d

Secretary of State,

Washington.

1139, August 22, (SECTION TWO).

(increase less than six percent over June) consisting mainly of raw silk British skins and furs tea drawn thread work, to British Empire three six eight five (decrease twenty five percent from June) consisting mainly of textiles and metal products to British Far Eastern possessions, to French Indochina seven one one, to Netherlands India six two two, to Thailand five eight nine (to last three countries consisting mainly of textile and metal products), total nine five five seven or decrease seven point six percent from June Shanghai recorded July trade with yen bloc countries adjusted values in thousand imports Japan yen eight six one nine (increase twenty three percent over June) consisting mainly of sundry goods, exports local yen one four three naught one or decrease forty three point five percent from June consisting mainly of vegetable oils including tung oil raw cotton wheat flour seeds and tin shipments

-2-

shipments to Kwantung Leased Territory and Japan.
Highlights Shanghai July recorded trade: firstly, imports from non-yen bloc countries increased sharply due to purchases of staple goods in excess of normal consumptive demands; secondly, United States is still principal supplier of metals leather leaf tobacco flour (though metals and leather much below normal because of United States restrictions); thirdly, exports to Kwantung Leased Territory sustained sharp decreases due to cessation of trans-Siberian transshipments to Europe.

INFORM COMMERCE AND TREASURY.

Sent to Department, repeated to Chungking.

LOCKHART.

Copy: hbr: 8-27-41.

C
O
P
Y

AF

PLAIN

Shanghai via N. R.

Dated August 22, 1941

Rec'd 9:55 p.m.; 23rd

Secretary of State,
Washington.

1140, twenty-second

Special Economic.

Analysis of Shanghai foreign trade for first seven months 1941 made in this office indicated figures in adjusted values in thousands of United States dollars recorded imports from non yen block countries averages fifteen five seven eight monthly of which four naught naught nine from United States and Philippines and five five six seven from British Empire. Record exports to non yen bloc countries averaged eight four seven one of which three one two seven to United States and Philippines and three eight nine three to British Empire. Figures do not include goods passed duty free for foreign consulates, navies, armies, et cetera personal effects and parcels non-dutiable, transshipments at Shanghai of goods from abroad destined elsewhere, commodities arrived but entered in bond or unrecorded trade.

-2- 1140, August 22, 1941 - from Shanghai.

Monthly average excess of imports in recorded trade with non yen bloc is therefore seven one (anguth) six, average excess of imports in trade with United States and Philippines eight eight two, with British Empire one six seven four. End of thousands. Import excess for recorded trade alone for seven months is thus approximately United States dollars fifty million made up of net import excess in trade with United States of six point one seven five million, in trade with British Empire eleven point seven one eight million, balance mainly due to purchases of rice and coal from French Indo-China, rice from Thailand, petroleum products and sugar from Netherlands Indies, the net excess exports from these latter countries amounting to four point five eight six million monthly.

Inform Commerce and Treasury.

Sent to Department. Repeated to Chungking.

LOCKHART

EMB

Copy:dtg:8/27/41

DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA 840.51 Frozen Credits/3116

August 22, 1941.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and transmits a copy of despatch no. 979 from the American Consulate General in Hong Kong, dated July 31, 1941, with its enclosure, concerning the regulations of the Hong Kong Government freezing certain Chinese assets.

Enclosure:

No. 979 of July 31
from Hong Kong.

C O P Y

255

No. 979

AMERICAN CONSULATE GENERAL

Hong Kong, July 31, 1941

Subject: Hong Kong Government Freezes Certain Chinese Assets.

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to transmit herewith, as stated in a telegram of today's date, Hong Kong Government Gazette Extraordinary No. 45, Vol. LXXXVII of July 30, 1941, containing order No. 895, which freezes certain Chinese assets.

The Colonial Secretary issued a public statement to the effect that the foregoing order was in common with similar orders throughout the British Empire, made at the request of the Government of China. It will be noted that payments authorized by the Government of the Republic of China in the sterling area may still be made.

Hong Kong Government Gazette Extraordinary, No. 46, Vol. LXXXVII of July 31, 1941, contains a revised list of local banks authorized by the Governor to deal in foreign currency, viz:

American Express Company.
Bank of China.
Bank of Communications.
Chartered Bank of India, Australia and China.
Chase Bank.
Thos. Cook and Sons (Bankers).
Hongkong and Shanghai Banking Corporation.
Mercantile Bank of India.
National City Bank of New York.

Nederlandsche

-2-

Nederlandsche Handelmaatschappij.
Nederlandsch Indische Handelsbank.

Very respectfully,

JOHN H. BRUINS
American Consul

Enclosure;

Hong Kong Government Gazette
Extraordinary No. 45, Vol.
LXXXVII of July 30, 1941.

800
JHB:bp

Original by airmail;
In quintuplicate to the
Department;
Copy for the Division of
Commercial Affairs;
Copy to Consulate General,
Shanghai.

No. 45

Vol. LXXXVII

THE HONG KONG
GOVERNMENT GAZETTE
EXTRAORDINARY

Published by Authority

Wednesday, July 30, 1941.

No. 895

Colonial Secretary's Department
ORDER

In exercise of the powers conferred on him by regulation 2A of the Defense (Finance) Regulations, 1940, as amended by Government Notification 893 published in the Gazette Extraordinary of 26th July, 1941, His Excellency the Governor hereby makes the following order--

1. The Governor, by virtue of powers conferred in regulation 2A of the Defense (Finance) Regulations, 1940, hereby prohibits, except with permission granted by or on behalf of the Governor, the carrying out of an order given by or on behalf of--

(a) the state named in paragraph 2 hereof or any persons resident therein; or

(b) any body corporate which is incorporated under the law of the said state or which is under the control of the said state or of any person resident therein in so far as the order--

(1) requires any person to whom the order is given to make any payment or to part with any gold or

-2-

or securities; or

(ii) requires any change to be made in the persons to whose credit any gold or securities are to be held.

2. The state referred to in paragraph 1 is the Republic of China (except Manchuria).

3.—(1) The Governor hereby grants permission to bankers—

(a) to honour their obligations under confirmed credits opened prior to July 30th, 1941, on account of the state or any person or body corporate referred to in paragraph 1 (a) or 1 (b) hereof;

(b) to accept bills or drafts and to pay cheques, bills or drafts drawn by or for the state or any person or body corporate referred to in paragraph 1 (a) or 1 (b) hereof and presented by or on behalf of any person who being in possession thereof became a holder for value thereof before July 30th, 1941;

(c) to carry out orders received before July 30th, 1941, for making any payment or transfer of gold or securities;

(d) to make in the sterling area any payment authorized by the Government of the Republic of China.

(2) The Governor hereby grants permission to bankers and others to make and to accept any payment in this Colony to or from persons in this Colony.

(3) Nothing in the foregoing authorizes any transaction prohibited by or under any enactment relating to trading with the enemy or any order made thereunder and by or under any other regulation.

Published by His Excellency's Command.

N. L. SMITH,
Colonial Secretary.

30th July, 1941.

Copy: hbr: 8-26-41.

P A R A P H R A S E

The following is the substance of a telegram received from the American Consulate at Rangoon on August 22, 1941:

I have been informed by the Chinese Vice Minister for Foreign Affairs that he was advised by the Prime Minister of Burma that he (the Premier) would recommend to the Ministry the replacement of the present one per cent ad valorem tax on materials in transit to China with a tonnage tax of 10 roupes per ton. It is understood that the Premier made inquiries regarding the probable tonnage of American cargo to be carried. He is also said to have asserted that the question of transit charges would again be taken under review when the volume of cargoes increased. According to the Chinese Vice Minister, the Premier declared that Burma wished to maintain with all of her neighbors, including not only China but also Japan, friendly relations and that the popular and political attitude in Burma was unfavorable to the transportation through Burma of munitions for China.

In view of the opposition by the Council of Ministries, London is said to have been advised that at the present time it might not be politic to take steps toward the abolition of transit charges.

In compliance with recent instructions from the Chinese Government, the Vice Minister is protesting each transit duty payment.

Copy:bj:9-3-41

C
O
P
Y
TEM

260

Tokyo

Dated August 22, 1941

Rec'd 12:25 p.m.

Secretary of State,

Washington.

1239, August 22, 5 p.m.

Department's 504, August 15, 5 p.m. and previous correspondence relating to freezing orders in the United States and Japan.

Today I requested an interview with Foreign Minister and, first observing that to date we have received no (repeat no) replies to any of our representations in connection with the subject under reference, including our aide memoire dated August 9, 1941, I set forth to him orally and also in a first person note and accompanying memorandum in general and in detail the serious disparity existing in the treatment accorded to American Government officials and other American nationals residing in Japan and the treatment accorded to Japanese Government officials and other Japanese nationals residing in the United States under the freezing orders in both countries. I pointed out to the Minister that the American freezing orders were

-2-

orders were not intended to and does not in practice work undue hardship to Japanese nationals in the United States whereas the application of the Japanese freezing orders is working the most drastic hardship to American nationals in Japan.

The American freezing orders in effect works along lines similar to the restrictions and handicaps which American business and trade and commerce have encountered in Japan and in Japanese occupied areas during the last several years. Japan, on the other hand, has evidently interpreted its own freezing orders as aimed both in theory and practice at severely restricting the normal activities and both official and personal privileges of American citizens residing in Japan to an extent which has worked and is still working the greatest unreasonable hardship. The result has been and is an almost complete cessation of financial and business activities on the part of American individuals and firms here and represents utter disparity in treatment. I urged the Minister with the greatest emphasis to take such prompt steps with a view to placing the treatment of our respective nationals on a basis more nearly reciprocal than that formerly existing. I

pointed out

-3-

pointed out that the foundation of international relations is reciprocity and I did not fail to indicate that in the absence of favorable results in this respect my Government would obviously have no alternative but to consider such measures as might be necessary to establish reciprocal treatment.

The Minister received my representations in his usual sympathetic way and expressed his regret at the situation which I had described to him. He said that he would do his best to place these matters on a basis of reciprocity.

GREW

NPL

Copy:hbr:jb:9-17-41

C
O
P
Y

DES

PLAIN

TOKYO VIA SHANGHAI & N.H.

Dated August 22, 1941

Rec'd 3:05 p.m., 23rd.

Secretary of State,
Washington.

FOR DEPARTMENT.

1292, Twenty-second, 8 p.m.

Special Despatch CHUGAIS New York correspondent states today American attitude toward Japan rapidly becoming aggravated especially since application freezing order. Japanese are warned against adopting attitude of wishful thinking believing situation may improve. American feeling toward Japan seen stiffening daily. Manifests harsh application freezing ordinances. Treasury and Federal Reserve officials daily supervise business all Japanese banks commercial firms. In certain instances withdrawal funds cover travel Japanese businessmen have been refused and permit payment salaries to officials certain Japanese bank was granted only after great difficulty. Entry departure Japanese from United States has become far more strictly controlled bearing relationship to withdrawal American citizens from Japan. Reservations by Japanese on airplanes to foreign countries now stated unlawfully refused. Correspondent concludes if these retaliatory measures continue become more severe

- 2 -

danger exists some unforeseen incident may develop out of cause unrelated Japan's positive actions in Far East. American-Japanese Government leaders urged consider this as practical problem holding serious implications.

Sent Department via Shanghai.

GREW

NPL

Copy:lg 8/25/41

C
O
P
Y

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Dairen, Japan, via Peiping
and N. R.

DATE: August 22, 1941, 11 a.m.

NO. : 32

In regard to Japanese freezing restrictions and oil needs.

The statement has been made by the Acting Manager of the Texas Company that the local exchange authorities have agreed to provide foreign exchange amounting to approximately US\$20,000 in payment of the quota for the month of August of refined and lubricating oils for the South Manchuria Railway Company provided definite assurances can be given by the Texas Company that sufficient funds can be unfrozen from the account of the South Manchurian Railway Company in the New York branch of the Misui Bank. Sufficient stocks are on hand so that the Texas Company will be able to fill the August and September quotas under the yearly contract (which expires September 30) which the Texas Company has with the South Manchuria Railway Company.

It has also been agreed by the local exchange authorities that provision for foreign exchange will be made for the June, July, and August Texas Company's import quotas for local business--sales in the Kwangtung Leased Territory--which amount to Japanese yen 100,000 per month provided definite assurance can be given by the Texas Company that

-2-

sufficient funds can be unfrozen in the U.S. and, further, provided that the local exchange authorities will continue to import enough oils to keep the stocks at the levels as they are at present. Stocks for a few months only are held at the present time by the Texas Company.

With regard to petroleum products, further evidence of anxiety of the local authorities is shown in the report which was made by the local manager of the Standard Vacuum Oil Company that they, of their own volition, offered to extend to the thirtieth of September the validity of three non-draft permits which expire on July 28 for petroleum products to be imported.

This message was sent to Tokyo, repeated to Chungking, Shanghai, Peiping, for the information of the Department. Sent my mail to Harbin and Mukden.

CHASE

EA:PAK

840.51 Frozen Credits/3187

C
O
P
Y

267

GRAY

Ciudad Trujillo

Dated August 22, 1941

Rec'd 5:35 p.m.

Secretary of State,
Washington,

152, August 22, 3 p.m.

Department's circular August 20, 9 p.m.

Although the Texas Company had already received instructions to stop sales of all its products to firms on the proclaimed list the West India Oil Company has only received instructions to stop sales of products of United States origin but the local manager informs me he will immediately stop all sales to companies on the proclaimed list pending clarification from his principals. He inquires however whether the letter set forth in the Department's telegram under reference has been communicated to the Sinclair Oil Company in view of the fact that the Sinclair Oil Company of Cuba, which he understands is wholly American-owned, operates here as a competitor.

SCOTTEN

Copy:hbr:9-5-41.

TRB

GRAY

Ciudad Trujillo

Dated August 22, 1941

Rec'd 12:15 p.m.

Secretary of State,
Washington.

RUSH.

153, August 22, 10 a.m.

My telegram No. 152, August 21, 1 p.m.

The local Manager of the West India Oil Company informs me that he has just received a telegram from his head office approving his action in stopping all sales to individuals and firms on the proclaimed list.

I have also been informed by the local manager of the Sinclair Oil Company of Cuba that under instructions from his principals he has likewise ceased making any sales to individuals or firms on the list.

SCOTTEN.

HSM

PARAPHRASE OF TELEGRAM SENT

DATE: August 22, 1941, 8 p.m.

CIRCULAR TO: AMERICAN LEGATION -- Port-au-Prince; Ciudad Trujillo; Guatemala; Managua; San Jose; Tegucigalpa; San Salvador; Quito.

CIRCULAR TO: AMERICAN EMBASSY -- Mexico; Habana; Bogotá; Lima; Rio de Janeiro; Caracas.

Careful consideration has been given by the Department and the Treasury Department in regard to the situation arising from the fact that certain importers of coffee and other commodities from the other American republics entered into contracts prior to July 17, 1941 with persons whose names appear on the "Proclaimed List of Certain Blocked Nationals."

In view of the fact that the prices of certain commodities have risen substantially since the contracts were entered into, a refusal to issue the appropriate licenses to allow performance of the contracts would cause an accrual of undeserved profits to such blocked nationals. Accordingly, the Treasury Department will indicate to the trade and to the banks that specific applications, to allow the carrying out of such contracts, will be considered by it.

Even though the fact has not been announced publicly, the Treasury, in consultation with the Department, has determined that it will grant such licenses to permit the performance of contracts which were entered into prior to

prior to July 17, 1941 for the importation and sale of commodities in those cases in which contrary action would, in fact, result in the accrual to persons, whose names appear on the List of undeserved profits. Action in this respect is not to be construed as any relaxation in the strict application of the purposes of the Proclaimed List.

The present decision, as indicated above, is not being announced officially. This message is for the information of the Embassy or Legation at the points designated.

HULL
(DA)

RA:EGG:EJS A/A

EA:PAK

PARAPHRASE OF TELEGRAM SENT

TO: American Legation, Managua, Nicaragua

DATE: August 22, 1941, 8 p.m.

NO.: 129

Reference is made to the Legation's telegram of August 7, No. 129.

It is requested that the Legation express this Government's sincere appreciation for the spirit of cooperation evidenced by the Government of Nicaragua to the Minister of Foreign Affairs.

The U.S. Government is discussing with two other governments of Central America plans under which the assets of persons and firms on the Proclaimed List would be immobilized—those firms and persons would be prevented from deriving any economic benefit other than the minimum living expenses from such assets—and their influence in the life of the restricted or eliminated country. Any plan which the Government of Nicaragua would choose to put into operation which would accomplish a similar purpose would be viewed with satisfaction by the U.S. Government.

In regard to the first and second questions: The importation of merchandise to blocked nations² in the U.S., its resale and the use of the assets resulting therefrom, are controlled by the freezing order of this country. Should it not be considered practicable by the Government of Nicaragua to impose a freezing control

-2-

control which is comparable to that in this country, other means might be found to divert to persons not on The Proclaimed List such merchandise.

In regard to the third question, the precise facts are not entirely clear as to this matter. The drafts which were drawn under letter of credits that were issued by American banks on behalf of Japanese firms would be subject to the freezing order licensing requirements.

In regard to the fourth question, persons who are subject to the control of this Government would not be allowed to buy coffee from the blacklisted firms or individuals without licenses. Such licenses would not, except under unusual circumstances, be issued.

In regard to the fifth question, the definite policy of the U.S. Government with respect to dealings of American banks with persons whose names appear on The Proclaimed List is being currently formulated. The Legation will be advised further in regard to this matter.

HULL
(DA)

6-11-42 10 11 02

A-A:DH:MFA

RA

EA

DCA

EA:PAK

C
O
P
YDEPARTMENT OF STATE
WashingtonIn reply refer to
EA 832.5151/1645

August 22, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith a paraphrase of telegram No. 1034, dated August 6, 1941, from the American Embassy at Rio de Janeiro concerning a pending visit to Brazil of the Director of the Yokohama Specie Bank.

Enclosure:

Paraphrase of
telegram No. 1034,
August 6, 1941,
American Embassy,
Rio de Janeiro.

Copy:lg 8/22/41

C
O
P
Y

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro.

DATE: August 6, 1941, 7:55 p.m.

NO.: 1034.

It is understood that the Director of the Yokohama Specie Bank will visit Brazil in the near future for the purpose of discussing Japanese dollar credits with the Bank of Brazil.

The suggestion is made by the Brazilian Director of Exchange that Japanese financial operations in other American countries, especially Peru and Colombia, be followed closely by American missions.

CAFERRY

EA:HGW:MCE

Copy: hbr: 8-23-41

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bucharest, Rumania.

DATE: August 22, 1941, 2 p.m.

NO. : 767

STRICTLY CONFIDENTIAL.

The National ~~Bank~~ Bank here has, I have just learned, requested that a capital reserve in the United States of the Malaxa Company, amounting to \$1,200,000, be transferred to this Bank. Under strong pressure, negotiations have led to the taking over of the whole Malaxa enterprise by the Germans. Likewise, the Germans have insisted that this cash reserve be transferred to them when as and if that might be possible.

It is stated that the three factories of Malaxa Company in Bucharest will now engage in work solely for the production of tanks and shells for the Germans. They will also be called upon to handle repair work on mechanized equipment of the German forces returning from the Russian war. Near Bran there is a fourth factory through which all shells are routed for precision adjustment and loading, and this factory will continue to perform this work. The airplane and air parts factory in the neighborhood of Brasov is the fifth Malaxa factory; it will continue to operate as in the past except that its operations will be exclusively for account of the Germans.

GUNTHER

NPL

EA:HW:EHS

For Miss Gurnow

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE August 22, 1941.

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£57,000
Purchased from commercial concerns	£ 6,000

The Federal Reserve Bank of New York sold £20,000 in registered sterling to the American Express Company.

Open market sterling was first quoted at the improved quotation of 4.03-1/2. It remained at that level throughout the day, and there were no reported transactions.

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

Canadian dollar	10-7/8% discount
Argentine peso (free)	.2385
Brazilian milreis (free)	.0505
Colombian peso	.5800
Mexican peso	.2070
Uruguayan peso (free)	.4375
Venezuelan bolivar	.2763
Cuban peso	1-1/8% discount

In the unofficial exchange market in Shanghai, the yuan advanced 1/16¢ to 4-11/16¢.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York granted the Central Bank of El Salvador a three-month loan of \$200,000 yesterday, setting aside as collateral \$225,000 in gold from the Salvadorian bank's earmarked account. This is the only loan to Salvador now outstanding.

No new gold engagements were reported.

A price of 23-7/16d was again fixed in London for spot and forward silver, equivalent to 42.55¢.

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

There were no silver purchases made by us today.

J. M. P.

BRITISH EMBASSY,
WASHINGTON.

August 22nd, 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,

R. I. Campbell

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

TELEGRAM FROM LONDON DATED AUGUST 21st, 1941.

1. 20th. Twelve Blenheims operated off Frisian Islands against enemy vessels. Six Blenheims escorted by five squadrons of fighters attacked Alkmaar aerodrome (near Amsterdam). Reconnaissances and sweeps involving further six fighter squadrons carried out, during which we destroyed three enemy aircraft. We lost two fighters, one pilot rescued.
2. 20th/21st. Adverse weather caused cancellation of operations. Five Havocs and a Hudson attacked enemy aerodromes. During routine patrol off Norwegian coast Hudson bombed 1000 ton merchant vessel scoring hit amidships.
3. Libya. Frontier area August 19th our artillery engaged and damaged enemy MI descending Halfaya pass.

.....

BRITISH EMBASSY,
WASHINGTON.

August 22nd, 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,

R. I. Campbell

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

TELEGRAM FROM LONDON DATED AUGUST 20th, 1941.

Forty-six survivors from the Norwegian Destroyer Bath, have been picked up.

The Bath was on the point of attacking U Boat sighted 300 yards off starboard beam when torpedo struck the Engine room.

She sunk in 3 minutes. Two other small merchant ships in this outward convoy torpedoed in the second attack.

2. August 19th. During British sweeps over France we lost 14 fighters. 13 WE 109's destroyed certain, 8 probably and 13 damaged. Three and possibly one other of our pilots are safe. Night of August 19th-20th. Out of about 120 aircraft despatched majority delivered heavy attack on Kiel. Weather conditions very bad. Four missing.

3. Night attacks on Benghazi and Tripoli harbours continue. Night of August 18th-19th. Suez Canal area again attacked by 14 aircraft. Bombs dropped El Kantara and Suez but no serious damage or casualties. August 19th. Hurricanes shot down three out of twelve Italian fighters which approached Malta but turned back.

4. About 31 enemy operated night of August 19th-20th, of which one destroyed by fighters. Some serious damage caused west of Hartlepool and damage to Dorman Long's Steel Works Middlesborough has caused appreciable loss of production.

CONFIDENTIAL

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, August 22, 1941

TENTATIVE LESSONS BULLETIN
No. 148
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 ANSWER TO PROBLEM OF
WATER IN MOTOR FUEL

SOURCE

This short bulletin is based upon information submitted on June 9, 1941, by an American official observer in Berlin.

CONFIDENTIAL

CONFIDENTIALGERMAN ANSWER TO PROBLEM OF WATER
IN MOTOR FUEL

The German Army has experienced some difficulty in the past with the problem of keeping motor fuel free from water. It has been found that some water always collects in the containers when the motor fuel has to be stored or transported in drums.

According to recent reports, the Germans are now using a solvent which causes water to blend with gasoline, forming such a perfect emulsion that the resulting liquid is as clear as pure motor fuel. Water so combined with gasoline will burn readily and, if the quantity of water is not large, the quality of the fuel will be improved.

For ordinary purposes, three-tenths to five-tenths percent of solvent is sufficient; with four percent of solvent, gasoline will absorb twenty percent or more of water. This solvent is said to burn completely and to leave no sludge or residue.

The solvent is reported to have the following formula:

4.20 kilograms Olein Saffre - Acid of Olein;
0.84 kilograms Salmiakgeist - Ammonia water;
0.96 kilograms Cyclohexanol - Hexalin.

The first two ingredients are mixed, forming a slimy mixture; the third ingredient then is added to make the mixture liquid.

It is reported that this formula was developed and patented by a German chemist, but that the patent has been allowed to lapse.

During a demonstration of this solvent, an observer saw water unite with gasoline so that only a clear mixture was left. When water in considerable quantities - 50% - was added, the resulting mixture was a milky emulsion of extremely fine particles, so fine in fact that no individual particles could be seen; it could almost be described as a colloid. The water in this case had no apparent tendency to settle out or to separate.

It has been suggested that this experiment opens up certain possibilities for producing anti-knock characteristics in gasoline. For example, organic substances which are soluble only in water could be introduced into fuel through this emulsifying process and thereby tested for anti-knock properties.

The observer of the experiment had no means of determining whether or not the solution used was composed of the ingredients given above.

CONFIDENTIAL

RESTRICTED

G-2/2657-220; No. 474 M.I.D., W.D. 11:00 A.M., August 22, 1941

SITUATION REPORTI. Eastern Theater.

Ground: Both sides report heavy fighting along the entire Russo-German battle front.

Powerful German attacks against Leningrad continue to make progress.

The Russians state that Gomel has been evacuated by their forces.

In the Ukraine, German mopping-up operations continue. Odessa is still in Russian hands.

Air: Soviet planes bombed Berlin during the night of the 20th.

II. Western Theater.

Air: British communiques reported heavy daylight activity against railway facilities in occupied territory. However, heavy losses were also reported. No German air activity over the British Isles was reported.

III. Middle Eastern Theater.

Ground: Continued lack of noteworthy operations.

Air: Alexandria was subjected to a night raid. British planes bombed the Augusta naval base on Sicily and also raided Benghazi during the night of the 20th.

RESTRICTED