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Work Projects Administration

See Unemployment Relief

May 5, 1941
9:30 a.m.

GROUP MEETING

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

H.M.Jr: This fellow Sidney Hillman is quite a boy.
Here is a letter to the President signed *(dated 5/2)*
by Hillman and Knudsen.

"The Council of the Office of Production Management has given careful consideration to the joint recommendations recently made to you by Secretary Morgenthau and Mr. Nelson.

"At the meeting on April 29 of the Council of the Office of Production Management, it was agreed that the labor policy, as outlined by the Advisory Commission to the Council of National Defense in September 1940 and transmitted to you by the Congress, is in full force and effect and will continue to be followed in the letting of defense contracts.

"The Council is unanimously opposed to the adoption of the recommendations jointly made

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to you by Secretary Morgenthau and Mr. Nelson, as unnecessary. It was stated that the officers of OPM charged with the clearance of contracts will, in doubtful cases, consult the Labor Division of OPM and will refrain from clearing contracts to habitual violators of the Federal labor laws, except in instances where, in their opinion, such action would result in undue interference with the preparation of national defense.

"The papers forwarded by you are herewith returned.

Yours respectfully,

(signed) William S. Knudsen
Director General

(signed) Sidney Hillman
Associate Director General"

Well, if Sidney Hillman doesn't want it, it is his responsibility and why should I worry?

White: Was that sent to you from the Council or from the President?

H.M.Jr: From the President.

White: Does that mean that he read the letter?

H.M.Jr: Sure.

White: It isn't the first mistake they have made.

H.M.Jr: Lubin practically wrote it for us, didn't he?

Foley: What?

H.M.Jr: This is what Lubin said Hillman had been fighting for for six months. This is what Lubin wanted.

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Foley: That is what Lubin wanted, sure.

White: Hillman shadow boxes. He doesn't fight.

H.M.Jr: That is all right. Round one.

Now, the other thing, Ferdinand Kuhn.

Kuhn: Yes, sir.

H.M.Jr: I got a memo from you that Dr. Francis Griffin, husband of Irene Dunne, wants to see me. You say he wants this property in California. Do you know what that property is? Is that the golf links?

Kuhn: I don't know. Mr. Harmon of the Hays Office simply told me it was Treasury-owned property on which it was proposed to build a health center and it was property you had seen personally on one of your trips West. It may be a golf course. He didn't say.

H.M.Jr: There is a golf course which I wanted six hundred thousand dollars for, as I remember it.

Sullivan: Just about.

Foley: I thought that was in California.

H.M.Jr: It is. Why can't Dr. Griffin inasmuch as he is Dr. Griffin, not Irene Dunne, see Mr. Sullivan, in charge of the matter.

Sullivan: Tell him to bring Irene with him. (Laughter)

Kuhn: Mr. Secretary, this request came from Hays himself, and since Hays had helped us very greatly on the movies, I thought I would put it up to you.

H.M.Jr: It is not worth it. I mean, let him see - I don't want to - the next thing, Herbert, I am

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afraid, will be something more embarrassing; and if they don't want to help the country, we will get along without them.

Kuhn: They were all right, they just made the request.

H.M.Jr: Well, the next request will be some tax case, so I think, if you don't mind - I thought of it over the week-end - I would refer Dr. Griffin - because it is a long, complicated --

S. W. Straus is in it, and they have got the mortgage. I haven't been on this thing in a couple of years. Do you remember the case?

Sullivan: All I recall is that there is a golf links out there that we own and operate.

H.M.Jr: It is a long and complicated case. I would only have to refer them to Sullivan anyway. He is a very important fellow, Sullivan is.

Mr. Gaston?

Gaston: We have been fooling around with the Yugoslav ships over Sunday. A message came to the Yugoslav ships from - purporting to come from Yugoslavia - it was in Italian, transmitted to Rome, ordering all the ships in the Atlantic to flee, was the word used, the translation of the Italian word used, to Brazil and Argentina and those in the Pacific to Japan.

H.M.Jr: What is the Italian word for flee?

Gaston: I don't know.

H.M.Jr: Mussolini. (Laughter)

Gaston: Or some other kind of an insect.

H.M.Jr: That is what a week-end in the country does among the apple blossoms.

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Gaston: Do you know the one about the two bugs that met on the windshield?

H.M.Jr: No.

Gaston: One said to the other, "I bet you haven't got the guts to do that again." (Laughter)

Foley: I don't know where he got that one.

Gaston: That was the Customs party.

H.M.Jr: It is all right.

Gaston: I talked to Summer Welles and the Yugoslavian Minister. We put a dock guard on all of them. We didn't put any men aboard except for inspection trips.

One of them in Boston, we put the guards aboard but we are holding them all for further inquiry and sent word to Panama about a couple of them down there that the Yugoslavian Minister was quite suspicious of.

H.M.Jr: O.K.

Gaston: It caused a little excitement in the newspapers.

H.M.Jr: Anything else?

Gaston: No.

H.M.Jr: Is that all?

Gaston: That is all I think of.

H.M.Jr: Nothing from Secretary Knox on the seven cutters?

Gaston: No.

H.M.Jr: The next move is up to him?

Gaston: That is what I told Waesche. I haven't heard anything.

H.M.Jr: Foley?

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Foley: Is that what you wanted? (Handing Secretary a memorandum to the President)

H.M.Jr: A little later on, Herbert, I will give you a little notice. I wanted to see you and John Wiley and Sammy Klaus about this work that they are doing for the FBI on money, and the Tribune is all excited about it, you know.

Gaston: The Tribune?

H.M.Jr: New York Tribune. They had a swell story Saturday.

Gaston: Oh, I saw that story on the Italian funds.

H.M.Jr: It will be some time between ten and eleven.

Gaston: They have learned a little of the facts.

H.M.Jr: Are you in on that, Merle?

Cochran: I have been in on some of it.

H.M.Jr: Is that - does that end of the work --

Cochran: I see Stopford and most of these reports.

H.M.Jr: I will have you in, too.

Cochran: All right.

H.M.Jr: Why should I --

Foley: Well, you said Saturday that you wanted a memorandum in so far as these military powers were concerned, about the greenback and the silver legislation, why were they not involved here.

H.M.Jr: No. That doesn't call for a letter to the President.

Foley: No, I think probably just a memorandum.

H.M.Jr: No.

Foley: Here is the proposed memorandum that Dean Acheson brought over. (Undated, delivered by Mr. Acheson, May 3)

H.M.Jr: Sit down. Well, I will believe it when they sign it.

The New York Tribune has got a nice article on it today. A long overdue step is taken.

Schwarz: There is a very nice cartoon there, too, Mr. Secretary.

H.M.Jr: And a nice cartoon. I will believe it when it happens.

Foley: All right. Here is a memorandum on the Viscose Company's agreement that we entered into. I think you will probably want to read that. (Handing memorandum to Secretary, dated May 5)

H.M.Jr: You hang onto it. I won't get time to read it. I just gave Stanley an appointment at three thirty for tomorrow on Viscose, so you had better be here, and you (Cochran) be here.

Cochran: Three thirty?

H.M.Jr: Yes. And you, Harry.

Foley: Wouldn't you want to take this home and read it then?

H.M.Jr: No, should I?

Foley: You ought to be primed on it if he is coming in at three thirty tomorrow.

H.M.Jr: Have you got to prime me with four pages?

Foley: Yes.

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

Foley: That is all.

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H.M.Jr: Sullivan?

Sullivan: Mr. Doughton arrived this morning. I talked with Jerry last night and arranged to have him get hold of Doughton first before Stam and those other fellows did, and Doughton reported to Jerry he thought the letter from the President was fine but he thought he had better answer it. He was going to talk it over with Jerry. This was off the record between Jerry and myself. He didn't want it known that I knew that, and he wondered whether or not I thought that Doughton should answer the letter. Of course, what Doughton wants to do is to stress the economy end of it, and I told Jerry I would let him know later, but I thought for the time being it might be well if anything was going to happen in case I had a chance to talk with Jerry, Doughton had better ask the President if he did want a reply.

H.M.Jr: Well, we had better wait and find out from the Speaker what luck he had with the President this morning.

Sullivan: I see.

H.M.Jr: I will call Sam Rayburn and tell him that Doughton is thinking of answering the letter.

Sullivan: Well, I don't know. The conversation between Doughton and Cooper was confidential. Can't you find out from Sam without telling him Bob Doughton is thinking of writing a letter?

H.M.Jr: Well, what harm would it be?

Sullivan: Because Jerry wasn't supposed to tell anybody that Doughton was thinking of this.

H.M.Jr: All right. Go ahead.

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Sullivan: That is all, except the American Legion last week voted to recommend to all its Posts and members that they put whatever surplus funds they have in defense bonds. I don't know whether you (Graves) saw that or not. I have the material on my desk. It just came in, and I will send it in to you.

H.M.Jr: When do you testify?

Sullivan: Probably Wednesday.

H.M.Jr: Before you do, I want you to go over it with me.

Sullivan: Yes, sir, I want to go over it too.

H.M.Jr: I want to go over it with you.

Sullivan: Yes, sir.

H.M.Jr: And what did you do about this man who represents the rubber industry who came in to lobby and is working for OPM?

Sullivan: I didn't do anything about it.

H.M.Jr: I think you should. I would like to write a letter to the four men of the OPM and say, "Here this man is on your payroll, and he comes in here and lobbies for the rubber industry. What are you going to do about it?"

Sullivan: Then he comes back and says, "We thought you would like to have the benefit of a man who has worked - the opinion of a fellow who has done this work all his life."

H.M.Jr: My answer is he should either work with the Government or this rubber institute.

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Sullivan: He came in as Assistant Chief Counsel of the Bureau and now represents Firestone Rubber Company, and he is a pretty decent fellow.

H.M.Jr: That is what I think you ought to do. You can do what you want to. I don't think you can have these fellows around town working under the guise of being working for OPM and at the same time representing a group of an industry. I think it is outrageous.

Sullivan: I thought I would like to see whether he testifies.

H.M.Jr: I wouldn't wait. I would write a letter and I will sign it, to Stimson, Knox, Knudsen, and these other fellows and tell them, "Who is this man working for, the rubber industry or for the United States Government?" I would like to know. If you don't drive these fellows out of town, they are just going to take the town. I am not going to force it because he came in to see you, but if you want to write it, I will sign it.

Sullivan: Well, let me talk it over with some of the fellows.

H.M.Jr: If you don't drive these fellows out of town and let me write these letters, it is going to get worse and worse. Nobody else has got the nerve. I have. This man cannot work for the Government and the rubber institute and be here at the same time. He came to see you at your office. He didn't talk from his office.

Sullivan: No, that was in the office.

H.M.Jr: And with the counsel of Firestone Rubber?

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Sullivan: That is right.

H.M.Jr: I would like to write it, but he is your guest. It is up to you. O.K.

Cochran: Sir Frederick Phillips followed up the suggestion you gave him on Thursday and has written in a pretty good letter giving contracts which might be handled, and do you want to wait on that now?

H.M.Jr: I think we will wait.

Cochran: And then follow up if necessary?

H.M.Jr: Walter Stewart will be here. Let him read up on what we have done on that.

Cochran: He is coming in today?

H.M.Jr: Tomorrow. O.K.?

Cochran: Yes, sir.

Kuhn: I have nothing.

H.M.Jr: George?

Haas: I have got several things. They are bulky but they won't take long. I have got a medium chart now with the tanks on it.

H.M.Jr: I will tell you what you do. I want immediately after this to get White started on something for the President; so if you will wait a couple of minutes outside, leave your stuff here, but what I want to say to Harry will only take sixty seconds. Then I will see you.

Harry?

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White: I have nothing. The criticism of the tax bill includes the recommendation for a sales levy on the grounds of inflation. I don't know whether John already has prepared answers to that, but an adequate answer can be prepared, and I think should be prepared either to present to Congress or - either in a letter or to have ready for some publicity, because it gains - it is gaining a lot of adherence, and I think it can be adequately answered.

Sullivan: We have some material, but I would like very much for you to take a crack at it yourself, Harry.

White: Who is working on it for you?

Sullivan: Blough.

By the way, did you (Secretary) see the New Republic, the letter on the tax program?

H.M.Jr: No.

Sullivan: Mr. Kuhn just gave me that. I thought it was a very good article.

H.M.Jr: Right. Anything else, Harry?

White: No, sir.

H.M.Jr: Chick?

White: I have that material whenever you want it.

H.M.Jr: Have you got it with you?

White: It is in the office.

H.M.Jr: Well, I am going to give you something which

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will change it.

Schwarz: There are a few things here I think you might like to see, including this letter on the sales tax. I put in a call for John two days ago on that subject. I think we can develop something, but he has been busy.

H.M.Jr: Good.

Harold, I have got a criticism for you. I looked over those various committees, see.

Graves: Yes, sir.

H.M.Jr: I did it very fast so I may be wrong, but with the exception of the State of Connecticut, there isn't a single labor representative on any of them.

Graves: I think you must be wrong.

H.M.Jr: Well, I am not counting state officials.

Graves: Well, we--

H.M.Jr: I am not counting the head of a labor department.

Graves: Well, that was our - we did that deliberately, Mr. Morgenthau. We suggested that where the head of the state labor department, State Commissioner of Labor, was suitable from the standpoint of being acceptable to the various

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organizations, we, as a matter of choice, wanted that man put on to - as the representative of labor. The same way with Agriculture. You will find that those committees contain the State Commissioner of Agriculture as the representative of the farm groups. That was done deliberately.

H.M.Jr: Well, if these representatives of education, agriculture, and labor in South Carolina are anything like other state commissioners, I know they don't rate very high.

Graves: Well, we have left that to our state officers. We cautioned them not to suggest the appointment of the State Commissioner of Labor or Agriculture unless the man is thoroughly qualified according to our standards to represent those groups on the committee, and there are instances where they are not clearly qualified and have not been recommended, but we did that on purpose.

Kuhn: Wasn't that also Lubin's idea, Harold, that we should do this as the most practical way.

Graves: Well, I personally have not heard that mentioned by Mr. Lubin. I remember you were there one time when I was not there, but if there is any mistake, it is my mistake because--

H.M.Jr: It isn't a mistake, I simply say that I

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think if you will look it over the only one in Connecticut where you have the labor man is the Teamster's Joint Council of Connecticut, and every other place you have got nothing but state officials.

Graves: Yes, that is right. We have tried to leave the selection of these committees to the state men who have come here, because in each state there are, of course, cross currents of various kinds and political factions, group factions and so on that we here can't judge about.

H.M.Jr: Well, you are going to get just one kind, I am warning you. Let's take Texas, for instance. Well, the Governor of Texas is a good flour salesman. I don't know what his social viewpoints are and so forth and so on, but if you take his entire administration to run our thing, you may not be so well off. Now, take Michigan, for instance, or rather Wisconsin would be better. If you take all the state officials of Wisconsin, you are certainly going to get the most anti-labor people.

Graves: Well, we would do well to watch each state in that respect, and we intend to as best we can, and that is perhaps one reason why we have wanted to go slowly about these state organizations and see how we fare.

H.M.Jr: Well now, just for fun, let's take these five or six state labor commissions, see. You brought Green and Phil Murray in here, and you brought the fellow from the railway brotherhood. Ask those three what they think of those six labor commissioners, just as a test. That is fair, isn't it?

Graves: I don't think so.

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H.M.Jr: But supposing all three say that they are no good?

Graves: I think that our men in these states are better judges of that than the heads of these organizations who are just as far away from them as we ourselves are. If our men can't be relied upon to advise us in such matters, then there is something wrong with our men. We will have to think about that.

H.M.Jr: I don't see eye to eye with you, Harold. I am sorry.

Graves: Of course, if --

H.M.Jr: I don't see eye to eye with you.

Graves: If you don't take these state commissioners of Labor, you are practically forced in any industrial state to put on a representative of the CIO or a representative of the AF of L or a representative of the brotherhoods.

H.M.Jr: What did you think we were going to do?

Graves: I beg pardon?

H.M.Jr: I don't see that this is any different than taking the President of the State of New York Manufacturer's Association or the New York State Chamber of Commerce.

Graves: On my theory, we would take the President of the New York State Manufacturer's Association, assuming that he was representative of that group, as a member of our committee; and in some states we have taken such officers to represent that group.

H.M.Jr: Will you do this for me? Have a talk with the people who are advising you, like Kuhn and Gaston

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and Odegarde and just bring up this question that I am raising for criticism.

Graves: In the instructions, Mr. Morgenthau --

H.M.Jr: Will you do that for me?

Graves: We will do that.

H.M.Jr: Take it up with Gaston and Kuhn and Odegarde and Houghteling.

Graves: Very good. Mr. Kuhn and Mr. Odegarde are, of course, very aware of this, and I think there has been carried in the instructions which we gave to our state officers that where we do have an acceptable Commissioner of Agriculture and an acceptable Commissioner of Labor, that we should use those officers in the committee. There is another reason than any that has been discussed here. These people have a piece of machinery. They have an agency that --

H.M.Jr: But you may be paying too much money for the machinery.

Graves: Yes.

H.M.Jr: Look, Harold. I am raising a question. I have got grave doubts. You have got three or four fellows around you that you and I have got confidence in. I want you to talk to them.

Graves: Very well.

H.M.Jr: I want you to check it; it worries me. The quality of the women you have got on there doesn't impress me. The whole purpose is to start - I am worried about it, and I think -- well, you might find one of these groups might run away with it and put on the most outrageous kind of a campaign.

- 18 -

Graves: Well, we are in a position to bear against that, if that were the only thing to worry about. I, for one, would not be worried about it.

H.M.Jr: Well, I am; so if you will, as you always do, sit down and have a talk with these half dozen people that I have suggested, or anybody else that is around, and come back with that particular group, and let's have a little round-table discussion. Will you do that?

Graves: Yes, sir.

H.M.Jr: I am ready as soon as you have talked with these people, you see.

Graves: Yes, sir.

H.M.Jr:that I mentioned. Will you do that?

Graves: Yes, sir.

H.M.Jr: And just these two, put it up to them just the way I say. I have got nothing else. And then between you and Chick, for Heaven's sake, for my three o'clock press conference have something for me on the bonds. For instance, Graves tells me that the original order for the booklets was thirty million, and you have had to order how many more?

Graves: We have ordered twenty million more. That is, we have a request from the Post Office Department to order twenty million.

H.M.Jr: Give me something like that, and then you also mentioned the twenty-five and fifty dollar bonds are running out. I would like something more on that. And also, from the Federal Reserve Banks, if you would give me something on the F and G bonds.

- 19 -

Graves: I was going to speak of that. We have only fragmentary reports from banks on what business they have done.

H.M.Jr: I think, if you call up the Fed of New York --

Graves: We have their reports, but you see, here is one thing they can't do for us. The banks in the New York Federal Reserve district are receiving orders for the F and G bonds, and there is a lag between the time when the order is filed with the customer at the bank and the time when it is filed at the Federal Reserve Bank, and the thing that any statistics we might get today would probably lack is that lag, the transit articles.

H.M.Jr: Well, I will tell you what you do. You and Chick come in to see me at five minutes of three and give me what you have, will you?

Graves: Yes. I would like to tell you that Mr. Haas and I have had a discussion about this whole matter of the statistics on this set-up, and he is going to help me to reorganize that thing.

H.M.Jr: Good.

Graves: So we can do better in the statistics than we are now able to do. That is one aspect of the thing I have not done very well.

H.M.Jr: He is a good man.

Graves: Yes, sir.

H.M.Jr: All right. At five minutes of three for you and Chick.

Graves: Yes, sir.

Thompson: Phil Young has prescribed a requisition form for these purposes, and there is an order here for

- 20 -

you to sign designating Mac or his assistant to sign.

H.M.Jr: Is this all right?

Thompson: Yes, I think it is.

H.M.Jr: Now, what about the money that I want to pay for that group. Have you heard anything?

Thompson: I haven't heard anything. I saw in the paper this morning that they are expecting to have it all put in the OEM.

H.M.Jr: Could you call up McReynolds and say I would like to know where it is, could he find out for us?

Thompson: Yes.

H.M.Jr: And let me know later on. Because Hopkins has been fighting that. He didn't want it.

Thompson: We have a request from Mr. MacLeish to use the Fort Knox vaults as a depository for certain sacred papers. We have facilities here now, but I doubt if we would have in the event the occasion should rise making it necessary to move these papers from Washington.

H.M.Jr: Would we have it for a limited number?

Thompson: Mrs. Ross feels that the whole facility would be exhausted by this situation. In other words, you would be rushing gold there instead of documents.

H.M.Jr: I mean for --

Thompson: Well, MacLeish asked for three thousand cubic feet.

- 21 -

H.M.Jr: How much could we give them?

Thompson: We could give them about ten cubic feet, which would take care of some important papers.

H.M.Jr: Why not change the letter and tell them we could give them that much?

Gaston: What is the matter with the

H.M.Jr: This is in case of invasion. In case we leave Washington. Tell them ten cubic feet, yes?

Thompson: Mr. Helvering has sent in the recommendations for promotion for the three men in you were interested in, Oftedal and two others.

H.M.Jr: Oh, good.

Thompson: You don't have to sign them. I will give them to you.

H.M.Jr: Good. All right. Now, if I can have Harry White for a minute and then George.

C O P Y

LYCOMING DIVISION
Aviation Manufacturing Corporation
Williamsport, Pa.

May 5, 1941

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

Dear Mr. Secretary:

In accordance with your wish expressed at the time of your visit in our plant we are glad to advise you that the high output aircraft engine built under confidential Navy contract passed the initial Navy test on April 25. Official report on this test is now in the hands of the Navy Department, Bureau of Aeronautics, Washington.

We very much appreciate your interest in the defense work we are doing here in Williamsport.

Respectfully,

LYCOMING DIVISION
Aviation Manufacturing Corporation

/s/ W. K. Cooper

W. K. Cooper
General Manager

WKC:CMS

May 9, 1941

Dear Mr. Cooper:

Thank you for your letter of May 8th telling me that the new aircraft engine has passed the initial Navy test.

I was pleased to have this information and appreciate your remembering my request that you inform me when you know the result of the test.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. V. K. Cooper,
General Manager,
Lycoming Division,
Aviation Manufacturing Corporation,
Williamsport, Pennsylvania.

GKF/jba

TO:

24

MISS CHAUNCEY

Mr. Foley carried the originals of
these memoranda to the Secretary at
9:30 meeting.

5/5/41.

MR. FOLEY

MAY 5 1941

Secretary Mergenthau

E. H. Foley, Jr.

One possible source of revenue not included in our proposals to the Ways and Means Committee is the life insurance industry.

The industry is enormous, having capital assets of close to \$30 billion. Its income, derived from investments and from premiums paid by policyholders, exceeds \$5 billion a year. The industry has been growing in size at a rate well in excess of a billion dollars a year.

On the other hand, in no year since 1921 has the industry paid in federal income taxes as much as \$500,000.

I know of no industry more dependent upon the protection of government for its very existence, nor one which apparently bears less of the burden of supporting it.

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

JJO'C. Jr/Law
5-2-41

TO:

Miss Chauncey

5/5/41

3 p.m.

26

() Mr. Foley asked that this material be sent to Mrs. Klotz.

Mr. Foley took it in to luncheon today and the Secretary signed the memo and initialed the order.

The original has been sent back to Dean Acheson and Foley told him that since H.Mr. was not seeing the President today he thought Secretary Hull (since he was Sr. Cabinet member) should make arrangement for presentation to the President.

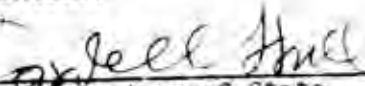
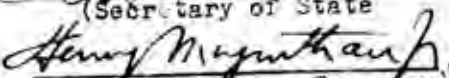
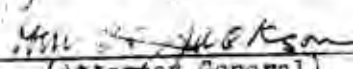
MR. FOLEY

F. McGuire

MEMORANDUM FOR THE PRESIDENT

We submit for your consideration a proposed Executive Order establishing an Economic Defense Committee, consisting of the Secretaries of State and Treasury and the Attorney General for the purpose of making recommendations to you concerning the control of foreign funds, foreign trade and related matters, in the interest of the national defense. The Order would give the Committee authority to supervise the administration of such freezing or export control orders as you have issued or may issue. The purpose of the Order is to coordinate and further economic defense.

If this proposal meets with your approval, we contemplate designating officers of our respective Departments to work continuously together, keeping in constant familiarity with our respective views and submitting to us all recommendations proposed to be submitted to you. These officers would have sitting with them advisors from other departments and agencies of the Government where the matters under consideration are of interest to such other departments or agencies. We recommend also that the Committee be provided with sufficient funds to employ a small staff to work with the foreign funds control and the Administrator of Export Control in the preparation of data for its consideration.

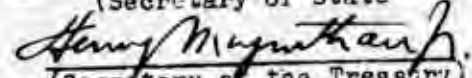
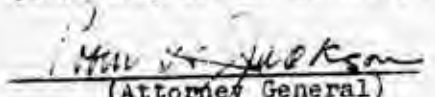

(Secretary of State)

(Secretary of the Treasury)

(Attorney General)

May 5, 1941.

MEMORANDUM FOR THE PRESIDENT

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(Secretary of State)

(Secretary of the Treasury)

(Attorney General)

May 5, 1941.

28
EXECUTIVE ORDER

DEALING WITH THE ESTABLISHMENT OF AN ECONOMIC
DEFENSE COMMITTEE AND RELATED MATTERS

By virtue of and pursuant to the authority vested in me by section 5(b) of the Act of October 6, 1917 (40 Stat. 415), as amended, by section 6 of the Act of July 2, 1940 (54 Stat. 714), by the Act of October 10, 1940 (54 Stat. 1090), by virtue of all other authority vested in me, and by virtue of the continued existence of a period of national emergency, and finding that this Order is in the public interest and is necessary in the interest of national defense and security, I, FRANKLIN D. ROOSEVELT, PRESIDENT of the UNITED STATES OF AMERICA, do hereby prescribe the following:

Section 1. There is hereby established an Economic Defense Committee (hereinafter referred to as the "Committee"). The Committee shall consist of the Secretary of State, the Secretary of the Treasury and the Attorney General. Each member of the Committee may designate an alternate from among the officials of his Department and such alternate may act for such member in all matters relating to the Committee. The Committee may, in carrying out the provisions of this Order, act either directly

or through such subcommittee, agencies or personnel as it may designate or employ, and, in respect of matters involving other departments or agencies of the government, call upon such departments or agencies for advisors to sit with the Committee and for such information and assistance as may be necessary.

Section 2. All proclamations, orders and regulations issued under section 5(b) of the Act of October 6, 1917 (40 Stat. 415), as amended, or under section 6 of the Act of July 2, 1940 (54 Stat. 714), which are in effect as of the date hereof or are hereafter issued thereunder, shall be administered pursuant to the supervision and control of the Committee.

Section 3. The Committee shall engage in such studies and shall make such recommendations to the President and to the appropriate departments and agencies of the Government as the Committee deems in the interests of the economic defense of the United States.

Section 4. Any regulation, license, ruling, instructions or other action by the Secretary of the Treasury or by the Secretary of State or the Administrator of Export Control, as the case may be, purporting to be under the provisions of any proclamation, order or regulation heretofore or hereafter issued under section 5(b) of the Act of October 6,

-2-

1917 (40 Stat. 415), as amended, or under section 6 of the Act of July 2, 1940 (54 Stat. 714), shall be conclusively presumed to have been issued or taken pursuant to the supervision and control of the Committee.

Section 5. This Executive Order may be amended, modified or revoked at any time.

E.H.

THE WHITE HOUSE,

, 1941.

W.M.H.

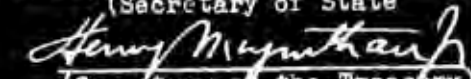
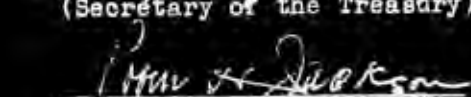
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(Secretary of State)

(Secretary of the Treasury)

(Attorney General)

May 5, 1941.

Regraded Unclassified

EXECUTIVE ORDER

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2-17
THE WHITE HOUSE,
1941.

A-A:DA:GMH

M.H.

CH

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 5, 1941

TO Secretary Morgenthau

FROM Mr. Pehle

On April 11 I forwarded to you a memorandum covering the export to Indo-China of certain military equipment imported from France to the United States during 1939 and 1940. I suggested that we should not license the export of this material in the absence of a written request to that effect from the Secretary of State.

There is attached a letter addressed to you under date of May 2 by Mr. Hull. In view of such letter, it would appear that the Treasury should proceed to license the export of this material, and I will take such action unless you instruct otherwise.



Attachment

FILING AUTHORITY
TO: Mail & Files
ANS.
EC ANS. REQ.
INITIAL
DATE.....



DEPARTMENT OF STATE
WASHINGTON

reply refer to
851G.24/37

May 2, 1941

My dear Mr. Secretary:

I refer to the Department's letter of March 28, 1941 and previous correspondence in regard to an application filed by the French Government in connection with the proposed exportation to Indochina of the arms, ammunition, and accessories listed in Mr. Bell's letter of March 13.

In view of the history of this case, of which you have already been informed, and in the light of all the circumstances, I am very strongly of the opinion that this proposed shipment should be permitted to proceed. I hope, therefore, that you may find it possible to direct that such action may be taken by your Department as may be necessary to permit and facilitate this proposed shipment.

Sincerely yours,

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

Cordell Hull

(original of this was ret'd to Mr. Peble)

MAY 5 1941

Dear Mr. MacLeish:

I received your letter of April 30 inquiring with respect to the vault facilities at Fort Knox.

While facilities are now available adequate for the complete storage purposes you have in mind, it is altogether likely that gold shipments moving to Fort Knox will utilize such space. Therefore, it would be inadvisable to plan to use the vaults at Fort Knox for the purpose of storing all of the materials you mention in the event it should become necessary to remove them from Washington. However, ten cubic feet will be reserved if you so desire for storage of such of the more important papers as you might designate.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Archibald MacLeish,
The Librarian of Congress,
Washington, D. C.

WMT:mas

COPY

THE LIBRARIAN OF CONGRESS

Washington, D. C.

April 30, 1941

My dear Mr. Secretary:

At hearings before the House Subcommittee on the Legislative Bill on Friday, the Chairman of the Committee, The Honorable Emmet O'Neal, of Kentucky, asked me what steps the Library is taking for the security of its most valuable possessions - the Declaration of Independence, the Constitution, the Gutenberg Bible, the Washington papers, and other manuscripts and holdings of unique value and irreplaceable character. I described to him at some length the actions taken by the Library and told him that the question of the place of deposit of these invaluable materials had not been determined. He asked me whether I had thought of the vaults at Fort Knox as a possibility and I told him that I had but had taken no steps to inquire whether space might be available.

I am turning to you at the suggestion of the Committee to inquire whether space might perhaps be found at Fort Knox for these materials in the unlikely event that it becomes necessary to remove them from Washington. Altogether, I should guess that the materials of the category in question would not exceed a few thousand cubic feet in bulk.

Faithfully yours,

/s/ Archibald MacLeish
Archibald MacLeish
The Librarian of Congress

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

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 5, 1941

TO Secretary Morgenthau

FROM Mr. Haas

Subject: A review of appropriations for aid to agriculture in the light of the new situation created by the defense effort

In your testimony of April 24 before the House Ways and Means Committee you suggested that Congress might re-examine the expenditures for aid to agriculture as one of the possible means of reducing non-defense Government spending, and you mentioned that the statistics did not seem to show much correlation between these expenditures and farm incomes.

This memorandum, prepared in response to your request, is intended (1) to explain further the lack of correlation between farm incomes and the Federal expenditures for aid to agriculture, (2) to point out recent improvements in the agricultural situation which make advisable a re-examination of the proposed agricultural expenditures, and (3) to suggest answers to arguments which may be made against reductions in agricultural subsidies.

1. Expenditures for agriculture compared with farm income

Chart comparison shows little correlation

A chart comparison between annual farm income (excluding Government payments) and fiscal-year budgetary expenditures for aid to agriculture since 1933, shows little apparent relationship between the two. (See Chart 1, attached, and data in Table 1.) There have been wide percentage changes from year to year in the expenditures for aid to agriculture, (see Table 2) yet these likewise show little correlation with the percentage changes in farm income.

These observations are not intended as a criticism of the agricultural program, which is designed to improve the position of agriculture in many ways aside from incomes. Outside influences, furthermore, have doubtless obscured the relationship in certain years. Nevertheless, the figures covering the experience of the past eight years do not indicate that we can confidently expect farm income to increase or decrease with changes in expenditures for agriculture by a greater amount than the expenditures themselves.

- 2 -

Increase in farm subsidies during past several years

That the basic agricultural problem has not been solved by the payment of subsidies to farmers was brought out in the hearings on the Department of Agriculture appropriation bill before the House subcommittee, January 7, 1941, from which the following testimony is quoted:

Mr. Cannon (Chairman), to Mr. Appleby. "Now, judging from the figures which you have submitted here and which have been handed me by the clerk, there is a rather significant increase each year in the amount of subsidies paid the farmer. For example, in 1936, according to these figures, in addition to the farmer's receipts in the market, you gave him Government checks which amounted to 2.9 percent of his total income. In 1937, the situation was so increasingly unfavorable in the market that you had to increase the amount of the Government checks until they amounted to 3.5 percent. In 1938, it was necessary to further increase the subsidies from the Federal Treasury until they amounted to 5.2 percent of the farmer's income and, for 1939, prices in the market were so inadequate that it is now necessary to pay the farmer -- and we are paying the farmer this year -- 8.3 percent of his income, from the Federal Treasury.

From your figures here it is apparent instead of the farmer's condition improving under the present system the contrary is true and it is less effective each year from 1936 to 1939. So, according to this report, if the trend continues, it would be necessary to have an increase in the subsidies from the Federal Treasury in 1942, instead of a decrease.

Mr. Appleby. I agree with your conclusion, but I think the inference is not entirely in accord with all of the facts in the picture; that is, it was not that the farm situation was progressively worse, but that we did progressively a better job of supplementing the farmer's income.

Mr. Cannon. But certainly his income in the market was inadequate -- more inadequate each year.

Mr. Appleby. Yes; certainly.

Mr. Cannon. And the prospect is that, in 1942, it will be still more inadequate?

- 3 -

Mr. Appleby. Yes, sir.

Mr. Cannon. And increased subsidies will be necessary, unless some other method is provided by Congress?

Mr. Appleby. Yes; definitely."

Farm incomes closely correlated with industrial activity

In contrast to its lack of correlation with Federal agricultural expenditures, farm income shows a very high degree of correlation with domestic business activity. The closeness of relationship between the two is indicated by Chart 2, in which the trend of industrial activity as measured by the Federal Reserve Board index (1935-1939 = 100) is compared with an index of real income of farmers (i.e., farm income, exclusive of Government payments, adjusted for changes in prices of goods farmers buy).

The unusually close relationship between industrial activity and real income of farmers, as shown on this chart, bears out the belief that agricultural recovery has been only awaiting a renewed improvement in consumer purchasing power. As stated by Mr. H. R. Tolley, Chief of the Bureau of Agricultural Economics: "Over nine-tenths of the cash income from farm production is derived from the money income of consumers in the domestic market." (Speech before American Economic Association, December 28, 1940.)

2. A re-examination of expenditures for agricultural aid seems called for

A marked improvement has occurred in the agricultural situation under the defense program. Agricultural purchasing power in 1940, excluding Government payments, reached the highest level since 1929, and the addition of Government payments carried it above the 1929 peak. A further increase is in prospect for 1941. The national emergency responsible for the original farm subsidies in 1933 is clearly past. It has been replaced by another emergency involving the financing of the huge expenditures for national defense.

Even had the present financing emergency not arisen, the fact that agricultural purchasing power is again strongly on the upgrade would call for a tapering off in farm subsidies, in contemplation of renewed help in the next recession.

- 4 -

Improvement in consumer purchasing power raising farm incomes

The sharp increase in employment and payrolls in recent months, together with the increased demand for farm products under the defense program, has brought a marked improvement in the outlook for farm incomes. Industrial production has reached a level far above any previous peak; within the past year 2,400,000 workers have gone back into employment, and a strong increase in the purchasing power of consumers is under way.

This has begun to have its inevitable effect on farm incomes. Speaking before the House subcommittee on the Department of Agriculture appropriation bill early in January, Secretary Wickard said:

"Agricultural cash income for 1940 -- \$9,000,000,000 -- was the second highest since 1929. Even more important from the standpoint of the farmer and the entire nation, is the fact that the agricultural purchasing power is higher than it was in 1929

"The prospect for this year, for the calendar year 1941, in respect to farm income, is even brighter. I think that farmers will have a total income in 1941 of at least a half billion dollars more than they had in 1940."

An outlook for continued improvement is currently predicted by the Bureau of Agricultural Economics. As stated in the April issue of The Demand and Price Situation: "Consumer demand for farm products will continue to improve in the remainder of 1941 under the stimulus of rising employment and consumer incomes brought about by the defense program."

A reflection of this is seen in a substantial rise in prices of farm products since the defense program got under way, a rise which actually began on the outbreak of war in September 1939. (See Chart 3.) The increase in prices has been particularly sharp during the past month, when the Department of Agriculture price index rose to 110, as compared with 98 a year earlier. The farmers' position has been further improved by the fact that very little increase has occurred in the prices of things bought by farmers. In comparison with the increase of 12 percent in farm prices since April 1940, prices of goods bought by farmers have risen less than 1 percent.

- 5 -

Parity and soil conservation payments
especially need re-examining

While all items of Federal expenditures for agriculture will need to be reviewed, it seems rather obvious that parity payments and soil conservation payments in particular need re-examining under the present changed conditions.

In his testimony before the House subcommittee early in January, Secretary Wickard said that "the first order in our farm program is to avoid production of too burdensome supplies A considerable part of the \$500,000,000 of appropriations for the farm program will go toward limiting acreage in various surplus crops."

Since that time, the need for restricting production has been changed in several important respects:

(1) The passage of the lend-lease act has increased the British requirements for various food products in this country, which has led the Department of Agriculture to adopt measures for stimulating the production of certain products.

(2) The recent rise in commodity prices, under the pressure of expanded consumer and industrial buying, demands an increased supply of various products to hold back inflationary tendencies.

(3) The diversion of labor from the farms to the industrial centers and to training camps will tend to reduce agricultural production without Federal assistance.

Under these changed conditions, the appropriation of half a billion dollars for crop reduction, at a time when our financing problem requires the curtailment of unnecessary Governmental expenditures, would seem particularly unwise.

Buying for Britain replacing surplus-disposal program

While the budget estimate for fiscal year 1942 contemplated expenditures of \$200,000,000 for the disposal of surplus commodities, our surplus problems are rapidly being solved by the great improvement in demand for industrial materials and food-stuffs resulting from the defense program. On top of this, a considerable part of the huge lend-lease appropriations will be used to purchase agricultural products for Great Britain, which should eliminate the need of continued appropriations for surplus disposal.

- 6 -

Some of the activities under this appropriation have become clearly superfluous. In the case of cotton textiles, for example, although the cotton mills are operating at the highest rate on record, and finding increasing difficulty in making delivery on defense and civilian orders, funds are still being expended under the surplus-disposal program to increase the immediate consumption of cotton goods. This is done through export subsidies on cotton goods, as well as subsidies on certain cotton products consumed domestically. Most of these efforts, according to the Department of Agriculture, "have been expanded so that their effect on cotton consumption will probably be greater this season than last." Meanwhile, the average price of cotton goods has risen 17 per cent since the first of the year.

3. Probable arguments for continued large subsidies to agriculture

The chief arguments against curtailment of agricultural subsidies will probably center around the following points:

(1) "Farm incomes have not yet reached parity levels, while incomes of other workers are above parity."

In answer to this argument, it may be said that the parity income idea is difficult to understand, since it demands a "freezing" of conditions as they existed during a temporary period 25 or 30 years ago, with no allowance for change or progress that has been made since then. There is no basis for assuming that the period 1910-1914 represented a "normal" period in the national economy.

(2) "Labor groups are getting big wage increases, and farmers should get similar increases."

In answer, it may be said that with nine-tenths of all farm products going to domestic consumers, farmers will inevitably share, and are already beginning to share, in the wage increases that laborers are getting. Next to 1940, the best recent year for farm income was 1937, and that also happened to be a year when wages were unusually high. The Bureau of Agricultural Economics says: "With further increases in the income of industrial workers in prospect, the upward trend of farm income is expected to continue."

(3) "Incomes of certain sections of the farm population, particularly in the South, are still distressingly low."

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In answer, one can only be sympathetic toward raising the incomes of all underpaid groups, if Government finances would permit. Similar groups exist in the cities as well as on farms, but farmers have the advantage of home-raised foods and other products, which do not appear in their cash income figures.

(4) "Agriculture is getting a decreasing percentage of the national income."

A gradual decline in the proportion of national income going to agriculture is not necessarily a tendency to be deplored, but on the contrary represents a continuation of our trend from a predominantly agricultural nation toward an industrialized nation. It should be kept in mind that the farm population in 1940 was at almost exactly the same level as in 1910, at 32,000,000, while the non-agricultural population has increased steadily from 59,000,000 in 1910 to almost 99,000,000 in 1940.

Table 1

Farm income and Government aid to agriculture

(In millions of dollars)

Calendar year	Farm income			Federal budget-	
	Income from			ary expenditures	
	Farm	Government	Total	year	for aid to
	marketings	payments			agriculture 1/
1932	4,682	-	4,682	1933	209
1933	5,278	131 2/	5,409	1934	780
1934	6,273	44	6,317	1935	1,076
1935	6,969	573	7,542	1936	938
1936	8,212	287	8,499	1937	976
1937	8,788	367	9,155	1938	860
1938	7,652	482	8,134	1939	1,235
1939	7,861	807	8,668	1940	1,567
1940	8,354	766	9,120		

1/ Annual report of the Secretary of the Treasury 1940,
p. 652, Table 8.

2/ No Government payments reported prior to August, 1933.

Table 2

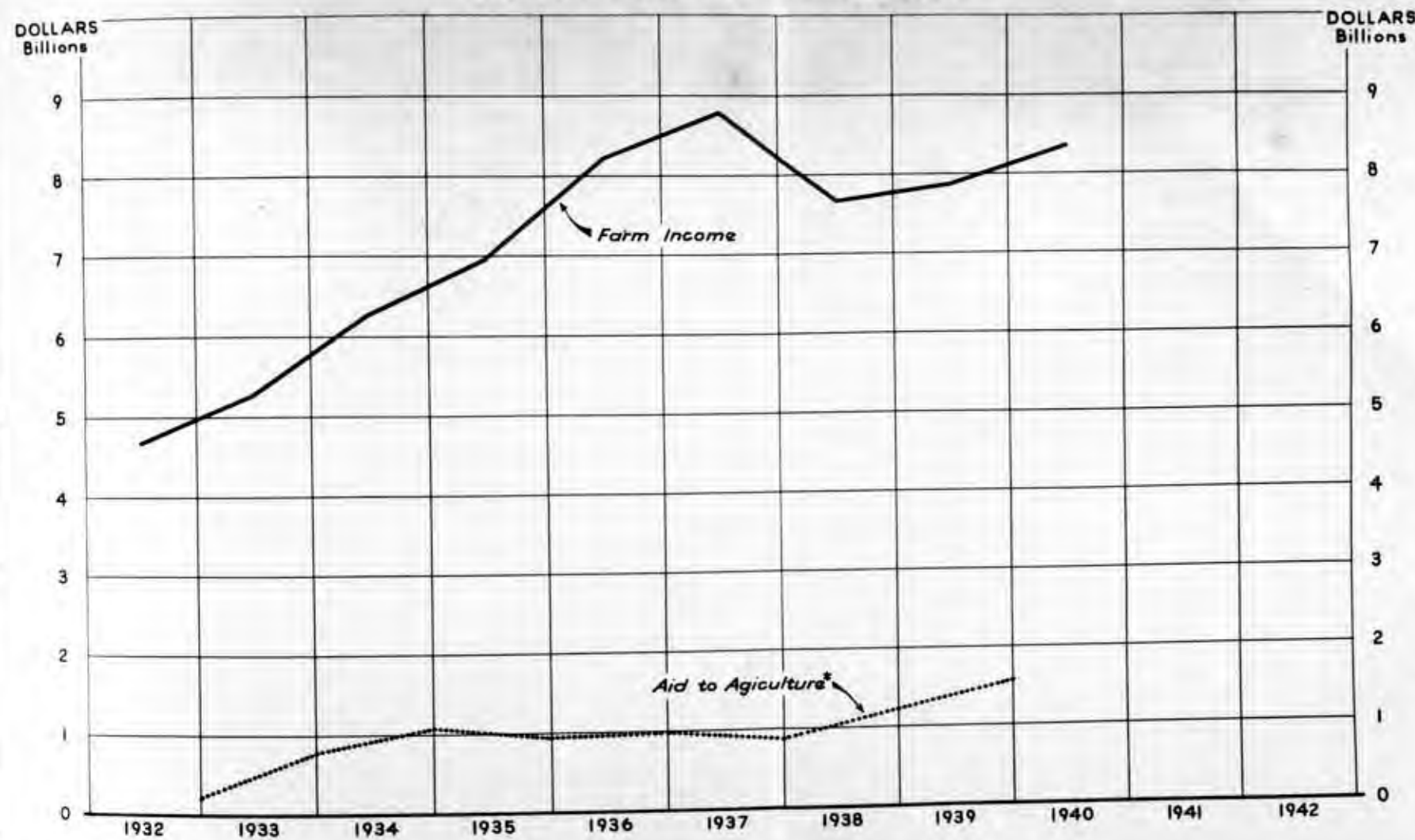
Percentage changes in farm income
and Government aid to agriculture

Calendar: year	: Farm income excluding : : Government payments 1/:		Fiscal: year	: Federal budgetary : expenditures for aid to : agriculture 2/	
	: Percent	: Fiscal:		: Millions:	: Percent
	: Millions	: change over:		: of	: change over
	: of dollars:	: preceding :		: dollars :	: preceding year
	:	: year :		:	:
1932	4,682	-	1933	209	-
1933	5,278	+ 12.7	1934	780	+ 273.2
1934	6,273	+ 18.9	1935	1,076	+ 37.9
1935	6,969	+ 11.1	1936	938	- 12.8
1936	8,212	+ 17.8	1937	976	+ 4.1
1937	8,788	+ 7.0	1938	860	- 11.9
1938	7,652	- 12.9	1939	1,235	+ 43.6
1939	7,861	+ 2.7	1940	1,567	+ 26.9
1940	8,354	+ 6.3			

1/ Department of Agriculture

2/ Annual report of the Secretary of the Treasury, 1940, p. 652,
Table 8.

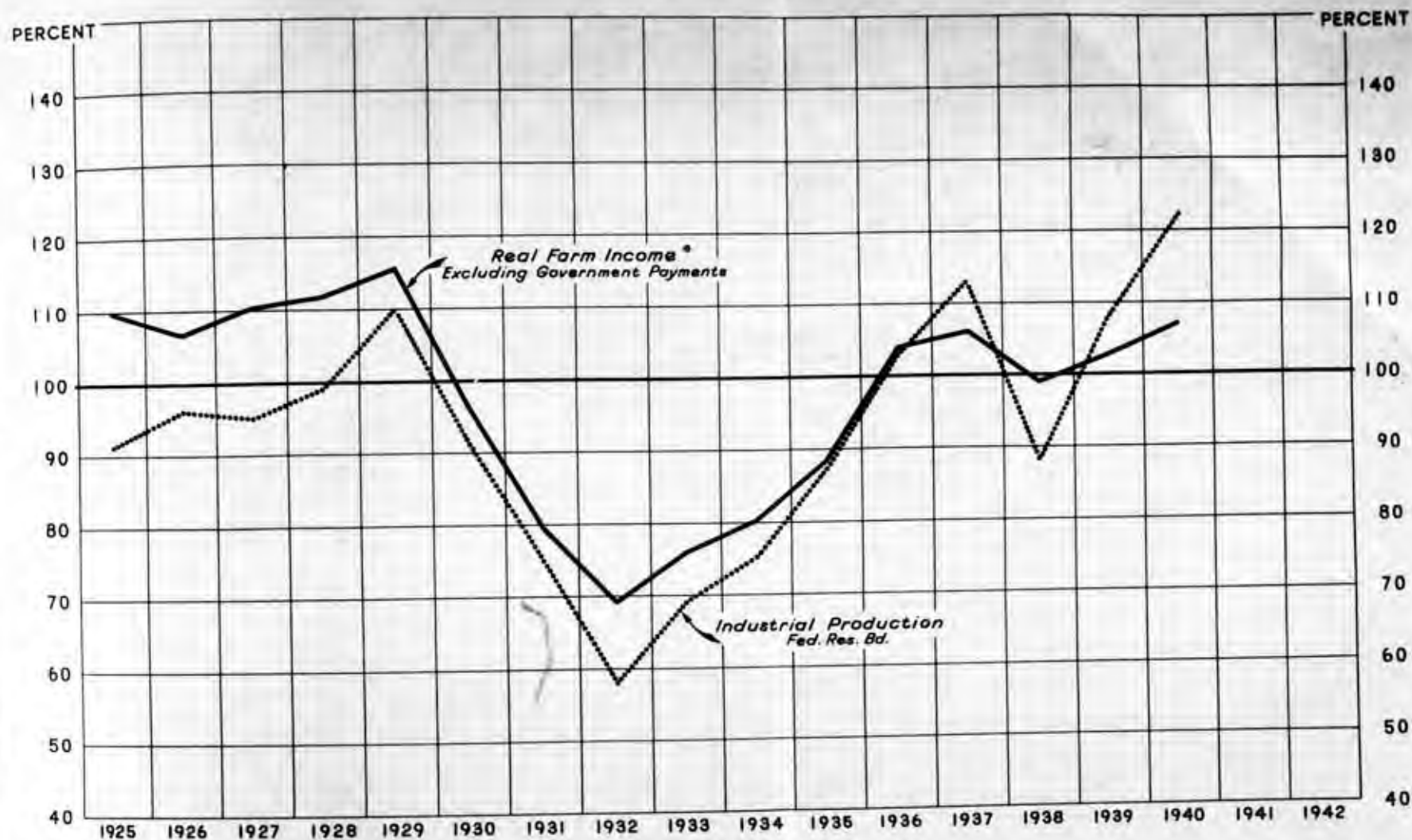
FARM INCOME (EXCLUDING GOVERNMENT PAYMENTS) AND FEDERAL AID TO AGRICULTURE



*Federal budgetary expenditures for aid to agriculture, fiscal year basis

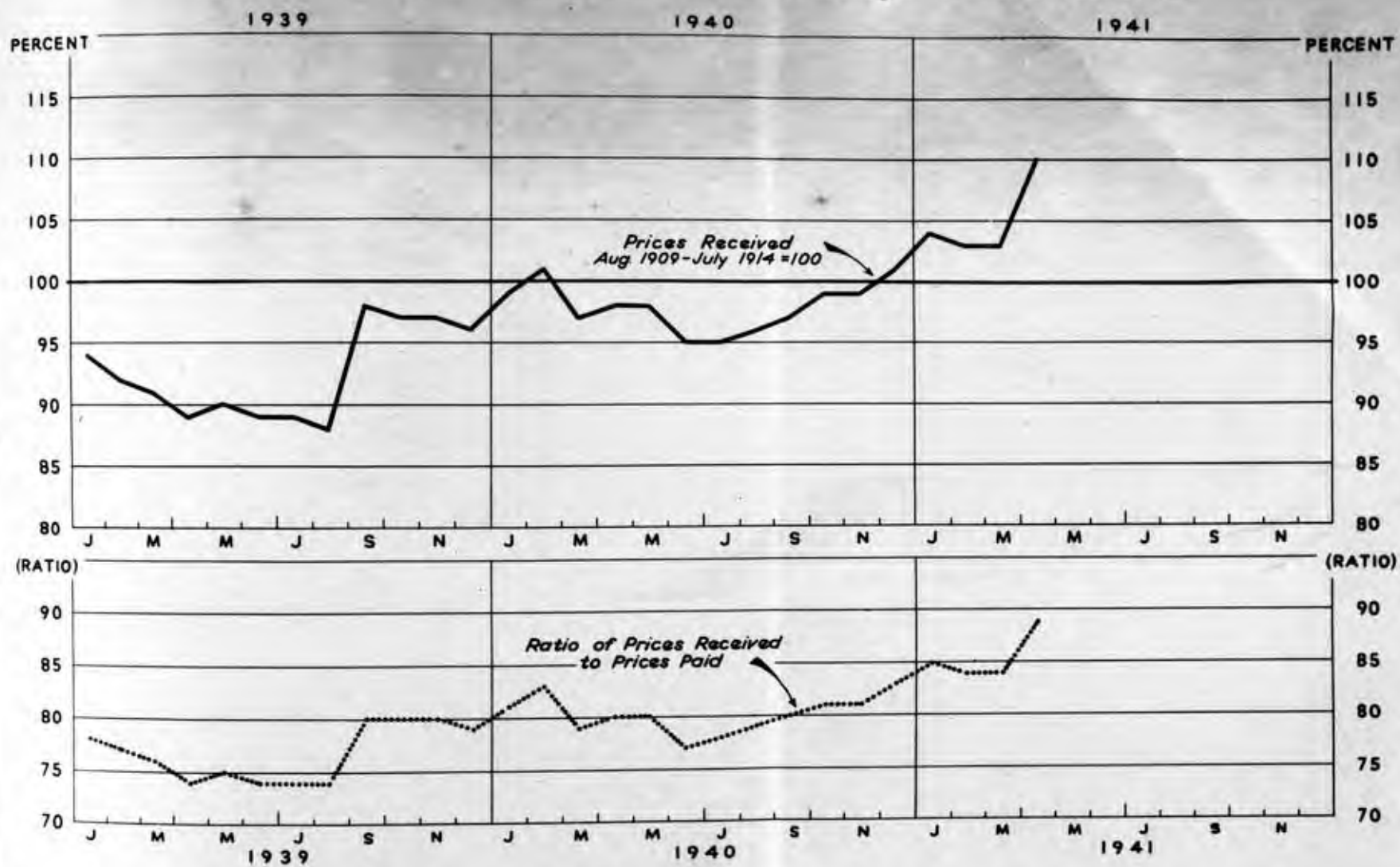
REAL INCOME OF FARMERS AND INDUSTRIAL PRODUCTION

Indexes, 1935-'39=100



*Adjusted for prices paid by Farmers

PRICES RECEIVED BY FARMERS AND RATIO TO PRICES PAID



Source: Department of Agriculture

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

P-213

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAY 5 1941

TO Secretary Morgenthau
FROM Mr. Foley

American Viscose Corporation

1. On Friday morning, May 2, Mr. Harold Stanley telephoned me, requesting that I see Messrs. Brownell and Fisher of Davis, Polk, Wardwell, Gardiner & Reed to discuss the closing agreement on the alternative methods for recapitalizing American Viscose. Numerous conferences had been held at the Bureau of Internal Revenue but Stanley was unwilling to accept conditions we deemed necessary to prevent the closing agreement from being used as an instrument for tax avoidance.

2. The need for a hedge clause arose from a provision in the agreement between Sir Edward Peacock and Morgan Stanley that "in the event that the Securities to be Resold shall not be resold as provided in Article VI within six months after the date of this Agreement, the aggregate purchase price shall be \$36,456,000." The Article VI referred to provides that Morgan Stanley and Dillon Read "will use their best efforts to resell all of the Securities to be Resold" at a price which will provide the British Treasury with something more than \$36,456,000. In the light of current market conditions and world events, Morgan Stanley and their associates when the six months expire on September 15, 1941 might

- 2 -

find that for \$36,456,000 they have become the owners of American Viscose, a corporation with a surplus and reserve of \$66,000,000 in addition to a capital of \$49,000,000. In the event this contingency did develop, the Bureau desired to leave open for determination on the facts as they were then revealed whether (a) Morgan Stanley and associates in the guise of a recapitalization effected the distribution of earnings and profits, the amount so distributed being taxable as a stock dividend, or (b) in the guise of an underwriting agreement acquired a rich corporation on the cheap, the difference being taxable as additional compensation.

3. At the conference in my office, which was attended by Messrs. Brownell and Fisher for Morgan Stanley, Messrs. Wenchel, Mooney and Blandi for the Bureau of Internal Revenue, and also Messrs. Sullivan and Kades, I reviewed the problem very frankly. I called attention to the troublesome clause, stating bluntly that it seemed to me an outrageous bargain, to which Mr. Brownell replied that the British had insisted that there be an outright sale and that Morgan Stanley had not had sufficient time to determine the true worth of American Viscose. However, when I pointed out to him that the British could not have any objection to the deletion of this clause if the Treasury were agreeable, Mr. Brownell demurred against any deletion. Finally, I told Mr. Brownell that the Treasury could not go any further than to give an advance ruling that no taxable income would be realized

- 3 -

as a result of the recapitalization of American Viscose if Morgan Stanley and their associates carried out their representation of merely acting on behalf of the British Treasury to dispose of all the stock in American Viscose which they hold to the investing public for as much as possible, but that the ruling must provide that if the Commissioner of Internal Revenue determined that they had not exercised their best efforts to dispose of the securities, it would be of no effect. Later Mr. Brownell telephoned Mr. Stanley who, after conferring with Mr. Dillon, stated that such a ruling would be satisfactory and that they appreciated our efforts to facilitate the sale of the stock to the public.

4. It is proposed to file shortly with the SEC a registration statement under which the 491,000 shares of common stock of Viscose now outstanding will be reclassified into 400,000 shares of preferred stock with a par value of \$100 per share, and 1,500,000 shares of common stock. Of the outstanding shares, 448,000 shares are held by the Morgan Stanley group, 24,000 shares by Courtaulds, Ltd., about 17,000 shares seem to be controlled by the Salvage family, and the remaining 2,000 shares are owned by six other shareholders. The ruling will provide that the changes made in the capital structure of Viscose will not result in taxable income to the minority shareholders and that the basis of the old stock surrendered by them will become the basis of the reclassified securities received in exchange. Of course,

- 4 -

if the sale goes through as contemplated the difference between the amount received by the Morgan Stanley group and the amount paid to the British Treasury will constitute taxable income to the members of the Morgan Stanley group. Assuming a resale price of \$100,000,000 for all the shares, Morgan Stanley and their associates would realize an underwriting fee of slightly less than \$8,000,000 plus all expenses. The resale price has not, however, been fixed.

5. On Saturday, May 3, Commissioner Helvering signed a ruling addressed to Morgan Stanley & Company and Dillon, Read & Company along the lines indicated above which all of us feel protects the revenue, gives an added incentive to Morgan Stanley and Dillon Read to sell the stock, thereby increasing the amount the British will receive, and keeps the Government in the saddle.

P. 11. 74.

TREASURY DEPARTMENT
Office of the Secretary
Technical Assistant to the Secretary

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Date May 5, 1941

TO:

Secretary Morgenthau

Room _____

I believe you should read this before

I pass it on to Mr. Wiley.

*Could you send
to me three about
this, please.*

W.M.D.

From: MR. DIETRICH

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 5, 1941

TO Mr. Wiley
FROM Mr. Cochran

You told me by telephone this noon of the meeting held in the Treasury this morning in which Assistant Secretary Gaston and yourself participated, along with Minister Gordon from the State Department, Mr. Butterworth from Commerce Department and various other representatives, including the Army, Navy and F. B. I. You asked that I give you a report of the contacts which I have for obtaining information concerning foreign countries, particularly the British Empire, and also an indication as to the type of information which I receive. I have pleasure in citing the following facts concerning the office of the Technical Assistant to the Secretary, of which I am in charge.

This office receives for the Secretary a large number of representatives of foreign missions in this country, both the permanent diplomatic establishments and visiting officials. Sometimes I deal with these people; on other occasions the Secretary has me present when he receives them. During the past year and one half countries whose representatives I have seen most frequently are: Great Britain, France, China, Switzerland, Sweden, Belgium, Finland, Poland, Spain, Argentina, Hungary, The Netherlands and Japan. It has been the Secretary's instruction that Treasury contact with the British shall be through my office.

Mr. Pinsent, Financial Counselor of the British Embassy, is one of my regular callers. In his absence, Mr. Opie has contact with me. Through these officers the British Embassy ordinarily presents any financial subjects which it desires to discuss with the Treasury. Both of these individuals talk with me rather freely.

Mr. Stopford, who is a representative of the Ministry of Economic Warfare on the British Embassy staff, is in constant touch with me. He calls me frequently on the telephone and writes me numerous informal letters. Furthermore, he delivers to me each week several score of memoranda, in duplicate, usually consisting of intercepts obtained by agents of his Ministry, principally at Bermuda. These intercepts deal with a large range of subjects and are of particular interest to our Foreign Funds Control. Upon the receipt of such documents, I immediately send one set to Mr. Pehle, in charge of Foreign Funds Control, who is then responsible for the utilization of this material in his own division and for distribution thereof to members of our Control Committee. When there is anything of particular interest to the Secretary, I mention it to him or show him the document. Mr. Stopford sometimes calls personally to present this material and we discuss British problems of economic warfare, as well as steps that can properly be taken by the United States toward cooperation. In agreement with Assistant Secretary Gaston and Mr. Pehle, it has been decided that Mr. Stopford should also see them, the former on shipping matters and the latter on Foreign Funds Control questions. In the absence of Mr. Stopford, Mr. Auburn has contact with my office.

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Since Sir Frederick Phillips and Mr. Playfair of the British Treasury arrived in this country last Autumn, they have been regular visitors with me. I act as intermediary for the Secretary in obtaining from them material as to their dollar exchange position, future requirements etc. Mr. Allen, also of the British Treasury Mission, provides statistics.

Since the arrival in New York in December 1939 of Mr. T. J. Carlyle Gifford, I have been the Treasury's contact with him in regard to the disposal of British-held American securities. Likewise, I have performed the same function in relation to Sir Edward Peacock, who came to the United States in January of this year to look after the disposal of British direct investments in this country. I receive daily reports from Mr. Gifford and have frequent conversations by telephone with him and Sir Edward Peacock.

My office receives from the Department of State copies of cablegrams emanating from the American Foreign Service which require Treasury action or are of interest to the Treasury Department. These cablegrams are referred to the appropriate divisions of the Treasury, when not acted upon by my office. Copies of messages providing information are sent by me to the officials in the Treasury most likely to be interested therein. Likewise, my office receives copies of diplomatic and consular reports to the State Department upon financial, economic, monetary and related subjects. When material of special interest to the Secretary or any particular division is observed, steps are taken by my office to bring the material to the attention of the Secretary or the appropriate official. This material is then forwarded to the Division of Monetary Research where it is indexed and filed.

With direct telephone lines to the Federal Reserve Bank at New York, my office is in communication many times daily with Vice President Knoke and other officials of that bank. Mr. Knoke keeps me informed as to any unusual movements on the foreign exchange market and with respect to transactions of interest in foreign accounts held with the Federal Reserve Bank, as well as with the important commercial banks. It should be noted that some months ago the duty of obtaining a detailed flow of information concerning foreign accounts in New York banks was delegated to Mr. Wiley's section. Since then I have not attempted to duplicate this work, but do obtain information of current interest on important transactions during the course of my several conversations daily with the Federal. My office receives a variety of daily and weekly reports from the Federal upon foreign accounts and business therein.

The handling of gold purchases and sales and silver purchases is taken care of by my office. This involves keeping informed through a variety of sources upon gold holdings in this country and abroad, gold movements and problems related thereto. In the licensing of gold transactions involving blocked countries, my office works closely with Foreign Funds Control, on the Committee of which I serve.

The Secretary frequently sends me to Secretary Hull's office to obtain current information on foreign affairs likely to be of interest to the Treasury, particularly in its financing operations. Many officers in the Department of State call upon me, as a Foreign Service colleague in the Secretary's office, for assistance in bringing various problems to the attention of the Secretary or his assistants. Also as a result of my service under the Department of State, I receive numerous Foreign Service Officers

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while in Washington on leave from their foreign posts, as well as visitors to the United States from areas where I have served or introduced to me by my colleagues abroad.

Finally, a number of my central banking friends in Europe continue to write me, when feasible, personal letters in regard to conditions in their respective areas.

I have given the above full outline of my means of obtaining information, but any decision as to the extent to which some of it, particularly that on Great Britain, should be pooled through an inter-departmental committee, should rest with Secretary Morgenthau.

B. M. R.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 5, 1941.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Stopford of the British Embassy telephoned me this afternoon at 3 o'clock. He had just received word of three important withdrawals of United States currency by Podesta, the representative in New York of the Italian Foreign Exchange Institute and the Bank of Italy. On April 22, Podesta withdrew from the Bank of Naples in New York \$92,000, of which \$64,000 was for the Italian Exchange Institute and \$28,000 for the Bank of Naples. On the 26th of April, he withdrew \$68,000, of which \$42,000 was for the Italian Exchange Institute and \$26,000 for the Bank of Naples. On April 28, Podesta took out \$31,000 in United States currency, of which \$10,000 was for the Bank of Naples. Stopford believes that much of this currency is lodged with the Consul General of Italy in New York.

AMP

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 5, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 4 o'clock this evening, Lieutenant Stevens told me that Miss Warner of the Academy of Political Science, with offices at Columbia University (branch 51 on University 4-3200) had called, seeking information in regard to Professor Keynes' arrival. Being personally acquainted with Miss Warner, I called her back to tell her that we knew the Professor was coming over but had no information as to the exact date. Furthermore, I had spoken with the British Embassy this afternoon and my contact there had confirmed my understanding that the British, following their usual practice in these war times, had not divulged the date of Professor Keynes' departure from Europe or expected arrival in the United States. I told Miss Warner that I would be glad to let her know when I had any definite information, but expected that the press would have this as soon as the Treasury. Miss Warner seemed to appreciate our position, but still thought that she could obtain specific information at once through Minister Campbell in the British Embassy or through cabling to London.

B.M.P.

COPY

(NOT TO BE PUBLISHED AS
OFFICIAL INFORMATION)

Buenos Aires, May 5, 1941.

No. 2371

Subject: AGREEMENTS WITH ARGENTINA PROVIDING FOR A CREDIT BY THE EXPORT-IMPORT BANK OF WASHINGTON AND A STABILIZATION LOAN; MESSAGE SENT TO THE ARGENTINE CONGRESS ON APRIL 1, 1941, TRANSMITTING DRAFT LAW.

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to enclose a clipping from La Nacion of April 2 last purporting to contain the text of a message sent to Congress the day previous by the Executive Power transmitting a draft law intended to approve the agreements concluded in Washington last December which provided for a credit by the Export-Import Bank of Washington and a stabilization loan, as well as containing the text of the bill itself. There is also enclosed a translation of that part of the clipping purporting to give the texts of the two documents.

The Department will recall that the Argentine Government endeavored to obtain Congressional approval of, or authorization for, these transactions in the 1941 budget bill, which has been pending in Congress since last December (the Embassy's despatch no. 1874 of January 27, 1941) and in the bill to provide for the financing of the so-called "Pinedo Plan", also still pending in Congress (the Embassy's despatches nos. 1705 of December 20, 1940, and 1763 of January 7, 1941). As has been reported on various occasions, however, there has been considerable criticism here, as represented by a series of leading editorials in La Prensa, of the Government's efforts to obtain the

- 2 -

authorization for these credit operations by provisions in legislation designed primarily for other purposes rather than by specific legislation affording adequate opportunity for Congressional consideration of the transactions.

In view of the action taken to meet this criticism, it is interesting to note that no reference is made in the draft law submitted to Congress on April 1 to the two transactions which the bill seeks to approve. Also it is noteworthy that the accompanying message states that the Executive Power considers that, in view of the situation created by the war, it is advisable to request Congress for authorization to conclude similar arrangements in the future, and that Article 1 of the draft law is apparently designed to provide authorization for future transactions as well as for approval of the arrangements already concluded.

Respectfully yours,

Norman Armour

Enclosure: Translation from
La Nación.

Qn.
851.
JWG:dk

A true copy of the signed original

Copy:alm 5-26-41

(Enclosure no. 1 to despatch no. 2371)

(TRANSLATION)

Excerpt from article appearing in LA NATION on April 2, 1941 under the caption "The Executive Power Requests Legal Authorization for Accepting the Credit of 110,000,000 Dollars".

.....

The difficulties attending our foreign trade - says the message in its opening paragraph - especially since the middle of last year when the war situation became graver, are well known. Measures taken by the belligerents due to war activities have caused the disappearance of important markets in continental Europe and have placed, at the same time, our trade with the British Empire upon a basis of compensation accounts, with a corresponding bilateral immobilization of currencies.

The demand for products which we formerly purchased in countries directly affected by hostilities has been orientated toward the United States, thus producing a considerable deficit in the amount of our dollar availabilities. It has been necessary to establish rigorous restrictions on imports without being able by these means to avoid the export of considerable amounts of gold.

The prospects for this year do not appear any brighter. It will be necessary to continue a rigorous limitation of imports which are essential to us. Nevertheless, the importation of products vital to national economy will have to be maintained by all means within our power, if we wish to avoid serious dislocation in trade and industry.

The Executive Power understanding the gravity of the situation and confronted with the temporary closing of practically all the usual money markets, sought, with the cooperation of the Government of the United States of America, a temporary solution of the problem, arranging with the authorities of the friendly country the necessary credits. Our reputation of zealous fulfilment of our obligations has permitted us to resort to external credit in these difficult times.

The negotiations have had satisfactory results, and two credit operations have been arranged for a total of 110 million dollars, which will be made available as soon as the Executive Power can announce that it has received the pertinent legal authorization from Congress. This authorization was requested in article 16 of the bill accompanying the message of the Executive Power of December 23, 1940, at which time the negotiations had not yet been concluded.

In view of the importance of the transactions concluded and their objects, the Executive Power considers it advisable to submit them to the approval of Congress in a special bill.

Terms of the Agreements

By one of the agreements concluded, the Export-Import Bank of Washington has granted to the Central Bank, with the guarantee of the Argentine Government, a credit of 60 million dollars for the purpose of paying for the importation of products from the United States. The funds may be utilized in monthly installments of five million dollars. An annual interest of 3.6% will be paid quarterly and the repayment of the credit will be made in semi-annual installments, the first amortization being 15 months from the date of each advance, the obligations to mature within eight and one half years.

The other operation, for which the approval of Congress is also necessary, has been arranged between the Central Bank and the Secretary of the Treasury of the United States of America. The Stabilization Fund of the United States Treasury, through the intermediary of the Federal Reserve Bank of New York, will buy pesos, at the Central Bank's request up to the amount of 50,000,000 dollars, which may be applied to payments of any character.

Rotative Credit of 1 1/2% Interest

This operation, which is in reality a rotative credit, has characteristics in operation and technique similar to the arrangements made by the Stabilization Fund of the United States Treasury, the Bank of England and the Bank of France, although due to the wider scope of the credit itself, it constitutes a new form of international cooperation in the field of finance. The interest agreed upon is 1 1/2% and due to the rotative character of the credit, there is not fixed any definite date of maturity.

As already stated, the credits will become effective as soon as the approval of Congress has been obtained and the Executive Power has sent the necessary communications.

Internal Funds for the Purchase of Products

The utilization of these credits will bring relief to our position with respect to free exchange in the immediate future, creating at the same time available internal funds with which to finance the purchase of agricultural products not easily saleable in foreign markets.

The double internal and external aspect of the utilization of the credits renders impossible an exact correlation between the position of exchange and the peso requirements, which leads us to foresee an abundance of funds in the money market at certain times and scarcity of cash at other times.

The Central Bank as a money-regulating organism, should be always prepared to immobilize (cancelar) the excessive funds, thus avoiding any unnecessary expansion of the means of payment and assuring, at the same time, the liquidity of the resources of the banks.

- 3 -

The Executive Power, foreseeing that the difficulties in our economy produced by the dislocation of foreign trade will continue as long as the hostilities last and even during the period following, considers it advisable to request the authorization of Congress to conclude similar transactions in the future with the same purpose of attenuating insofar as possible the effects of changes in the channels of trade that we are witnessing at the present time.

But the use of credit in these circumstances is only a temporary expedient during the period of emergency. The permanent solution of our difficulties will be found in an increase of our exports. The markets of this continent, and especially those of the United States, offer advantageous possibilities for the placing of many articles of our national production. The Executive Power, with the support of Congress, is resolved to give its assistance to every effort of industry and trade for taking advantage of these opportunities.

Provisions of the Bill

The text of the Bill is as follows:

Article 1 - The Executive Power is authorized to conclude with the Treasury of the United States, the Export-Import Bank of Washington and with other financial organizations abroad arrangements for the purpose of obtaining exchange to cover the deficit of the external accounts and to facilitate operations of monetary regulation. The similar transactions concluded by the Central Bank of the Argentine Republic, which have the guarantee accorded in each case by the National Executive Power, upon the approval by decree of the respective contracts, shall be considered obligations of the Argentine Nation.

Article 2 - The proceeds in national currency of the transactions which the Central Bank may conclude in accordance with the preceding article, may be deposited in banks of the country or invested in Treasury bills or in obligations issued by the National Government to finance the purchase of agricultural or cattle products which cannot find their usual market abroad.

Article 3 - The obligations issued to finance the purchase of products subscribed by the banks according to Law 12, 156, as well as other credits which these may grant for the same purpose, may not exceed 500 million pesos without prejudice to the obligations which may be turned over to the Bank of the Argentine Nation to cancel the existing debt to date for that purpose.

Article 4 - The income from the Exchange Profit Fund shall be applied insofar as may be necessary to the payment of interest service and amortization of obligations issued to finance the purchase of products referred to in this law.

- 4 -

Article 5 - The banks which subscribe obligations issued for financing the purchase of products may arrange with the Central Bank of the Argentine Republic the terms under which the Central Bank will acquire the said obligations, crediting these amounts in the respective cash accounts. The Central Bank may assume this obligation only to take care of the requirements of funds that are not produced by an expansion of credit.

Article 6 - The obligations issued to finance the purchase of products which have been acquired by the Central Bank may be used by this Bank in operations of monetary regulation similar to those effected with consolidated bonds of the National Treasury.

Article 7 - The provisions of this law shall remain in effect until one year after the termination of the European war, but in no case for a period in excess of three years. The governmental banks of the Nation and provinces, private banks and semi-governmental banks, are authorized to participate in the operations contemplated to in the above articles.

Tr:BSB

Typed: ALJ

COPY:mg:5/26/41

FEDERAL RESERVE BANK OF NEW YORK

CONFIDENTIAL

OFFICE CORRESPONDENCE

May 5, 1941.

To Files

Subject: Transfer of Japanese Funds

From W. E. Rosell

from New York to Brazil

(Copies to Messrs. Knocks, McKeon, Roelss, and Sanford)

For many months the Japanese authorities have been taking steps in anticipation of a possible blocking of Japanese funds in this country. As early as last October, State Department cables from Rio de Janeiro told of negotiations on the part of the Yokohama Specie Bank to effect a transfer of their dollar funds to Brazil. The first indication of this was given in the State Department cable from Brazil, dated October 31 (No. 544), in which it was stated that inquiry had been made of the Bank of Brazil whether, in view of the possible blocking of Japanese funds in the United States, it would consent to the centralization in that bank of all financial operations of Japan usually handled in the United States. The Director of Exchange of the Bank of Brazil replied that the bank could see no objection to such a plan. With these preliminaries settled, the Rio de Janeiro branch of the Yokohama Specie Bank informed the Bank of Brazil in the early part of November, 1940 that they would take steps to centralize all its operations in dollar exchange in the Bank of Brazil. The final arrangements were made at the end of December, 1940 when the head office of the Yokohama Specie Bank in Japan formally requested the Bank of Brazil to open a dollar account, which would be subject to deposits and withdrawals by the manager of the Rio de Janeiro branch of the Yokohama Specie Bank. The Bank of Brazil granted the request.

From the time of first learning of the desire of the Yokohama Specie Bank to transfer their dollar assets to Brazil, we have given special attention to the weekly reports filed with us by the New York Agency of the Yokohama Specie Bank. However, since there were many ways in which a transfer of Japanese funds to Brazil could be effected without it being fully reflected in the weekly reports, which give only the amount outstanding as of each Wednesday, it was suggested in my memorandum of March 26, 1941 that we ask the cooperation of those New York banks carrying an account for the New York Agency of the Yokohama Specie Bank to inform us of all large debits and credits to the account of Yokohama Specie Bank.

From these reports, which we are now receiving from Chase, Guaranty, and the National City Bank, it was learned that on April 21 \$2,000,000 was transferred, on the books of National City, from the Yokohama Specie Bank account to the account of the Bank of Brazil. A similar transfer of \$1,000,000 was also reported by Guaranty on the same day. In view of these operations, Mr. McKeon then requested Chase, Guaranty, and National City to determine whether there had been any similar operations before they started in April filing daily reports with us. Going back to the first of the year, these banks found several large transfers on their books totaling \$10,000,000 (net), in addition to the \$3,000,000 already reported to us. All transfers since the beginning of 1941, as reported by the three banks, are summarized below.

- 2 -

Transfers to Bank of Brazil Account
from Yokohama Specie Bank Account
in New York

<u>Date</u>	<u>Amount</u>	<u>Transferred on</u> <u>books of</u>
January 20	\$ 1,000,000	Guaranty
21	1,000,000	Chase
23	1,250,000	Guaranty
24	850,000	Chase
25	900,000	Guaranty
February 5	1,000,000	Chase
5	1,000,000	Guaranty
28	1,500,000	National City
28	1,500,000	Chase National
March 11	2,000,000	Guaranty Trust
April 21	2,000,000	National City
21	1,000,000	Guaranty
	<u>\$15,000,000</u>	
Less transfer from Bank of		
Brazil account - February 21	- 2,000,000	National City
	<u>\$13,000,000</u>	

The completeness of these figures is demonstrated by the fact that they agree in almost every detail with the information contained in the various State Department cables from Rio de Janeiro. The cable of January 30 stated that the balances of the Yokohama Specie Bank at the Bank of Brazil then amounted to \$5,000,000. It can be seen from the above figures that the transfers between January 20 and 25, 1941 totaled exactly \$5,000,000. Furthermore, the balances, as of March 7, reported in the cable of March 13, were given as \$5,500,000. The transfers reported by Chase, Guaranty, and National City through this period aggregated \$10,000,000. After allowance is made for a withdrawal of \$5,000,000, mentioned in the cable of February 22, our figures would indicate a balance of \$5,000,000. As to the \$5,000,000 withdrawal, \$2,000,000 can be explained by the transfer on February 21 to Yokohama Specie Bank account from the Bank of Brazil account. This payment apparently represented the settlement of a one month future contract made by the Yokohama Specie Bank in a swap transaction with the Bank of Brazil on January 21, mentioned in the cable of the following day (No. 45).

The foregoing emphasizes the importance of the daily reports on debits and credits we are now receiving. A net amount of \$10,000,000 was transferred to Brazilian account between December 31, 1940 and March 11, 1941, or prior to the inauguration of the daily reports on debits and credits. During this period, our weekly reports from the Yokohama Specie Bank indicated a reduction of \$24,000,000 in Japan's net dollar assets held at the New York Agency. In view of the numerous reports in the State Department cables that Japan had

- 3 -

transferred funds to Brazil, we made inquiry with the Yokohama Specie Bank every week in which there was an unexplained reduction in their reported net dollar assets due to Japan. At no time, however, did the bank indicate directly that this represented a withdrawal of funds to Brazil. For example, the Yokohama Specie's reports for the week ended March 5 indicated a reduction of \$5,800,000 in Japan's net dollar assets. In reply to Mr. McKeen's inquiry, the bank indicated that these funds were used for commitments in this country. From the reports from Chase, Guaranty, and National City, we now know that at least \$3,000,000 of this amount represented transfers to Bank of Brasil account, \$1,500,000 being on the books of National City and \$1,500,000 on the books of Chase.

Init.: JWMcK
JWMcK:WHR:EC

copy:lap:5/10/41

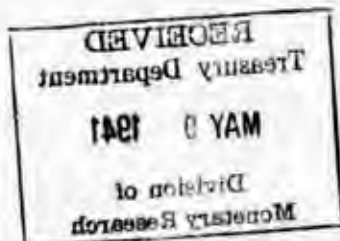
70

Copy of Letter from G. Monterrey, Mexico,
May 3, 1941

The situation with respect to labor is most confusing. It is believed by almost every one that Avila Camacho really desires a change but has his hands pretty well tied and does not have enough initiative to shake off the shackles. Cardenas still seems to be the power behind the throne and does not want any of his work undone. Cardenas has the support of the agrarians and the labor unions. Garcia Tellez is his henchman in the Cabinet and seems to have more influence with Avila Camacho than other more able and conservative members. It has been rumored that Garcia Tellez would leave the Cabinet. The rumors are heard every month or so but Garcia Tellez is still there. It is now also pretty well known that Avila Camacho has had several secret meetings with Cardenas. The latter is, I think, also somewhat of an obstacle to reaching a better understanding with Washington.

A Mexican friend of mine recently told me that he was alarmed by the rapidly growing pro-axis sentiment in Mexico. He said he thought this was due in part to the continued successes of Hitler and Britain's apparent inability to stop him and also Lindbergh's statements that England could not win even with United States help.

I heard that Hans Cram, who is now Nazi Consul at Monterrey, recently made a speech at a dinner at which he put forth the argument that Mexico would be much better off if the axis won in that it could then purchase goods to much better advantage than from the United States. I understand that, while there were some dissenters, the speech was in general well received. In any event, it was good propaganda.



WITH THE COMPLIMENTS
OF
HAROLD K. HOCHSCHILD

C
O
P
YDEPARTMENT OF STATE
WASHINGTONIn reply refer to
Eu 856.5151/113

May 5, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses for the information of the latter a copy of a telegram, no. 1017 of March 19, 1941, from the American Embassy at Berlin relative to a Netherlands decree of February 25, 1941, requiring residents of the Netherlands to report foreign claims and valuables.

Enclosure:

From Embassy at Berlin
March 19, 1941

TELEGRAM RECEIVED

From BERLIN

Dated March 19, 1941

Rec'd 11:43 a.m.

Secretary of State,
Washington.

1017, March 19, noon.

Consulate General at Amsterdam reports that decree no. 35 of February 25, 1941 issued by the Secretary General of the Department of Finance requires all residents of the Netherlands to report in writing not later than March 15, 1941 all foreign claims and valuables of more than 100 guilders other than stock and bonds and certain minor items that were in their possession or for which they acted as trustee on March 1, 1941 (in this connection please see similar order in Germany reported in Embassy's telegram no. 193 of March 23, 1939). Full text will be submitted by despatch by Consulate General at Amsterdam. Inform Treasury.

Copy:bj:5-7-41

STRICTLY CONFIDENTIAL

Principal Holders on March 31, 1941 of the 3-1/4 Percent Treasury Bonds
Maturing on August 1, 1941

(Dollar figures are millions)

	: Amount	: Percent of
	: total	
Amount outstanding March 31, 1941.....	\$834.5	
Principal Holders on March 31, 1941 classified by:		
1. The size of their holdings:		
a. 50 banks and insurance companies holding more than \$2 millions of the issue (see list attached).....	\$427.4	51.2
b. 1,196 other banks and insurance companies.....	177.9	21.3
c. 12 Federal Reserve banks.....	57.0	6.8
d. All other investors.....	172.2	20.7
Total.....	\$834.5	100.0
2. The type of institution reporting:		
a. 908 commercial banks.....	\$381.3	45.7
b. 155 mutual savings banks.....	78.9	9.4
c. 183 insurance companies.....	145.1	17.4
d. 12 Federal Reserve banks.....	57.0	6.8
e. All other investors.....	172.2	20.7
Total.....	\$834.5	100.0

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

May 5, 1941.

Note: The information shown above is based upon data submitted by 6,900 banks and insurance companies.

Fifty Largest Bank and Insurance
Company Holders of the 3-1/4's of 1941
March 31, 1941
(In millions of dollars)

	Name	Amount
1.	Guaranty Trust Co. of New York	58.0
2.	The Travelers Insurance Co. of Hartford	40.0
3.	First National Bank, Baltimore	35.0
4.	National City Bank, New York	25.0
5.	Bank of New York	23.4
6.	National Bank of Detroit	21.7
7.	Equitable Life Assurance Society of U. S., New York	20.7
8.	Central Hanover Bank and Trust Co., New York	14.0
9.	Metropolitan Life Insurance Co., New York	12.5
10.	Union Trust Co. of Pittsburgh, Pa.	12.4
11.	Bank for Savings in the City of New York	10.0
12.	American Trust Co., San Francisco	9.0
13.	The Prudential Insurance Co. of America, Newark	8.0
14.	Savings Bank Trust Co., New York	8.0
15.	New York Trust Company	7.6
16.	Mutual Life Insurance Co. of New York	7.5
17.	Troy Savings Bank, Troy, New York	6.0
18.	Chemical Bank & Trust Co., New York	5.1
19.	Penn Mutual Life Insurance Co., Philadelphia	5.0
20.	Provident Mutual Life Insurance Co., Philadelphia	5.0
21.	Bank of the Manhattan Co., New York	5.0
22.	First National Bank, New York	5.0
23.	National City Bank, Cleveland	4.3
24.	Wilmington Trust Co., Wilmington	4.2
25.	Toledo Trust Co., Toledo	4.1
26.	American Mutual Liability Insurance Co., Boston	4.0
27.	First National Bank, Palm Beach, Florida	4.0
28.	Baltimore National Bank, Baltimore	3.5
29.	Bankers Trust Co., New York	3.5
30.	North River Savings Bank, New York	3.5
31.	Mellon National Bank, Pittsburgh, Pa.	3.3
32.	Lawyers Trust Co., New York	3.0
33.	City Trust & Savings Bank, Youngstown, Ohio	3.0
34.	John Hancock Life Insurance Co., Boston	3.0
35.	First National Bank, Boston	3.0
36.	Strafford Savings Bank, Dover, N. H.	2.7
37.	Empire Trust Co., New York	2.7
38.	Franklin Savings Bank in the City of New York	2.7
39.	Greenwich Savings Bank, New York	2.6
40.	Liberty Bank of Buffalo	2.5

STRICTLY CONFIDENTIAL

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Fifty Largest Bank and Insurance Company
Holders of the 3-1/4's of 1941 - Continued

(In millions of dollars)

	Name	Amount
41.	Union Dime Savings Bank, New York	2.5
42.	United States Trust Co. of New York	2.5
43.	Flatbush Savings Bank, Brooklyn	2.5
44.	American Automobile Insurance Co., St. Louis, Mo.	2.5
45.	National Fire Insurance Co. of Hartford	2.5
46.	The Merrill Trust Co., Bangor, Maine	2.4
47.	Brown Brothers Harriman & Co., New York	2.4
48.	Washington Mutual Savings Bank, Seattle	2.3
49.	First National Bank, Lincoln, Nebraska	2.2
50.	East New York Savings Bank, Brooklyn	2.1
	Total	427.4

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

May 1, 1941.

Treasury Department
Division of Monetary Research

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Date.....May 5.....1941

To: Secretary Morgenthau
From: H. D. White

Highlights of Canadian Budget Proposals
for 1941-42.

1. Increase in tax revenues during the fiscal year 1941-42, roughly to match increase in expenditures. The deficit is estimated at \$330 to \$465 million (U.S.). New and higher taxes are expected to account for \$250 million of the anticipated \$500 million increase in tax receipts.
2. The Dominion to take over, for the duration of the war, the provincial fields of personal and corporate income tax and to impose gasoline and succession duties. The provinces are to be compensated for the resultant loss in revenue.
3. The minimum personal income tax rate to be raised from 6 to 15%, the minimum corporate income tax from 30 to 40% and the National Defense Tax, collected at the source on wages and salaries, from 2 and 3% to 5 and 7%.
4. Building construction for industrial and commercial uses and installation of machinery and equipment to be licensed. This will have a two-fold effect of expanding the market for Government bonds and reducing the demand for goods and services essential to the war effort.
5. Duties on a large variety of imports from Great Britain to be reduced. Canada has assured Great Britain it will finance the UK deficit of Canadian dollars.
6. No relaxation of restrictions on Canadian travel in U. S.

MR. COE
Branch 2061 - 210

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE May 5, 1941

TO Mr. White
 FROM Miss Kistler
 Subject: Canadian Budget, 1941-42

1. The Canadian Government estimates that the Dominion deficit during the fiscal year 1941-42 will be little, if any, higher than it was during the year 1940-41.

	<u>1939-40</u> (actual)	<u>1940-41</u> (Preliminary)	<u>1941-42</u> (Estimated)
	(millions - U.S.)		
Expenditures	\$645	\$1,140	\$1,590 to \$1,725
Revenues	<u>535</u>	<u>785</u>	<u>1,260</u>
Deficit	\$110	\$ 355	\$ 330 to \$ 465

2. The \$500 million rise in tax revenues to match the anticipated increase in expenditures is in line with the government's "pay as you go as far as practicable" policy, announced at the outbreak of the war. On the basis of the above estimates, 73 to 79 percent of the Dominion's expenditures will be met out of taxes.

3. The deficit for the fiscal year 1940-41 is \$200 million smaller than it was originally estimated it would be. Expenditures were somewhat less than anticipated, while tax receipts were substantially larger than expected.

4. The principal proposed changes in the tax structure are:

- (a) An increase in the personal income tax rate from 6 to 8 percent to 15 percent on the first \$1,000 of taxable income with 5 percent increase on each additional \$1,000. Present exemptions of \$750 for single person, \$1,500 for married couple, and \$400 for each dependent remains unchanged.
- (b) A 10 percent increase in the excess profits tax, making the minimum corporation tax 40 percent.

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Division of Monetary
Research

- (c) An increase in the national defense tax, which is collected at the source on wages and salaries, from 2 and 3 percent to 5 and 7 percent. The exemption for a single person is \$660 a year.
- (d) Imposition of new and higher excise taxes on a wide variety of commodities.
- (e) Reduction in duties on large variety of imports from Great Britain.

These changes are expected to produce \$225 million this year and \$270 million in a full fiscal year.

This increased tax burden will bear most heavily upon persons in moderate circumstances, those with incomes from \$700 to \$25,000. However, for the first time in Canadian history, revenues from direct taxes will be greater than receipts from excise and sales taxes.

5. The Dominion proposes to take over, for the duration of the war, the provincial fields of personal and corporation income tax and to impose gasoline and succession duties. In return for vacating the income tax field, the Dominion will pay the provinces either

- (a) An amount equal to the revenues which the provinces, along with their municipalities, actually obtained from income taxes during the fiscal year ending nearest to December 31, 1941, or
- (b) The cost of the net debt service actually paid by the provinces during the fiscal year less the revenues obtained from succession duties during that period.

Such payments are to be augmented, where necessary, by appropriate fiscal-need subsidies.

Furthermore, in order to assist those provinces which agree to vacate these two fields, the Dominion will guarantee to them an amount equivalent to the revenues which they actually received from gasoline taxes during the last fiscal year, provided they do not change their present gasoline tax rates.

6. Of the \$1.6 billion of budgeted expenditures for the fiscal year, 1941-42, \$1,170 million are to finance the war effort, the cost of which may be as much as \$150 million higher than the budgeted figure. During the first quarter of 1941, Canadian Government war expenditures were five times as high as during the same period a year

Division of Monetary
Research

earlier and were at the rate of more than \$900 million (U. S.) annually. Roughly one-third of the non-war expenditures are to defray the carrying costs of the Dominion debt.

7. The Dominion Government has assured Great Britain that Canada would finance that proportion of the British deficit of Canadian dollars which Britain herself could not meet through the transfer of gold or U. S. dollars. Britain's deficit of Canadian dollars is expected to reach \$1 billion (U. S.) for the year. This, together with the direct war effort, brings the total Canadian expenditures on war account, direct and indirect, to \$2,170 to \$2,300 million (U. S.). This represents 41 to 43 percent of the estimated national income.

8. The Finance Minister estimates the Dominion Government will have to borrow \$720 to \$850 million (U. S.) during the fiscal year. Increase in open and trust accounts are expected to provide another \$180 million (U. S.).

9. In order to expand the market for government bonds and limit the demand for goods and services essential to the war effort, Canada is soon to embark on a policy of controlling investments. Mr. Ilsley announced that an order-in-council is soon to be passed which will require a license for all building construction for commercial or industrial use and for the installation of machinery or equipment. However, since replacements, small extensions, housing accommodations, and plant and equipment for primary industries are to be exempt, the effect of the order will be limited to consumption and luxury goods industries.

10. The net debt of the Dominion Government on March 31, 1941 stood at \$3,300 million (U. S.), an increase of \$355 million during the year. The gross debt of the Dominion on March 31 was \$4,270 million (U. S.), against which the government held assets of \$970 million.

11. Mr. Ilsley warned that the Hyde Park declaration, although "a magnificent contribution" could not lead up to a restoration of the Canadian dollar to parity with the U. S. dollar nor a relaxation of present restrictions on Canadian travel in U. S.

(Source: Mr. Ilsley's Budget Speech of April 29, 1941.)

C O P Y

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BRITISH EMBASSY,
WASHINGTON, D.C.

5th May, 1941.

Dear Mr. Secretary,

As you may know, one of General Wavell's principal staff officers, Brigadier Whiteley, is here, and has I think been giving your people some account of how General Wavell sees the picture in North Africa, etc.

It occurred to me that it might possibly interest you to see him before he goes back, which he will be doing very shortly, and if so, perhaps you would let me have a message as early as you could, and I would tell him to place himself in communication with your Secretary.

I am,

Mr. Secretary,

Yours sincerely,

/s/ Halifax

The Honourable Henry Morgenthau, Junior,
Secretary of the Treasury.

MEMORANDUM

May 5, 1941

To: Secretary Morgenthau
From: Oscar Cox
Subject: Department of Supply

I.

Functions

An adequate and effective Department of Supply should doubtless have the following functions:

a) Manufacture

Jurisdiction over the arsenals and Government shipyards should be in the Department of Supply. The specifications for guns, ships, etc. can be prepared by the users of them -- the Army and Navy -- or they can participate in their formulation. To a degree this is what is done now in the Army and Navy. Thus, for example, Ordnance collaborates with Infantry in the design and manufacture of infantry equipment.

Army and Navy officers skilled in the manufacture of guns and ships could be detailed to the Department of Supply to work in the arsenals or shipyards.

- 2 -

b) Procurement

Coordination of procurement under one centralized purchasing agency has its obvious advantages. Many of the defense articles used by the Army and Navy are the same and should doubtless be purchased at the same time. Many more which are not now the same could doubtless be standardized through a central Department of Supply.

c) Production Expansion

In the past few years, particularly, there have been many instances where uncoordinated plant expansion for Army and Navy materiel has taken place. If this expansion had been properly tied together greater speed and efficiency would unquestionably have resulted. Today, funds for the expansion of plant facilities are available to the War and Navy Departments, to the RFC, Maritime Commission and the Lend-Lease appropriation. In many instances these funds are available for the same or similar purposes. They can most effectively be used through a central source.

d) Storage

Department of Supply storage depots at key spots would doubtless be more efficient than the present methods of storage.

- 3 -

e) Priorities

A Department of Supply should obviously have the power to determine priorities between civilian consumers as well as between the Government and others. It should also be the central source to exercise priorities in transportation by rail, air, ship, etc.

f) Price Control

In addition to the control over prices which a Department of Supply can exercise by its powers to expand the supply of any article and through cumulating and timing its purchasing, it should also have the power to control prices through the fixing of ceilings, etc.

g) Requisitioning

Upon the payment of just compensation, the Department of Supply should be empowered to requisition any plant, facility or article useful for defense. This is a much needed power which does not exist now.

II.

Legislation To Create Central
Supply Agencies

The following two methods are suggested as possible ways of creating a central supply agency:

- 1) A modified version of the Overman Act. A first draft is annexed.

- 4 -

2) A bill creating a cabinet Department of Supply.

I am preparing a draft of such a bill.

Cot

An Act Authorizing the President to coordinate or consolidate executive bureaus, agencies, and offices, and for other purposes, in the interest of economy and the more efficient concentration of the Government.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That for the national security and defense, for the support and maintenance of the Army and Navy, for the better utilization of resources and industries, and for the more effective exercise and more efficient administration by the President of his powers as Commander in Chief of the land and naval forces the President is hereby authorized to make such redistribution of functions among executive agencies as he may deem necessary, including any functions, duties, and powers hitherto by law conferred upon any executive department, commission, bureau, agency, office, or officer, in such manner as in his judgment shall seem best fitted to carry out the purposes of this Act, and to this end is authorized to make such regulations and to issue such orders as he may deem necessary, which regulations and orders shall be in writing and shall be filed with the head of the department affected and constitute a public record: Provided, That this Act shall remain in force during the continuance of the present emergency and for six months after the termination of the emergency, or at such earlier time as the President may designate: Provided further, That the termination of this Act shall not affect any act done or any right or obligation accruing or accrued pursuant to this Act and during the time that this Act is in force: Provided further, That the authority by this Act granted shall be exercised only in matters relating to the furtherance of the defense program.

SEC. 2. That in carrying out the purposes of this Act the President is authorized to utilize, coordinate, or consolidate any executive or administrative commissions, bureaus, agencies, offices, or officers now existing by law, to transfer any duties or powers from one existing department, commission, bureau, agency, office, or officer to another, to transfer the personnel thereof or any part of it either by detail or assignment, together with the whole or any part of the records and public property belonging thereto.

SEC. 3. That for the purpose of carrying out the provisions of this Act, any moneys heretofore and hereafter appropriated for the use of any executive department, commission, bureau, agency, office, or officer shall be expended only for the purposes for which it was appropriated under the direction of such other agency as may be directed by the President hereunder to perform and execute said function.

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SEC. 4. That all laws or parts of laws conflicting with the provisions of this Act are to the extent of such conflict suspended while this Act is in force.

MAY 5 - 1941

Mr. Philip Young
Lend-Lease Administration
Federal Reserve Building
Washington, D. C.

Sir:

Referring to your letter of April 25, 1941, transmitting a specimen copy of Form LLa-3 (Recommendation on Requisition for Defense Articles Under the Act of March 11, 1941) and instructions for using such forms, you are hereby advised that the following officials of the Procurement Division have been authorized, respectively, to execute and approve such documents:

Geo. Landick, Jr., Assistant to the Director
Raymond Eberly, Chief of Control - Lend-Lease

Clifton E. Mack, Director of Procurement
Rolt. LeFevre, Assistant Director of Procurement.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

MAY 5 - 1941

ORDER

Effective immediately, Geo. Landick, Jr., Assistant to the Director, Procurement Division, and Raymond Kberly, Chief of Control - Lend-Lease, are empowered and authorized to sign requests for funds and recommendations on requisitions for defense articles under the Act of March 11, 1941, and Clifton E. Mack, Director of Procurement, and Robt. LeFevre, Assistant Director of Procurement, are authorized and empowered to sign such requisitioning documents as approving officers.

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

MAY 5 - 1941

ORDER

Effective immediately, Geo. Landick, Jr., Assistant to the Director, Procurement Division, and Raymond Eberly, Chief of Control - Lend-Lease, are empowered and authorized to sign requests for funds and recommendations on requisitions for defense articles under the Act of March 11, 1941, and Clifton E. Mack, Director of Procurement, and Robt. LeFevre, Assistant Director of Procurement, are authorized and empowered to sign such requisitioning documents as approving officers.

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

MEMORANDUM

To: Mr. Harry L. Hopkins
From: Philip Young and Oscar Cox
Subject: Coordination of Plant Expansion

Funds for the same kind of plant expansion and facilities are now available to the War and Navy Departments, RFC and Lend-Lease.

There is a need to tie these together in a coordinated form so that they can be put to their most effective use.

We shall, if you wish, prepare a preliminary study on this subject to point up the problems and policy questions which are involved.

(Initialed) P.Y. O.S.C.

OSC:lwb
5/5/41

THE GEORGE MASON

Alexandria, Va.

Dear Mr. Cox:

Even if you can't get my pet ex-legionaries out of Morocco - you might suggest to the right person that it is not to American interests that the Oran-Dakar railroad be built until we know whether it will be used by the Germans. Our help in feeding North Africa might be on condition that work on the railroad stop.

Then at least my poor slaves will not have to work so hard all through the summer heat. As I said, without shoes, or socks, or shirts - in their heavy Army uniforms.

Yours truly

(signed) Cora Goold

MEMORANDUM

May 5, 1941

To: Mr. Hopkins
From: Oscar Cox
Subject: Merchant Shipping

I understand that the Candians are using some "lady boats" on the West Indies run. My understanding is that several of these boats are refrigerated and could doubtless be effectively used in the North Atlantic run. In terms of the present need it might be desirable to exert some pressure on the British to get these boats into the North Atlantic run and if necessary to substitute other boats which cannot as effectively be used in going to England.

(Signed) Cox

OSC:lw
5/5/41

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 5, 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	£34,000

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

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

Sold to commercial concerns	£11,000
Purchased from commercial concerns	£ 6,000

The Argentine free peso underwent a slight improvement. The closing quotation was .2360, as compared with Saturday's final rate of .2355.

The Cuban peso advanced to 3-13/16% discount as against 3-15/16% on Saturday.

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

Canadian dollar	12-1/2% discount
Swiss franc	.2321
Swedish krona	.2386
Reichsmark	.4005
Lira	.0505
Brazilian milreis (free)	.0505
Mexican peso	.2065

In Shanghai, the yuan in terms of our currency advanced 1/32¢ to 5-3/16¢. Sterling was quoted at 3.86-3/4, a slight gain.

There were no gold transactions consummated by us today.

The State Department forwarded a cable to us stating that the following gold shipments had been made from Australia, for sale to the San Francisco Mint:

\$4,055,000	shipped by the Commonwealth Bank of Australia, Sydney, to the Federal Reserve Bank of San Francisco.
135,000	shipped by the Bank of New South Wales, Sydney, to the American Trust Company, San Francisco.
\$4,190,000	Total

The price fixed in London for both spot and forward silver was again 23-1/2d, equivalent to 42.67¢.

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

We made four purchases of silver totaling 375,000 ounces under the Silver Purchase Act, all of which was bought for forward delivery. This silver represented new production, of which 200,000 ounces came from Peru, and 175,000 ounces from various foreign countries.

The Federal Reserve Bank's report of April 30, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled \$78,139,000, a decline of \$7,006,000 since April 23. Most of the change in deposits took place on the books of the Yokohama Specie Bank's New York agency. The latter's principal dollar liabilities to and dollar claims on Japanese banks in Asia stood as follows on April 30:

	<u>April 30</u>	<u>Change from April 23</u>
Liabilities: Deposits for Japan and Manchuria.....	\$50,525,000	- \$6,608,000
Deposits for China.....	20,185,000	+ 505,000
: U.S.Treas.Bills, comm. paper, etc.....	25,719,000	+ 2,204,000
Assets: : Loans.....	\$40,511,000	- \$5,237,000
: Other - mainly Jap. import bills.....	6,117,000	- 588,000

The last three categories refer primarily to banks in Japan and Manchuria. The net withdrawal of \$6,608,000 from deposits held for such banks, it will be observed, was accompanied by a reduction of \$5,237,000 in Agency loans, as well as a gain of more than \$2,200,000 in Treasury bills, etc. held by the Agency for banks in Asia.

JMP

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE May 5, 1941

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending May 3, 1941.

Summary

(1) Preliminary estimates from the Federal Reserve Board indicate that the FRB index will decline 4 or 5 points in April from the level of 143 reported for March. Reductions in automobile and bituminous coal components due to strikes were primarily responsible for the drop in the combined index.

(2) A major readjustment of the transportation services of the United States may be expected from the plan to allocate 2 million tons of merchant ships to British aid, which will put a real strain on railroad facilities. The railroads have announced an intention to purchase 270,000 new freight cars to meet increased needs in 1942 and 1943, but the ability to produce this quantity of cars in the time mentioned is questionable.

(3) Commodity prices advanced on the ship allocation announcement. Increases were most pronounced in prices of commodities which may be purchased for Britain, and which may develop shortages if ships are diverted from customary routes. Prices of farm products rose sharply at the end of the week on Senate committee approval of an 85 percent parity basis for Government loans.

(4) Although a large proportion of the blast furnaces which were banked during the coal strike have been returned to operation, it may take 2 weeks or more before steel operations are back to the pre-strike level. Operations this week are scheduled at 96.8 percent of capacity compared with 94.3 percent last week.

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- 2 -

FRB index lower for April

The Federal Reserve Board estimates that the decline of production in April will amount to as much as 4 or 5 points on the adjusted FRB index of industrial production, which stood at 143 in March. Reductions in the production of automobiles and bituminous coal, due to strikes, more than offset the action of other components which, for the most part, either increased or maintained the high March level.

Steel production also declined somewhat in April, partly because of a temporary shutdown of Ford steel mills during the Ford strike, and partly because of coal shortages. Anthracite production showed a substantial contra-seasonal decline, with warm weather and delay in issuing spring prices the primary factors.

Merchant shipping pool will necessitate readjustment of transportation services

A major readjustment of the transportation services of the United States may be expected as the result of last week's announcement by the Maritime Commission that a pool of 2 million tons of merchant ships, one-fifth of all the ships under United States registry, will be created to aid the British. Immediate increases in the volume of railway freight are sure to result, since a large part of the ships taken will undoubtedly be chosen from lake and inter-coastal routes for which alternate rail routes are available.

Coincident with this development, the railroads have come to a sudden realization that acute shortages in railway facilities may be in prospect. The Association of American Railroads has advised its members to acquire no less than 120,000 freight cars to meet 1942 traffic requirements, and 150,000 more cars to cover 1943 needs. These figures contrast sharply with the 65,000 freight cars ordered in 1940, and would involve the largest volume of freight car orders since 1924. In view of the large volume of armament business booked, and difficulties in obtaining steel and other materials, it remains to be seen whether the equipment manufacturers can cope with the heavy buying program now being recommended.

During the first 4 months of 1941, new freight car orders have been running far ahead of the corresponding months of 1940. (See Chart 1, lower section.) Even this increased rate of ordering would have to be almost fully maintained throughout

- 3 -

a 12 month period to amount to the estimated 120,000 additional cars needed for 1942, and then orders would have to be stepped up 15 percent to meet 1943 requirements. Moreover, even if this enlarged program can be carried out, equipment requirements for the current year are of more immediate concern. It now seems even more likely that previously-expressed fears of a car shortage will be confirmed before the fall traffic peak is passed.

Railroad earnings up sharply in March

In addition to the increasing awareness of the heavy requirements of the defense program, railroad equipment buying is being facilitated by the improved earnings position of the railroads. Net railway operating income figures for March reveal a rise of 38 percent above the previous month and a gain of no less than 118 percent over March 1940. (See Chart 1, middle section.)

While part of the high earnings in March was due to heavy coal traffic in anticipation of the strike, numerous other factors have contributed to the improvement in railroad earnings in recent months. As a result, railway net operating income for the first quarter of this year ran 74 percent above the corresponding period of 1940. Earnings undoubtedly declined last month, due to the drop in freight carloadings resulting from the coal strike, (see Chart 1, upper section), but barring unforeseen developments a sharp recovery in traffic and earnings will probably occur in the current month.

No evidence that freight is piling up awaiting export

Some difference of opinion is reported in the press as to whether goods for export are piling up in United States ports. While one statement that goods for export are accumulating on wharves is said to refer to iron and steel for Britain, shipping interests deny that there is any considerable backlog of goods in ports awaiting shipment to England. In view of the present close control over freight congestion in railroad yards, it is probable that excess freight awaiting export would partly be held back at the plants.

Our figures for lighterage freight in storage and on hand for unloading in New York harbor show no tendency for freight awaiting export to accumulate recently. Indeed, there was a steady falling off during April from the high level reached in March. (See Chart 2.)

- 4 -

The outward movement of export freight from New York (see Chart 3, upper section) has shown some improvement, and is currently running at a slightly higher level than receipts of freight for export at that port (lower section of chart). Receipts of freight for export at 9 other North Atlantic ports, however, showed a noticeable decline during April, perhaps indicating that shipments to these ports have been held back because of a lack of ships.

Freight congestion at Pacific ports

According to press statements, Pacific ports have developed some congestion recently, unlike the relatively uncrowded conditions of Atlantic ports. Contributing factors in the reported congestion are (1) the fact that 13 terminals have been taken over by the Army and Navy, and (2) the fact that an increasing number of vessels on Far East routes are terminating their voyage on the West Coast. To alleviate the situation, Pacific Coast port authorities will meet at San Francisco on May 8 to consider reduction of free storage time allowed on piers.

From data recently compiled by the Association of American Railroads, we have computed the volume of freight receipts for export at the 6 main Pacific ports, covering the period since the week ended February 15, 1941. (Refer to Chart 3, lower section.) The ports included are Seattle, Tacoma, Portland, San Francisco, Los Angeles, and San Diego. From the low of 579 cars for the last week in February, the receipts have increased to 1,301 cars in the week ended April 12, and 1,085 cars in the week ended April 26, the latest date available.

Record aircraft shipments feature March export gain

Featured by a sharp rise in aircraft shipments, exports of United States merchandise in March rose more than seasonally to the highest levels since January 1940. The monthly total of nearly \$351,000,000 was 18 percent above the previous month and 2 percent above March 1940.

Aircraft exports in March amounted to \$50,000,000, the highest monthly figure on record and \$16,000,000 above the previous month. (See Chart 4.) Reflecting in part the longer month and the effects of the enactment of the lend-lease act, nearly all major groups of non-agricultural exports in March showed gains over the previous month. Nevertheless, copper exports declined further, and iron and steel scrap shipments receded to a figure only slightly above the low touched in January.

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Although iron and steel exports rose moderately above the total for the previous short month, they were still 26 percent below the high reached last August. As is evident from Chart 4, a rather steady downward drift in steel exports has been in progress since that time. Shipments of firearms and ammunition, on the other hand, rose 11 percent above the February total to \$14,000,000 as compared with only a little over \$1,000,000 in March 1940.

Agricultural exports continued at very low levels and amounted to only 8 percent of total exports, despite a gain of \$5,000,000 over the previous month. Cotton shipments to foreign markets rose noticeably but the total was still far below the March 1940 figure.

Steel industry strives to offset effects of coal strike

The end of last week found steel companies striving hard to get back into full production following the settlement of the coal strike. By this week, at least 5 of the 9 closed blast furnaces in the Youngstown district are expected to be back into production, and the Carnegie-Illinois Steel Corporation alone has already resumed operations at 6 closed blast furnaces in the Chicago and Pittsburgh districts. However, it is believed that two weeks or more will be required to get steel operations back to the levels prevailing before the strike. A week to ten days from the resumption of operations will be needed to get beehive coke moving to blast furnaces.

In addition to greatly aggravating the previous tight situation in coke and pig iron, the strike has reportedly forced steel plants to cut heavily into reserve stocks of cold ingots, billets and slabs. Had it not been for an increased use of steel scrap, steel production would doubtless have declined even further. Steel operations last week were scheduled at 94.3 percent of capacity as compared with 99.2 percent just before the coal strike occurred. Operations during the current week are scheduled at 96.8 percent of capacity.

Government control over iron and steel products tightened

New steel business booked by mills in April appears to have equalled or even exceeded the record-breaking volume of March. New orders received by the U. S. Steel Corporation during the week ended April 24, though somewhat lower than in the previous week, amounted to no less than 163 percent of capacity.

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In a move intended to prevent overbuying for unnecessary inventories, iron and steel products were included in an inventory control order issued last week by the OPM, initiating a new phase of the priorities system. In addition, copper, lead, tin, and all ferrous and non-ferrous alloys were included.

New orders remain at high level

Our new orders index (1936 = 100) declined to 196.8 in the week ended April 26 from 212.3 in the previous week. (See Chart 5.) The decline arises entirely from a drop in new orders for steel; the components for textiles and total excluding steel and textiles both increased very slightly.

Shipping pool announcement lifts commodity prices

The announcement by the Maritime Commission that a pool will be created to provide additional shipping space for aid to Britain had a pronounced bullish effect on commodity prices at the end of last week, particularly for imported commodities. On Saturday, the prices of domestic farm products were lifted sharply when the Senate Agriculture Committee accepted an 85 percent parity basis for Government crop loans. Price indexes of both imported and domestic commodities increased for the week (see Chart 6, upper section) while the Dow-Jones index of futures prices for the first time exceeded its December 1939 peak.

The announcement of the shipping pool had some bullish influence on domestic products, such as cottonseed oil and lard, purchases of which may be expected to increase if more space is available for shipment to Britain. (See Chart 6, lower section.) On imported commodities the influence of the announcement was distinctly bullish, as it raised fears of greater shortages. On commodities deemed "essential", however, including rubber and tin and perhaps some others, the trade has been given to understand that the new order may release space for quantities considered necessary.

Following the recent announcement that, beginning with May-June sailings, Dutch vessels from the Far East will land their cargoes at Pacific Coast ports, an announcement has now been received that the freight rate on rubber shipments to the Pacific Coast will be reduced from \$27 to \$23 per ton. The tin rate may also be reduced. A further possible step is suggested by the ship warrant system outlined in the Bland bill (H. R. 4583) which would give the Maritime Commission far-reaching control over freight rates and space allocation on both foreign and American ships.

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New highs for the season were recorded on Saturday by futures prices of various domestic staples, including wheat, cotton, cottonseed oil, and lard, because of the action of the Senate Agriculture Committee. Wheat futures gained 2½ to 3½ cents in one day.

Prices of cotton textiles increased 24 percent in year

To provide a longer perspective on price movements of the major commodity groups, we have prepared a chart (see Chart 7) showing the percentage change in the BLS price index for each group from April 1940 to the week ended April 26, 1941, the latest week available. This period is selected to correct for seasonal influences on prices of farm products.

Among the ten major groups, as shown on the chart, textile products have made the greatest advance. Prices for this group have increased considerably more than for other groups important in the defense program, such as building materials, chemicals, or metals and metal products.

Cotton goods have shown the most important price increase among the textile materials, the average price for this subgroup having risen 23.6 percent since April 1940, as compared with an increase of 10.7 percent for the combined textile index. Prices of woolen goods, for comparison, show an average increase of only 10.0 percent, despite earlier shortages in supplies of raw wool. The prices for rayon are unchanged, while "other textiles" (including burlap and jute) have increased 20.2 percent.

In view of the current record level of mill consumption of raw cotton, and the relative increases in the prices of cotton textiles, it is strange that no changes have been made in the Department of Agriculture's surplus disposal programs, which include subsidy payments on exports of cotton products as well as subsidies under the mattress, stamp plan, cotton bagging for cotton bales, and cotton insulating programs. According to the Bureau of Agricultural Economics, most of these programs have been expanded this year so that "their effect on cotton consumption will probably be greater this season than last." At a meeting last week with cotton spinners, Price Administrator Leon Henderson warned that the combed cotton yarn industry would either have to eliminate "fictitious" prices or be faced with a ceiling schedule.

How much?

Weekly business indexes

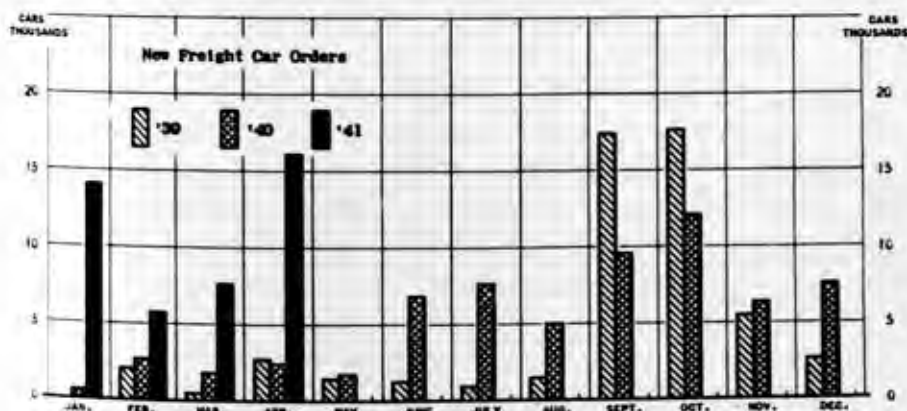
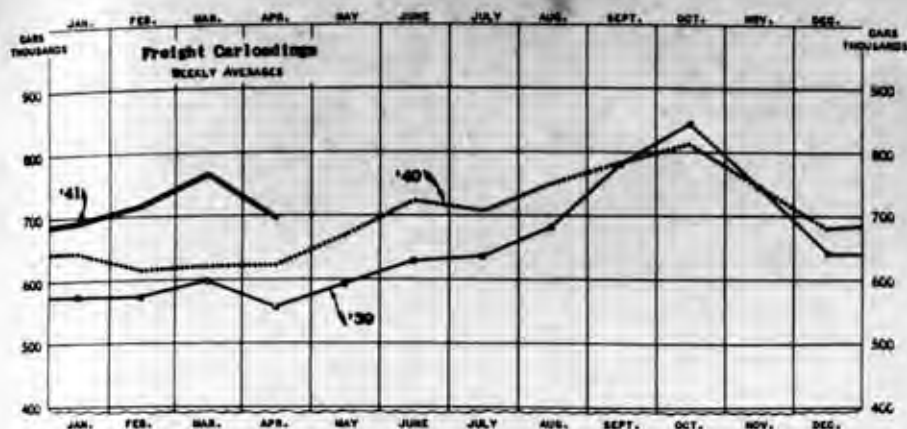
Due largely to gains in paperboard production and electric power output, the New York Times index of business activity for the week ended April 26 rose 1.8 to 120.4, and thus retraced some of the ground lost in the preceding three weeks.

In addition to the components above-mentioned, automobile production, cotton mill activity and miscellaneous freight carloadings also contributed to the rise in the combined index. The principal offsetting factor was a drop in steel ingot production resulting from the coal strike. Lumber production declined contra-seasonally and "all other" freight carloadings rose slightly less than seasonally.

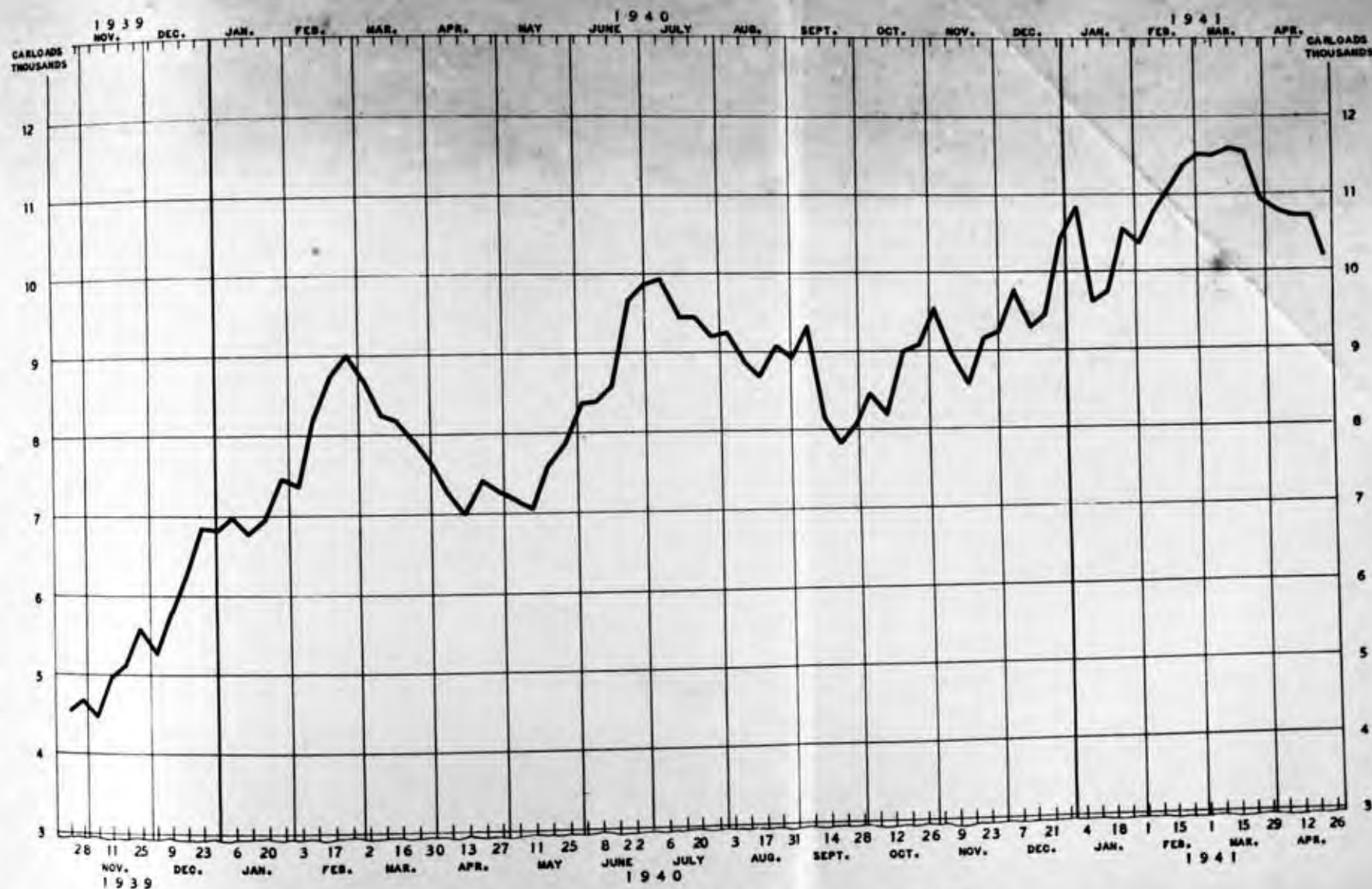
Barron's index of business activity during the week ended April 26 ran counter to the Times index and declined to 130.4 from 130.7 in the previous week.

Preliminary data for the week ended May 3 reveal a further moderate decline in the adjusted index of steel ingot production. On the other hand, the adjusted index of automobile production for the same period will show a sharp advance, due to the stepping up of production at the Ford plants.

RAILROAD SITUATION



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

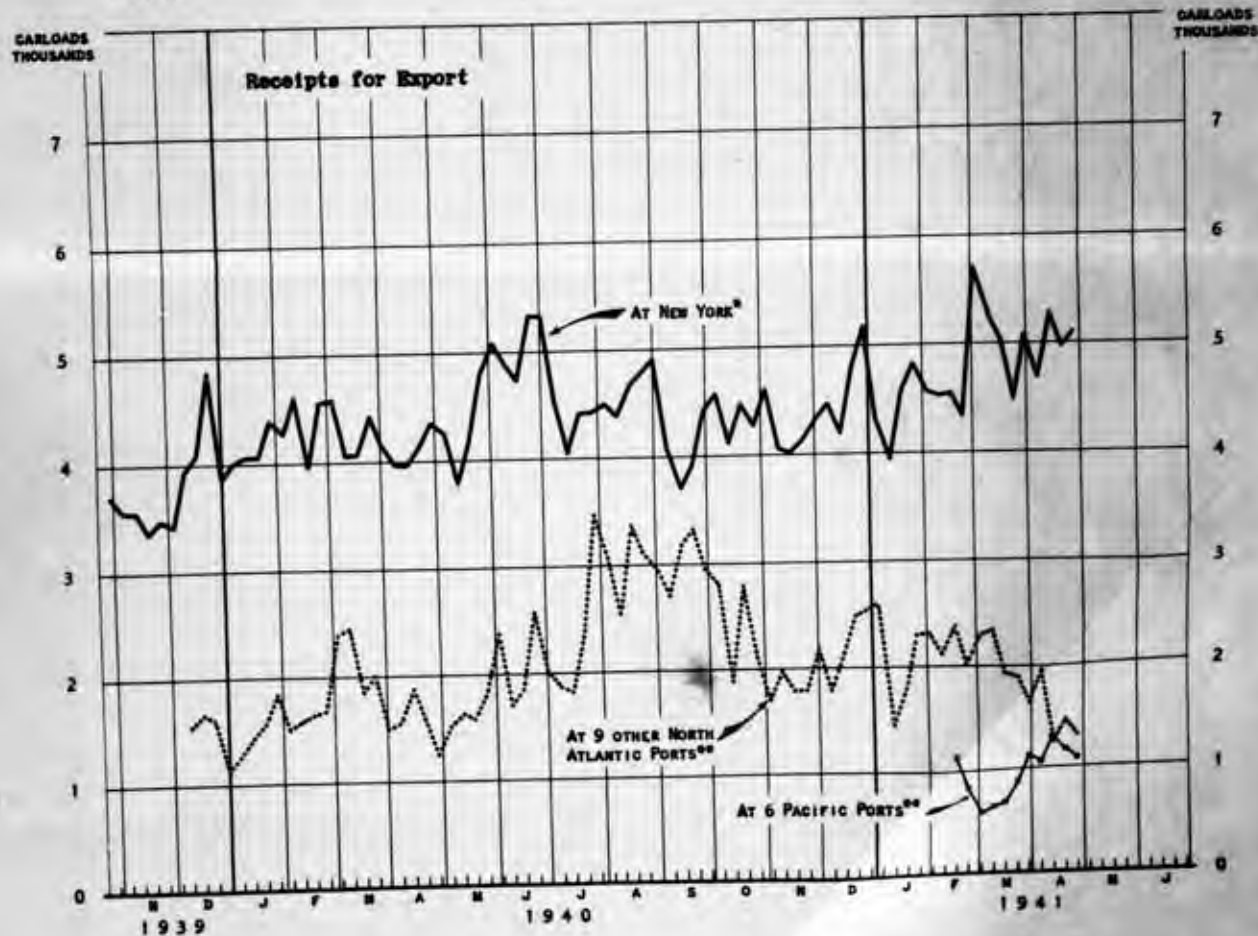
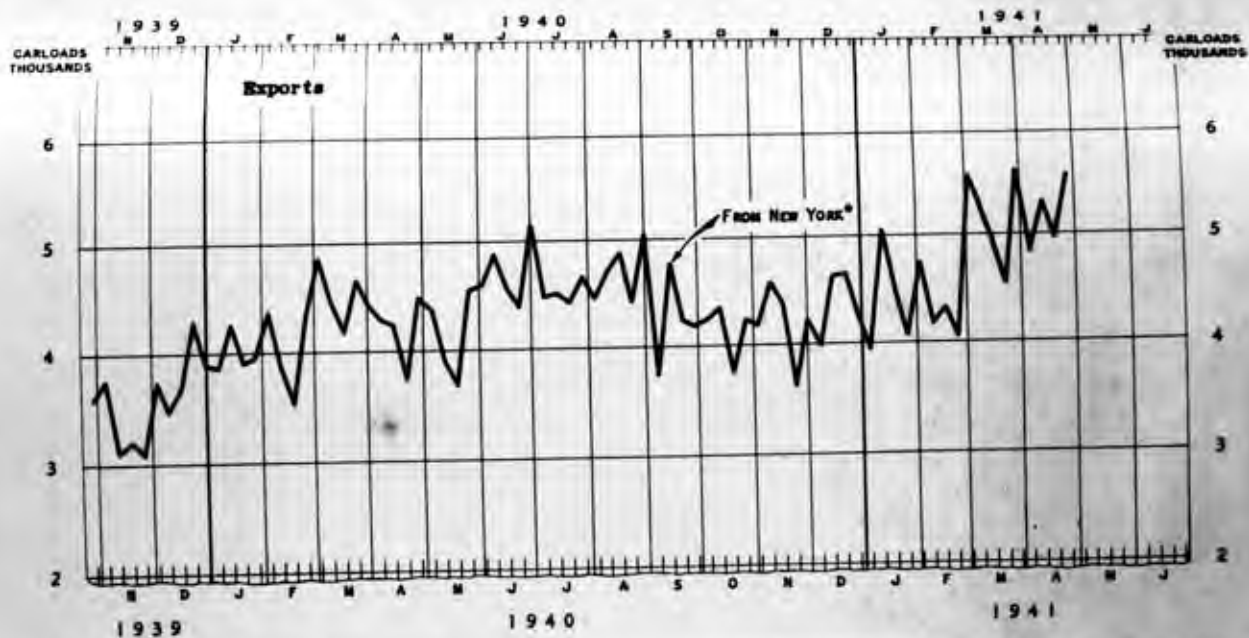


*LARGELY EXPORT FREIGHT, BUT ABOUT 10% REPRESENTS FREIGHT FOR LOCAL AND COASTAL SHIPMENT. FIGURES EXCLUDE GRAIN.

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

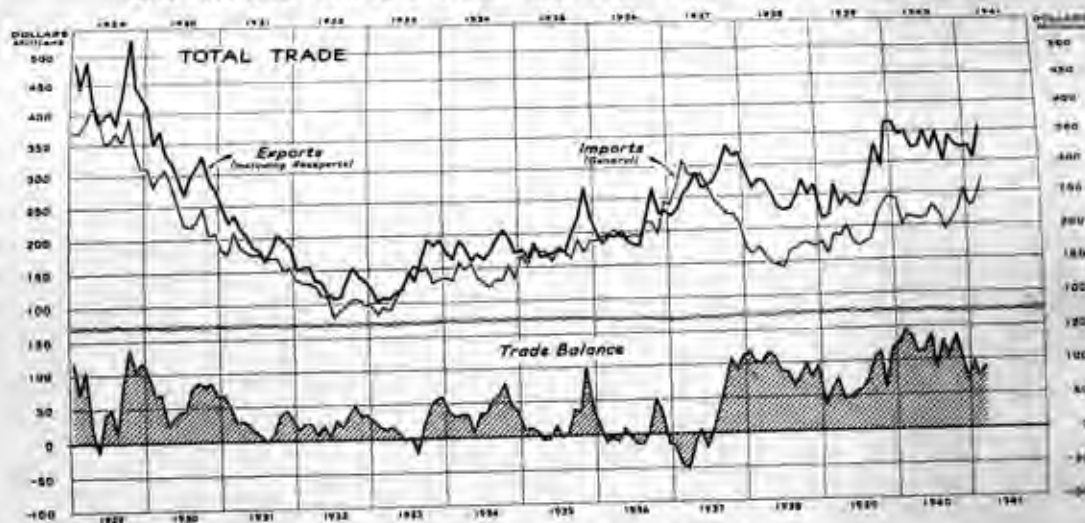
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EXPORT FREIGHT MOVEMENT

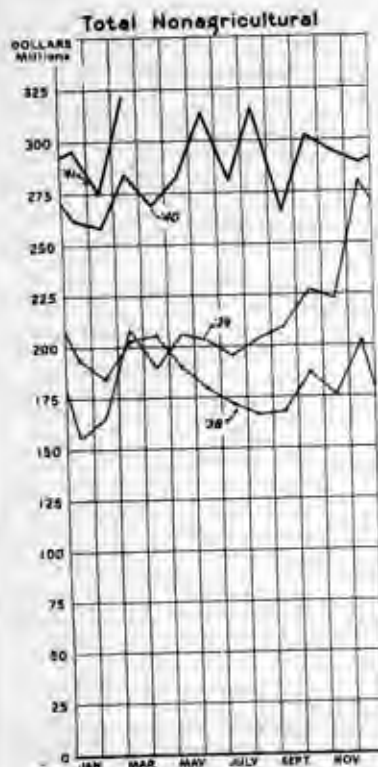


*AS ESTIMATED FROM DATA OF GENERAL MANAGERS' ASSOCIATION OF NEW YORK.
 **ASSOCIATION OF AMERICAN RAILROADS.

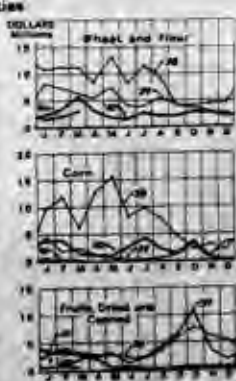
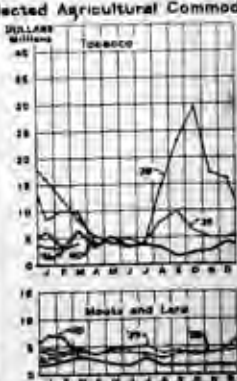
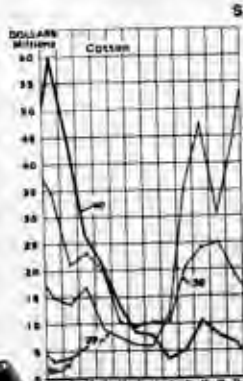
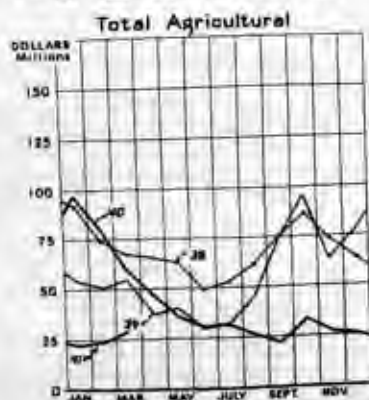
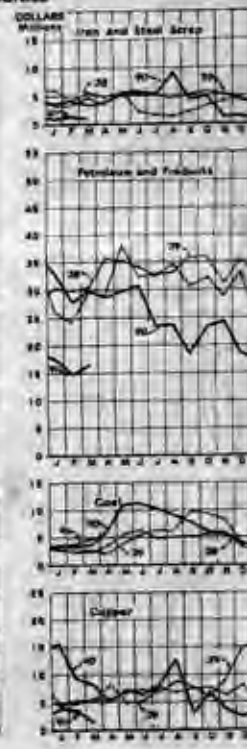
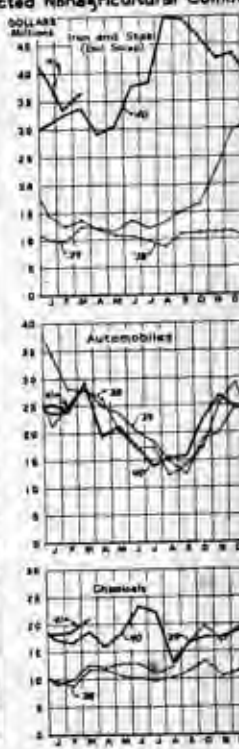
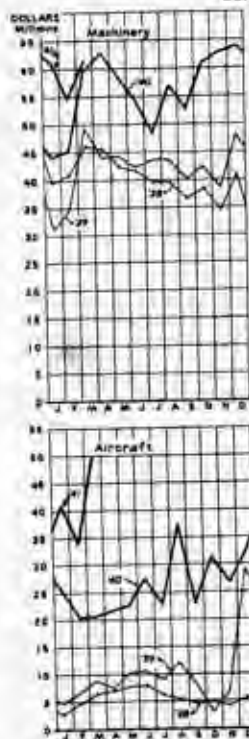
U.S. TOTAL TRADE AND EXPORTS BY COMMODITIES



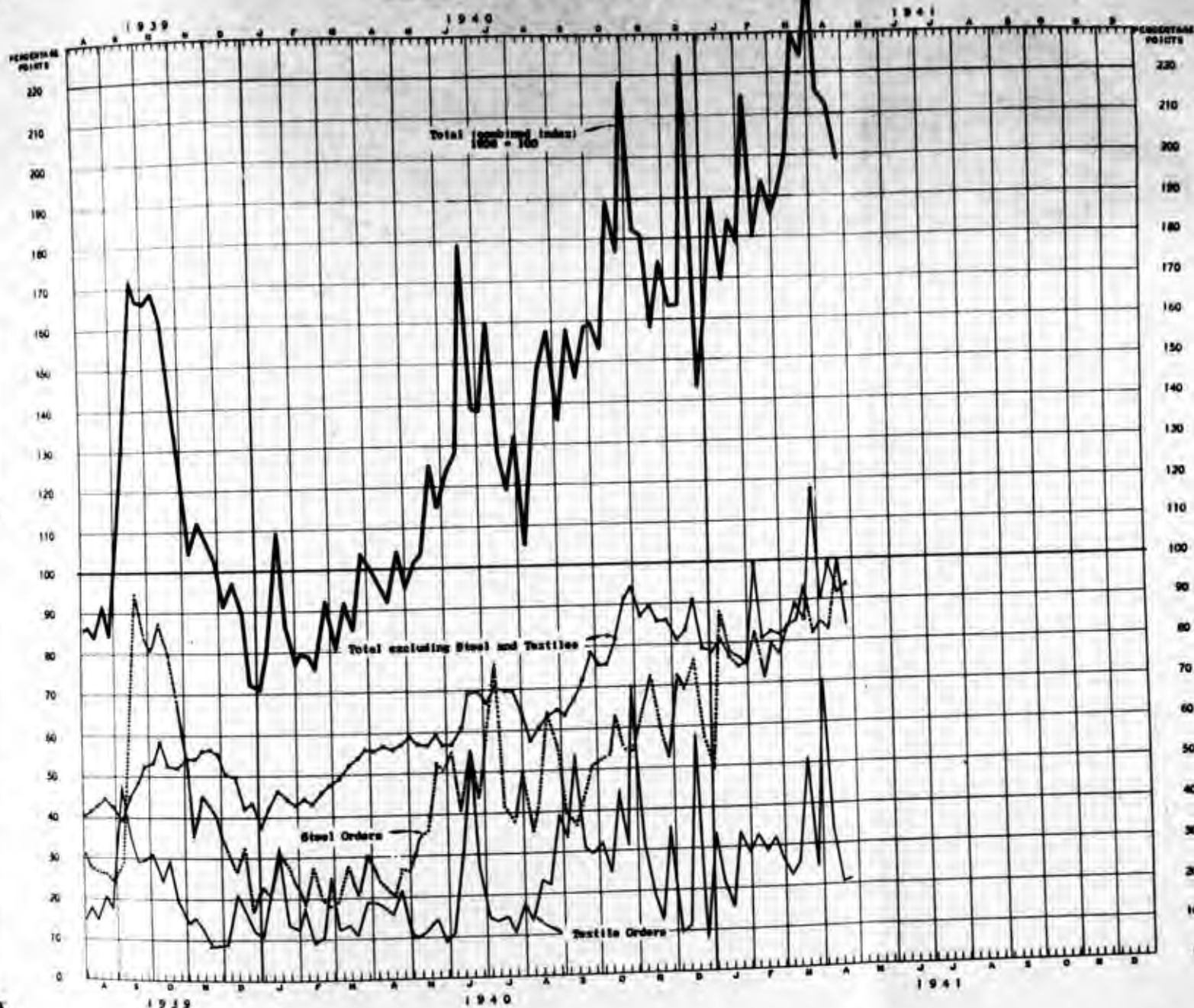
EXPORTS OF U.S. MERCHANDISE



Selected Nonagricultural Commodities

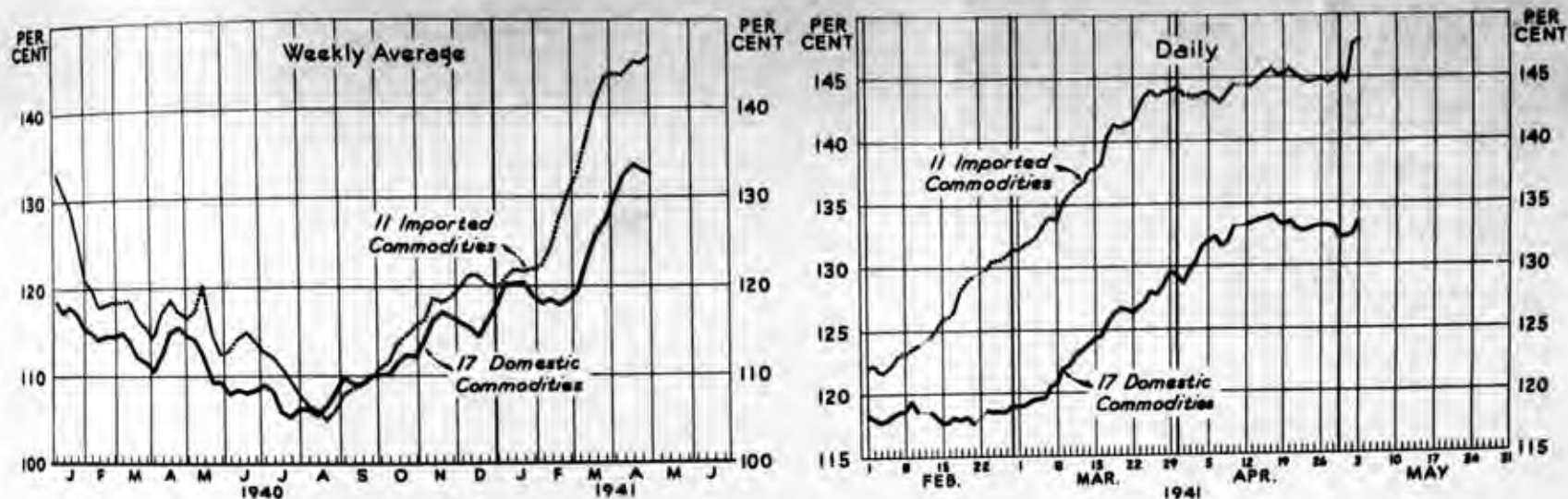


INDEXES OF NEW ORDERS
Combined Index of New Orders and Selected Components



MOVEMENT OF BASIC COMMODITY PRICES Domestic and Imported

AUGUST 1939 = 100



Percentage Change for Individual Commodities, August 1940 Low to April 25 and to May 2, 1941

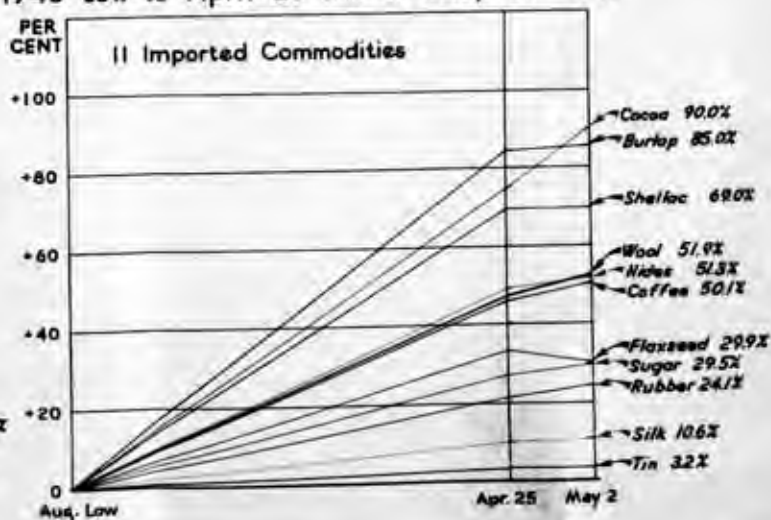
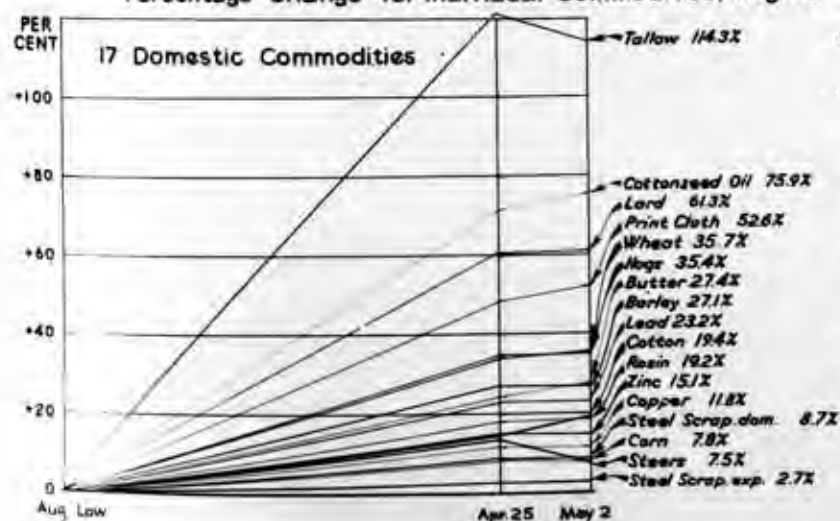
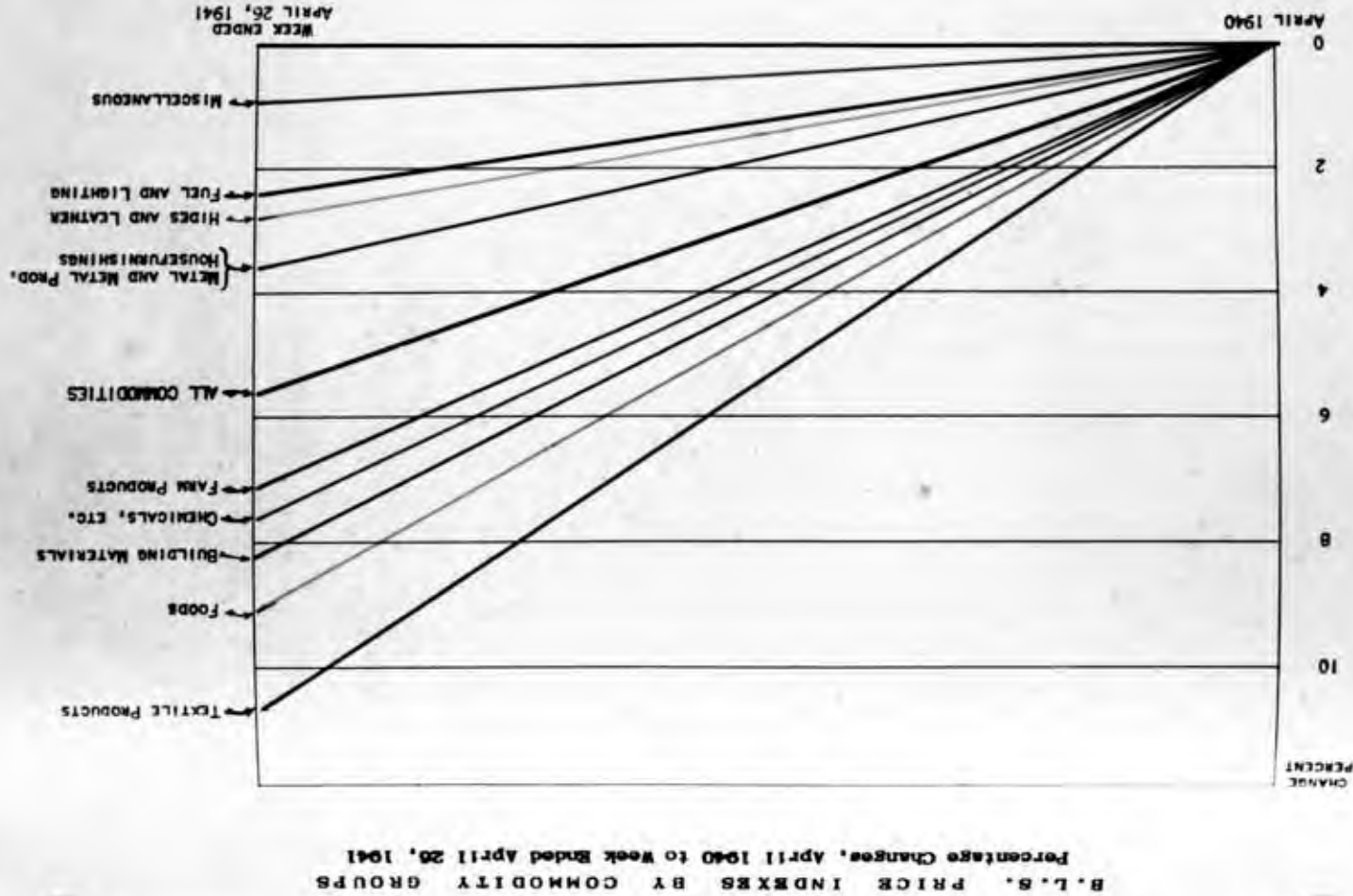


Chart 7
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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 5, 1941

TO Secretary Morgenthau
FROM Mr. Haas *HA*

According to Work Projects Administration reports, a decline of 21,000 brought the number of persons employed to 1,586,000 persons for the week ended April 23, 1941.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week ending	Number of Workers (In thousands)
1940-41	
October 2	1,747
October 9	1,763
October 16	1,768
October 23	1,776
October 30	1,779
November 6	1,783
November 13	1,786
November 20	1,807
November 27	1,822
December 4	1,832
December 11	1,855
December 18	1,872
December 25	1,878
January 1	1,880
January 8	1,887
January 15	1,894
January 22	1,895
January 29	1,895
February 5	1,892
February 12	1,893
February 19	1,885
February 26	1,867
March 5	1,806
March 12	1,764
March 19	1,736
March 26	1,708
April 2	1,662
April 9	1,634
April 16	1,607
April 23	1,586

Source: Work Projects Administration

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

	Number of Workers (In thousands)
1938	
July	3,053
August	3,171
September	3,228
October	3,346
November	3,287
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,926
June	1,665
July	1,701
August	1,691
September	1,704
October	1,779
November	1,821
December	1,878
1941	
January	1,895
February	1,867
March	1,708

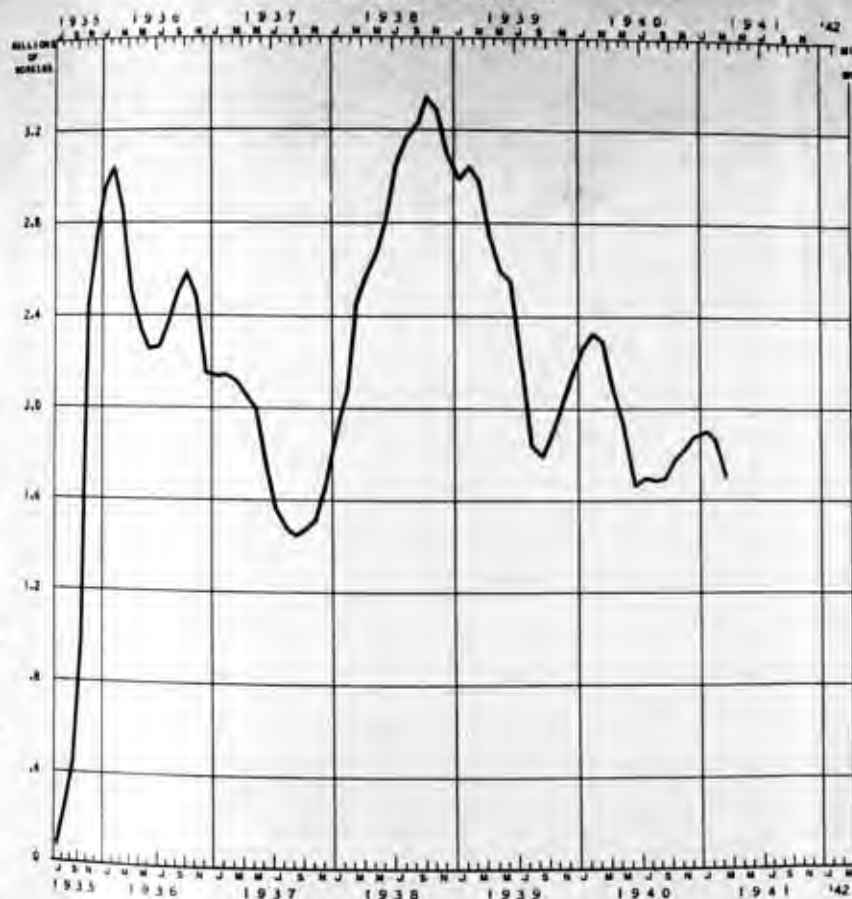
Source: Work Projects Administration

Monthly figures are weekly figures for the latest week of the month.

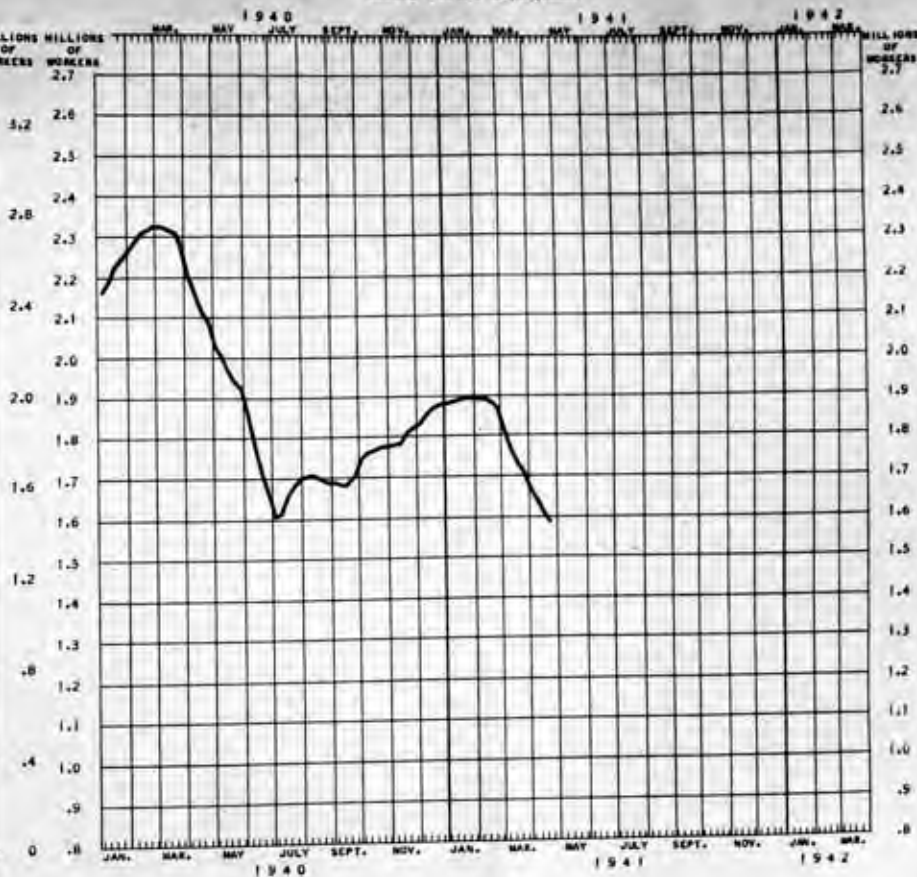
They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORK PROJECTS ADMINISTRATION

CONFIDENTIAL

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, May 5, 1941

TENTATIVE LESSONS BULLETIN
No. 100
G-2/2657-235

NOTICE

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

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THE 1941 GERMAN MOTORIZED INFANTRY DIVISIONSOURCE

This bulletin is based upon information received from an American official observer in Belgrade in April, 1941.

CONTENTS

1. G-2 COMMENT
2. DETAILED ORGANIZATION OF THE DIVISION
3. ARMAMENT AND EQUIPMENT

CONFIDENTIAL

CONFIDENTIALTHE 1941 GERMAN MOTORIZED INFANTRY DIVISION1. G-2 COMMENT

The transformation of the striking force of the German Army from an infantry-artillery force with tank and air support to a tank-air force with infantry and artillery support made surprisingly rapid progress during the winter 1940-1941.

The most recent indication of this trend of German military thought is the appearance of a 1941 model motorized infantry division. This unit can scarcely be termed a motorized infantry division in the American sense of that term; rather is it a cross between the old-style German motorized infantry division and the German armored division.

The 1941 organization is particularly distinguished by the following:

- a. A marked decrease of rifle strength in infantry units of the division;
- b. The appearance of light tanks in infantry regiments;
- c. The particularly large number of antitank guns on self-propelled mounts in all echelons.

The diminution of rifle strength in this new division is very marked. Where there were 27 rifle companies in the old division, there are only 12 in the new. Where the strength of rifle companies was about 4000, or 25% of the total strength of the old division, that strength is now about 2000, or 14% of the total strength of the new division.

Although rifle strength has been diminished, the few rifle units remaining have been given a strikingly increased number of supporting weapons. In the old German motorized infantry regiment, there were nine rifle companies and five supporting weapons companies. In the new regiment, there are four rifle companies and seven supporting weapons companies.

These supporting weapons companies vary in their composition, but they are generally classified as follows:

- 2 machine gun companies;
- 1 light tank company;

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- 1 infantry howitzer company of 75-mm. or 105-mm. howitzers on self-propelled mounts of a semi-tank character;
- 1 infantry howitzer company of 75-mm. howitzers towed behind prime movers;
- 2 antitank companies armed with 37-mm. or 47-mm. antitank guns mounted on self-propelled mounts of a semi-tank character.

The appearance of tanks in the German motorized infantry regiment is obviously a development of great significance. It must be interpreted as an effort to give the regiment offensive power which riflemen cannot develop alone. The inclusion of a tank company in each regiment, however, must be considered but a transitional solution. Many light tanks have become surplus in the German Army as a result of their replacement by medium tanks in Panzer divisions. It seems probable that a further increase in the tank strength of the motorized infantry division will take place by the spring of 1942.

Use of the self-propelled mount is another feature which deserves attention. Such mounts are provided for the following weapons:

- 75-mm. infantry howitzers;
- 105-mm. howitzers;
- 37-mm. antitank guns;
- 47-mm. antitank guns.

The trend towards placing infantry support weapons on self-propelled mounts must be accounted one of the most striking features of the new division.

The antitank strength of the new division is imposing when measured by standards existing in the armies of the world. There are in the division thirty-six 37-mm. antitank guns and sixty 47-mm. antitank guns, or a total of 96 antitank guns. In addition, 40 antiaircraft guns of various calibers are capable of antitank action in case of necessity. This antitank strength appears greater than that of a United States army corps.

The presence in the motorized infantry division of an antiaircraft battalion armed with machine guns of 15-mm., 20-mm., and 37-mm. caliber must be now considered normal German procedure.

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If the present German trend of thought is followed, a further increase of divisional antiaircraft can be looked for.

There are two possible explanations of the existence of this new type motorized infantry division. First, it may be intended by the Germans as a task force organization to work with the Panzer division as an integral element of Panzer corps or perhaps even Panzer armies. Second, it may mark a stage in the transformation of the infantry division into the Panzer division.

2. DETAILED ORGANIZATION OF THE DIVISION

The 1941 German motorized infantry division, which includes about 14,000 officers and men, is said to cover 26 kilometers halted and 110 kilometers on the march. Its detailed organization follows:

a. Motorized Reconnaissance Battalion:

2 armored car companies, each with 18 light armored cars and 6 heavy armored cars;

1 motorcyclist company;

1 heavy weapons company, composed of

1 infantry howitzer platoon of 75-mm. infantry howitzers,

1 antiaircraft platoon of 20-mm. antiaircraft machine guns,

1 pioneer platoon.

b. Three Motorized Infantry Regiments, each organized as follows:

Regimental headquarters;

Signal platoon;

1st Battalion, composed of

2 rifle companies,

1 machine gun company;

2nd Battalion, composed of

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2 rifle companies,

1 machine gun company;

3rd Battalion, accompanying weapons, composed of

1 light tank company of 15 to 17 light tanks,
Class II type, 9 tons,

1 assault artillery company of six to eight
75-mm. infantry howitzers or 105-mm.
howitzers on self-propelled mounts,

1 infantry howitzer company of eight 75-mm.
infantry howitzers towed behind prime
movers;

4th Battalion, tank destroyer, composed of

2 companies of 47-mm. antitank guns on self-
propelled mounts, or sometimes 1 company
of 47's and 1 company of 37's.

c. Divisional Antitank Battalion:*

2 companies of 47-mm. antitank guns on self-propelled
mounts;

1 company of 75-mm. antitank guns on self-propelled
mounts.

d. Divisional Antiaircraft Battalion:

1 company of sixteen 15-mm. antiaircraft machine guns;

1 company of twelve 20-mm. antiaircraft machine guns;

1 company of eight 37-mm. antiaircraft machine guns.

e. Division Artillery:

3 battalions, each of 3 batteries of 105-mm. howitzers;

1 battalion of 3 batteries of 150-mm. howitzers;

1 flash and sound ranging battalion.

*In a few divisions this battalion has been enlarged to
a two-battalion regiment. G-2.

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CONFIDENTIALf. Divisional Pioneer Battalion:

- 2 pioneer companies;
- 1 pontoon company of light and heavy pontoons.

g. Divisional Signal Battalion:

- 1 radio company;
- 1 telephone company.

h. Divisional Medical Battalion:

- 1 collection company;
- 1 hospital company.

i. Divisional Trains:

- 2 companies for gas and oil transport;
- 3 companies for ammunition and food transport;
- 1 company for motor vehicle repair and maintenance;
- 1 company for tank supply.

3. ARMAMENT AND EQUIPMENT

The armament of the division is as follows:

- 45 command liaison vehicles;
- 58 armored reconnaissance cars;
- 50 light tanks;
- 24 assault artillery vehicles - 75-mm. or 105-mm. howitzers on self-propelled mounts;
- 324 machine guns;
- 108 50-mm. and 81-mm. mortars;
- 26 75-mm. infantry howitzers;
- 36 105-mm. howitzers;
- 12 150-mm. howitzers;
- 36 37-mm. antitank guns;
- 60 47-mm. antitank guns;
- 16 15-mm. antiaircraft machine guns;
- 16 20-mm. antiaircraft machine guns;
- 8 37-mm. antiaircraft machine guns;
- 800 motorcycles;
- 2600 trucks and motor vehicles.

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G-2/2657-220; No. 383

M.I.D., W.D.

12:00 M., May 5, 1941.

SITUATION REPORTI. Western Theater.

Air: German. A very heavy attack was made on the Liverpool area on the night of the 3d-4th. The attack was repeated on a smaller scale last night while a primary effort was made against Belfast.

British. Normal attacks on the night of the 3d-4th against Cologne. The battle cruisers at Brest were bombed on the nights of the 3d-4th and 4th-5th. Considerable success with night fighters is claimed at Liverpool.

II. Mediterranean and African Theaters.

Ground: North Africa. The Axis attack on Tobruk appears to have slowed down as the result of strong British counterattacks.

The British report a successful mechanized raid in the Sollum sector.

Air: Axis. Continued attacks on Tobruk.

British. Harassing attacks in Libya.

III. Iraq.

Desultory fighting at Basra and Habbaniyah.

The R.A.F. is bombing out the Iraq air force at Baghdad.

Unconfirmed reports that the oil pipe line Mosul-Haifa has been cut. This is believed probable.

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**Paragraph of Code Schleggen
Received at the War Department
at 09:20, May 5, 1941.**

London, filed 13:35, May 5, 1941.

In answer to your several requests for information regarding the German 8-wheeled armored car, the following is submitted:

1. This is a standard German armored car, of which many are in operation. None is available at present for the United States Army.

2. Details of description are as follows:

Weight: 9 to 10 British tons

Length: 17.5 feet

Height: 9 feet

Ground clearance: 20 inches

Armor basis: 30-mm.

Crew: 4 to 5 (two drivers, one or two gunners and commander)

Armament: One 20-mm. gun, one heavy machine gun, one light machine gun

3. The engine is placed in the rear and is 90 to 100 h.p. The car has dual-steering fore and aft and eight-wheel drive. Maximum speed is 55 mph. Radius of action is 250 miles. Each car has radio sending equipment and an internal telephone system.

LEE

Distribution:

Secretary of War
State Department
Secretary of Treasury
Under Secretary of War
Armored Force
G-3
G-4

Chief of Staff
Assistant Chief of Staff, G-2
War Plans Division
Office of Naval Intelligence
Cavalry
Cavalry

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Paragraphs of Code Radiogram
Received at the War Department
at 9:05, May 5, 1941.

Ankara, filed May 4, 1941.

Near Pınarhisar a railroad bridge was blown up by the Greeks during the German attack. Also two railroad bridges over the Maritsa River. The appearance of the bridges near Edirne (Adrianople) indicates that the Turks helped in this, although they strongly deny having done so.

It is now agreed that the Germans will provide materials and the Turks will provide laborers for repairing the bridges. The Germans promise that they will make no use of the railroad line to bring either munitions of war or soldiers to Greek territory.

At present, freight is being sent by way of the Danube and Turkish freight is being given advanced priority. Stories are going about regarding a closing of the Russo-Turkish frontier, but meet with vigorous denials. I have good reason to believe reports reaching me to-day that the Germans have taken Mytilene. About 40 additional assistants have joined the German consulate at Istanbul during recent weeks, according to reports.

KLHNS

Distributions:

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

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Memorandum of Gale Hallgren
Received at the War Department
at 11:34, May 5, 1941.

Amere, filed May 5, 1941.

The following is contemplated distribution Turkish troops -

General area opposite Bulgarian frontier, one corps
plus one motorized mechanized division and a cavalry division.

Catalan line to about 30 miles east of Beja, four
corps.

In rear of Gallipoli Peninsula defense line, two corps.

The area to the southeast of Izmir, two divisions.

Except for the above changes other dispositions show little change.

The possibility of German attacks from captured Greek islands and
the Dodecanese and also in the Hengalish area by way of the Black Sea places
Turkey in a new trap in the opinion of the Attache. According to a reliable
source preparations are underway by Germany and Bulgaria for regular
shipping to Greece from Black Sea ports. The Germans have occupied Rhios
Island.

Although unofficial there is a good deal of critical talk regarding
the British and to a lesser extent about the United States for having given
encouragement to small nations to resist Germany and promising help which
never arrives as this leads to provoking the Germans.

KLING

Distribution:

Secretary of War
State Department
Secretary of Treasury
Under Secretary of War

Chief of Staff,
Assistant Chief of Staff, G-2
War Plans Division
Office of Naval Intelligence

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Paraphrase of Code Cablegram
Received at the War Department
at 9:19, May 5, 1941.

London, Filed 15:35, May 5, 1941.

1. British Air Activity over the Continent.

a. During the day of May 4 offensive patrols operated over Northeastern France; six medium bombers with fighter escorts attacked shipping in the harbor of Cherbourg; and in activity over the North Sea area sunk one Axis trawler.

b. Operations during the night of May 3-4 were as follows: 100 heavy bombers over Cologne, 9 heavy bombers over Rotterdam, and 34 against German battleships at Brest. Fighter planes were on offensive patrols over German airbases in Northeastern France. Two German planes are known to have been destroyed and two probable. Aircraft from the Coastal Command carried out raids on airfields and oil storage points in Southern Norway.

2. German Air Activity over Britain.

a. German activity during the night of May 4-5 was very extensive with principal attacks falling on Liverpool and Liverpool Bay, East Anglia, Yorkshire as far north as the Tyne River, Lincolnshire, and Belfast, as well as a few on London. As yet there are no reports on the damage from these raids, but it is thought to be heavy.

b. During the day of May 4 German operations over Britain were on a minor scale. There were a few small formations over Kent, one over Sheerness, one over Devon and Cornwall.

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a. The night of May 3-4, 395 German planes were plotted over Britain.

b. The day of May 3, 90 German planes were over Britain, and 400 fighters on defensive patrol along the west coast of German occupied territory.

3. Aircraft Losses British Theater.

a. During all of the operations on May 3 described above there were no British losses. Also, during the operations of May 4, there were no losses.

b. During the operations of the night of May 4-5, night fighters are known to have destroyed two German planes. One German plane was destroyed during the operations over Britain on May 4. Latest figures on German aircraft losses the night of May 3-4 are as follows: 12 known destroyed and 4 probable, 3 damaged by night fighters, 2 destroyed by antiaircraft fire, and one by balloon.

4. British Air Activity, other Theaters.

a. North African Theater.

British planes based in Egypt attacked Bengasi harbor, and landing fields at Derna, Gazalla, Derna Derna, as well as enemy shipping off Bengasi. Two German troop-transporting aircraft were destroyed and others damaged. In addition one ship was set afire.

b. Albanian Theater.

The Royal Air Force bombed motor transport concentrations and supply dumps around Gendar and Jaka Alagi. In this attack Free French aircraft crews flying English machines participated.

c. Italian Theater.

Royal Air Force planes attacked Italian troops and guns

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British airplanes (constituted of Baghdad), and dropped 20 tons of bombs on Iraqi troops and guns around Habbaniya airport. British have destroyed 26 Iraqi airplanes, which is approximately half the total Iraqi strength.

5. Air Air Activities, other Theaters.

a. European Theater.

There were small German attacks on Alexandria but no damage was sustained.

b. Mediterranean Theater.

Two airports and a dockyard at Malta were attacked by 40 German planes. Ten of these planes dropped parachute mines in the harbor.

c. Indian Theater.

Iraqi-Italian airplanes attacked the British at Habbaniya airport but no damage was sustained.

6. Air Losses, other Theaters.

a. There were no British losses suffered during their Iraqi attack.

b. In the German attack on Malta, one of their planes was destroyed and one damaged. In the Iraqi-Italian attack on the British at Habbaniya one plane was lost.

Following is a summary of information received from British Military Intelligence up to 7:00 a.m., May 5:

1. A British ship was attacked by a submarine 450 miles west of Ireland on May 4.

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2. The British counterattack at Tobruk was repulsed by Germans with tanks, machine guns and flame throwers. However, there were heavy German losses and few British. A British patrol destroyed a large Axis ammunition dump in the vicinity of Sallam.

3. The British operations in Abyssinia are progressing satisfactorily.

4. The total number of Troops evacuated from Greece is now 51,600.

5. At Hama (Amman?) Trans-Jordan, minor disturbances which have been dispersed are reported.

LEE

Distribution

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

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NEW YORK STATE COLLEGE OF AGRICULTURE
AGRICULTURAL EXPERIMENT STATION
CORNELL UNIVERSITY
ITHACA, NEW YORK

DEPARTMENT OF AGRICULTURAL ECONOMICS AND FARM MANAGEMENT

May 6, 1941

PERSONAL

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

Dear Henry:

I have gone over your testimony before the House Ways and Means Committee and the other material sent to me by George Haas. I have considered these problems with Pearson and while I can't give much constructive help I am giving you my comments below. I am sending a copy of this to George Haas and am sending him some more detailed suggestions for possible use by him.

I believe it is true that benefit payments to farmers have increased farm incomes only to the approximate amount of the dollars distributed by the government. All available evidence points to the correctness of this conclusion but I can't prove it absolutely.

The best argument against increased farm subsidies would be the great improvement in farm incomes since August 1939 and the promise of further improvement as long as a high rate of industrial activity continues and the trend of prices remains upward.

1. Most of the variation in total farm income arises from variations in the general price level.

2. Farm prices of farm products rise and fall faster than the prices of articles farmers buy, as is shown by the following changes in index numbers of prices from August 1939 to April 1941 (1910 - 1914 = 100):

U.S. farm prices of farm products 88 to 110,
up 25%.

Articles farmers buy, including interest and
taxes 125 to 129, up only 3%.

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3. The major price problems in agriculture at the present time are cotton and wheat. Prices of these products have increased from August 1939 to April 1941 and will rise further, but they are still low. Wheat, 64 ~~to~~ 86, up 34%, but still low. Cotton, 70 ~~to~~ 85, up 20%, but still low.

The corn belt, the dairy regions and most other areas are in reasonably good condition with prospects of further improvement. The most serious agricultural problem in the industrial regions is farm labor.

As you know, the hardest argument that you will have to meet is that of providing equality of treatment under the defense program between agricultural and city labor. I can't answer that one but it will be taken care of in due course if the general trend of prices continues upward.

I will be at the Hay-Adams Hotel in Washington for several days during the latter part of this week, over the week-end, and the early part of next week. Although most of my time will be taken up with committee meetings I will be free evenings, Saturday afternoon, Sunday, and Monday morning if there is anything that I can do.

With warm personal regards, I am,

As ever,



W. I. Myers

WIM:mn

cy - Mr. George Haas

May 6, 1941
9:30 a.m.

GROUP MEETING

Present: Mr. Thompson
Mr. Haas
Mr. Foley
Mr. Graves
Mr. Gaston
Mr. Kuhn
Mr. White
Mr. Schwarz
Mr. Cochran
Mr. Stewart
Miss Chauncey
Mr. Sullivan

H.M.Jr: Here is a letter from Mike Monroney.

Graves: I can give you a report on that. As I told you, the Post Office is not under the Post Office jurisdiction at the Capitol. House Post Offices are under Speaker Rayburn, and Senate Post Offices under a committee presided over by Senator Byrnes. The Post Office has no control over and nothing to do with the management of those offices.

They did make arrangements late yesterday, however, for those offices to put our stamps on sale beginning today. The question of whether bonds can be put on sale there at all is somewhat difficult, it not being a part of the Postal System. There will be

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special arrangements necessary. I think perhaps the best way to do it would be for us to send our own clerks there to act as our sales agents. I am to talk to the Speaker at eleven thirty this morning. I have already talked, as a matter of getting advice, with Senator Byrnes.

Senator Byrnes said that we ought not to take too seriously what this fellow said, that he doubts the wisdom of our doing this, although he sees no objection to our doing it on the basis of our sending our clerks there to handle it. It is obviously a matter that we will have to be a little careful about.

The Post Offices down there are patronage jobs and entirely different from our regular Post Offices. What we can do is entirely a matter of what they will permit us to do, but we will - I will take it up with them on the basis of our sending our own clerks down there, at least for a period long enough to tell what volume develops and whether it is worthwhile to go on with it.

H.M.Jr: Now, on that subject, I got a little restless this morning.

Graves: I see you did.

H.M.Jr: I don't know whether you know which one I am on.

Graves: Well, you sent me a note.

H.M.Jr: No. I called up Mr. Bell's office and said, "Who would normally report on sales of bonds and so forth?" And they said, "Mr. Heffelfinger," so I had Heffelfinger in here and I was surprised to learn that if the thing - there have been no steps taken, for instance to find out

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how many stamps had been sold through the Post Offices other than --

Graves: Well, that isn't right. If you were told that, that is wrong.

H.M.Jr: Well, you had better tell that to Heffelfinger.

Graves: I did tell him.

H.M.Jr: Have you told it to him since nine o'clock?

Graves: Yes, sir. I told it to him just before coming in here. Of course, Postal Savings Stamps are not our security, and we would not automatically get anything whatever on Postal Savings Stamps.

H.M.Jr: That is what he said.

Graves: We have to get that out of Post Offices. Where he misinformed you is to say that no steps have been taken to get that. We are getting telegraphic reports from the hundred largest Post Offices every day that show the sales of stamps.

H.M.Jr: Papa has never seen them.

Graves: I had that in my hand yesterday. I didn't want you to see them.

H.M.Jr: Before we go any further, I want to congratulate you on your speech yesterday.

Graves: Thank you.

H.M.Jr: It was very, very good. I enjoyed listening to it.

Graves: Thank you.

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H.M.Jr: All right. Handing me Mike's letter got me off. I meant to say that to you first.

Why not let's wait until Heffelfinger comes in at eleven thirty, see, and you come with him.

Graves: Fine. I think I would like to bring Mr. Reagh from Mr. Haas' office.

H.M.Jr: You know me by now. I keep poking until I get what I want, and I was riled onto it by the New York Tribune this morning.

Eleven thirty. Want to come in?

Graves: Yes, sir.

H.M.Jr: George had better come in himself because I am getting hot on this and I am not going to sit here and not get something.

Graves: Well, we have the facts, Mr. Morgenthau.

H.M.Jr: Well, even if the news is bad, I am old enough to take it. I am twenty-one.

Graves: My point is, I tried to say yesterday, that the lag between the time of the transaction and the time of the reporting by the Federal Bank is so great that the statistics we have don't show it.

H.M.Jr: Why doesn't Heffelfinger know about it?

Graves: Well, I think he does know.

H.M.Jr: He didn't know anything this morning. He didn't know any more than I did, which was nothing.

Graves: We are right on top of that.

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H.M.Jr: He is the man, isn't he?

Graves: No, Mr. Heffelfinger's people get only the cash receipts at the Treasury, and that is no index.

H.M.Jr: Let's at eleven thirty spend a little time on it.

George, you come in yourself. I serve notice on everybody, I am going to get this stuff.

Now, George, this memorandum which I want to go back in Haas' weekly report, on page seven, George, where you say, "In view of the current record"- this is in regard to - it shows that the price of cotton goods are up twenty-three percent. "It is strange that no change has been made in the Department of Agriculture surplus disposal program which includes subsidy payments on exports of cotton products."

Now, does that mean that their program on buying cotton goods is - has just continued just the same?

Haas: I based that on a very recent review of the Department of Agriculture cotton market. I assume it has. That is what they stated the other day when they put out their publication.

H.M.Jr: Well, why don't you call up the office of the Secretary of Agriculture and say in my behalf that we are interested in view of this abnormal increase in the price of cotton goods, what are they doing about it. I would like to know. I would like to know, see?

Haas: Yes, sir.

H.M.Jr: And what we can't understand, it looks on the surface as though they were going ahead just

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the same. In other words, that their thinking has remained static. They are still thinking in terms of five or six million bale export markets of cotton which we had a year or two ago, and they haven't adjusted themselves to the situation. Is that correct or is it wrong?

Haas: That is what it looks like.

H.M.Jr: Well, call up his office and ask for somebody in his office, will you?

Haas: I will be glad to.

H.M.Jr: Who is that assistant of his? Mr. Hamilton seems to get results there.

Haas: Hamilton, yes. I will talk to Hamilton.

H.M.Jr: Just tell him perfectly frankly that this is what you told me, are you wrong or what, see?

Haas: Yes, sir, I will do that. It looks as if they are just continuing on as they did before, irrespective of the new situation.

H.M.Jr: Harry, there is no reason why you and Coe can't have this. (Handing Mr. White memo from War Department to Secretary dated April 29.)

Evidently General Maxwell asked for what they were doing in England on economic control. It is quite interesting. But be sure and get it back to Miss Chauncey, tonight.

White: I will do that.

H.M.Jr: Please.

Did you (Kuhn) have a chance to reach the fellow at the Embassy?

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Kuhn: Yes, I did. I gave him your message, and he will let me know.

H.M.Jr: What I was thinking was, you see, I have given them two times, two fifteen and tonight. Well, if that General comes for dinner, then there is no reason why Professor Hall couldn't come at two fifteen; and if Professor Hall comes for dinner, then that other General could come at two fifteen.

In other words, I am giving them two spots.

Now, one other thing. One Merle Cochran very correctly sent me a very complete and full data of information which he receives from various sources about the English, and asks me very correctly, should he give this to one John Wiley.

Gaston: At this meeting yesterday morning, the decision was to ask what information - now, this isn't a question of his giving information to John Wiley, but information as to what information he is getting and the character of information he is getting and from what sources.

This meeting started by the Secretary of War, of which you designated me as a member, we discovered during the meeting that the purpose was to try to coordinate the dissemination of information about what is going on abroad, and so the only decision that was taken yesterday was to ask each member to come back at another meeting to report what were their sources of information, who in the departments was getting that information and what kind of information were they getting.

H.M.Jr: Well now, Herbert, am I not correct that you told me two or three times that this committee does nothing but sit around and fight over

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small jurisdictional --

Gaston: This committee has nothing to do with any committee that has heretofore existed at all. It is an entirely new thing as a result of a letter that was sent to you by Stimson and which you asked me to write a letter to Stimson designating me as the person to sit on this conference.

The purpose of the conference, as stated by Stimson, was to try to arrange a better method of dissemination of information, and the letter was rather vague as to the kind of information, but - and General Miles was also rather vague yesterday, but it seems that what they want is better dissemination and at the same time better protection of information coming from abroad as to the progress of the war.

H.M.Jr: This is what I am very glad to do. I am very glad to have Merle Cochran prepare a little statement which in the first half dozen instances I will edit; if we receive any information which we feel would be of use to these people.

Gaston: I think you have to exercise judgment.

H.M.Jr: As to my sources, I am not going to reveal them any more than they do.

Gaston: Well, it isn't only Merle Cochran, you know. There are several points in Treasury where we are getting information.

H.M.Jr: Well, whatever - wherever it heads up, I won't do it any more than they do it. I think this, that if we have something which we think is exclusive, I would be very glad after I pass on it to furnish it to them; but we get this information just for one reason, that these people trust us; and the President himself

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said there are only two places in Washington to keep information. One is in the Treasury, and the other is the Navy Department. He says they are the only two people who can keep any information.

Gaston: I don't know the origin of this thing. You got a letter from the Secretary of War. I don't know what is back of this thing or just exactly what they are reaching out for.

H.M.Jr: Why don't you tell them that any information we have reason to believe is exclusive and would be useful, we would be glad to give it to them from time to time, but we simply cannot reveal our sources. Don't put that in writing. Any more than the War Department - I got something I just sent to Merle Cochran. Here is a cable from Chungking entirely dealing with me on this Stabilization Fund; and the more pertinent parts of the cable, they have given it to me.

I have asked Merle whether he can go over there and read the cable and see whether they have or not. The whole thing deals with Chungking, the Generalissimo, the Stabilization Fund and the rest of it.

Gaston: Don't you think I had better talk to one or two people such as State Department people and see if we can't kill this thing, because the way the thing is set up now, it seems to be very poorly conceived.

H.M.Jr: All right. After all, you have got a meeting with General Miles, O.N.I., and Hoover and yourself and sit around a table, don't you?

Gaston: No, I attended a few meetings, but it doesn't happen any more.

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H.M.Jr: Well, that is the place where if you said, "Now look, boys, this and that and the other thing about the ships," about some particular stuff going around the country --

Gaston: That has nothing to do with this.

H.M.Jr: Well, I don't want to play unless you tell me I am all wrong.

Gaston: Well, I am inclined to think you are right. You designated me as a member of this conference and I came in here yesterday and heard their story.

H.M.Jr: Do you think I am wrong?

Gaston: There may be something that could be worked out to let people know things they ought to know, but I am doubtful about the ideas that Miles seems to have and that the Secretary of War seems to have, and it was altogether too large a meeting we had yesterday anyway. There were two people from Commerce and one man from the Office of Emergency Management and another one from National Research, Advisory Commission Research.

H.M.Jr: You know what the President has done. On information he gets from the War Department, he has limited it now to Harry Hopkins and me. Nobody else can have it. That is what he has done.

Gaston: I just don't understand the War Department starting this thing.

H.M.Jr: Well, I wonder if they know that General Watson personally is handling this for the President and that the President has issued orders that nobody should get it but Hopkins or me? Use the old bean, Herbert, and let me know.

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Gaston: I think it might be a good idea to get hold of Miles and maybe Berle and two or three people like that.

H.M.Jr: You might go over and have a heart to heart talk with General Watson. I am sure he doesn't know about this. At least he has called me three times on this.

Gaston: The chances are this thing may have originated with some subordinate over in the War Department.

H.M.Jr: He has called me three times last week about this thing, about the President wanting to keep the information secret. Just so that you know - you know there is an officer called Major Smith.

Gaston: Yes, I know who he is.

H.M.Jr: And he says the President is red hot on this keeping it confidential.

Gaston: Yes, I don't doubt he is.

H.M.Jr: So will you kind of --

Gaston: Yes.

H.M.Jr: O.K.? All right. Anything else?

Gaston: Are you starting in on me?

H.M.Jr: Yes, I have been doing a lot of talking. Twenty-one minutes I have talked.

Gaston: That is about the only thing I have. That is what I wanted to talk to you about was this particular thing.

H.M.Jr: All right. Mr. Foley?

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Foley: We ought to have a meeting on Stabilization.

H.M.Jr: Stabilization?

Foley: Yes, we have got to go down on Thursday.
Are you going to be away all day tomorrow?

H.M.Jr: Well, when are you fellows ready?

White: This afternoon.

H.M.Jr: What?

White: This afternoon, late. It hasn't cleared
through everybody yet.

H.M.Jr: Well, you are going to get the worst hour of
the day. I will give you four o'clock.

Foley: All right.

H.M.Jr: You bring whoever wants to come.

Foley: Well, I wasn't aware that you were going to
be here tomorrow.

H.M.Jr: All right.

Foley: We will be ready.

H.M.Jr: You had better. Professor Sullivan?

Sullivan: I would like the next to the last hour today.
(Laughter) I would like to show you the
statement I am going to give on excess profits.

Foley: Do it after ours.

Sullivan: Oh no, I will be ready before you and Harry
White are ready. I won't need an hour.

H.M.Jr: Fifteen minutes do you?

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Sullivan: Yes, fine.

H.M.Jr: Lucky for me.

Sullivan: Now, there was some talk of my testifying tomorrow, but I find out that Mr. Henderson and Mr. Eccles are going to testify tomorrow and I don't think it would be good judgment for me to be appearing with them.

H.M.Jr: Getting choosy, are you?

Sullivan: No --

H.M.Jr: Is Eccles showing you his statement?

Sullivan: No, and I haven't heard from Leon. I discussed this with Herbert and Ed yesterday afternoon, and they agree with me, that if I am up there with them testifying at the same time they are, it looks as though we are dividing things up.

H.M.Jr: Don't you think you ought to see their statements?

Sullivan: I think I ought to see Leon's. I don't know whether I should see Eccles' or not; and I am not so sure it would be good judgment to see Eccles', because he might very well say now, "I showed this to Mr. Sullivan." I can trust Leon, I am sure.

White: You have a copy of his tax program?

Sullivan: Yes, I have a copy of Eccles' tax program.

Gaston: Did you read his speech before the --

Sullivan: Yes.

Gaston: He endorsed the Treasury program.

Sullivan: Well, he has several wrinkles he wants to change.

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H.M.Jr: Oh, I suppose it is sort of undemocratic to call up and say, "Let's see it," if they don't volunteer it.

Sullivan: Leon did volunteer it, and I can call him and say, "You may have forgotten about it."

H.M.Jr: How did Leon react to O'Connell's --

Foley: I haven't talked to Joe since he saw Leon.

Sullivan: I will call Leon.

H.M.Jr: What else?

Sullivan: The bill is going along through a tremendous list of witnesses. They started testifying last Monday morning. They will go all this week and probably all of next week.

The testimony is all in favor of raising three and a half billion dollars; but in the industry represented by the particular witness, there is a peculiar situation and we hadn't ought to tax that particular industry, but they are very much less forceful than they have previously been.

Whenever a member of a committee asks them what substitute they had for a tax on that particular industry, then they are in trouble. I think they are getting along pretty well.

Now, on excess profits we have been working very hard on that. Mr. Stam and Mr. Chesteen were down yesterday, and the present proposal, which will produce more than the four hundred million suggested in our original schedule, is

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to reverse the credits.

Under the present law, the corporation income tax is figured first, and then that is a deduction for purposes of computing the excess profits tax.

We propose now to compute the excess profits tax first and allow that as a deduction for purposes of computing the corporation tax. Just that shift will produce about seven hundred million dollars extra.

Now, if we do that, the eight percent which is now allowed on invested capital as a credit is reduced to five and six tenths percent by merely shifting those credits.

I had Carl Shoup down last week-end, and he and Blough feel that that is altogether too small for new money, that you can't induce new money to go into a business if the top non-taxable return for excess profits tax purposes is five and six tenths percent; so they suggest that that be raised to ten, which with the shift, makes it seven percent and that is the status of our thinking at the present time.

H.M.Jr: How does it hit the so-called "war babies"?

Sullivan: We can't very well - now, for instance, that would mean that United States Steel instead of getting eight percent exempt from taxes would get five and six tenths percent.

Now, so far as really soaking them is concerned, we can't do that without soaking a lot of other invested capital people that we don't want to soak, but this would --

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H.M.Jr: Well, this is a new idea. I haven't assimilated it yet.

White: Could we all have a crack at that?

H.M.Jr: It is terribly important.

Sullivan: Certainly.

H.M.Jr: Are you committed to this?

Sullivan: No, sir, I am not committed to it.

H.M.Jr: I can't just - I would like to get some examples. It is the only way I can tell.

H.M.Jr: All right, I will get some for you.

H.M.Jr: When is this thing going to jell? Are you recommending this difference?

Sullivan: Am I recommending this to you?

H.M.Jr: No, are you going to recommend this to Congress?

Sullivan: If you approve it, yes, sir.

H.M.Jr: I can't approve it that fast.

Sullivan: Well, I can have some examples for you this afternoon.

H.M.Jr: Well, I have only given you 15 minutes. I didn't know anything like this was coming up.

Sullivan: I thought you asked--

H.M.Jr: You are not going on tomorrow anyway, are you?

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Sullivan: No, but if you are going to be away Thursday, I would like to--

Foley: No, tomorrow.

H.M.Jr: No, tomorrow forenoon. I will be back tomorrow afternoon.

Foley: You will be testifying Thursday morning.

H.M.Jr: Yes, but this is the first you have mentioned this, John.

Sullivan: That is right, and it was yesterday afternoon before we had any kind of a clear-cut understanding of what we could do.

H.M.Jr: Well, anybody who is interested in this thing is invited in here at 3:15; anybody of this group that is interested is invited in, and the only way I can understand a thing like this is to get some examples.

Sullivan: I will have them for you.

H.M.Jr: I just don't know.

Sullivan: I will have them for you.

H.M.Jr: It is too important, John. I can't take it that fast.

Sullivan: I am not trying to hurry you, sir.

H.M.Jr: You say you only had this - does Shoup recommend this?

Sullivan: Yes, and Blough.

H.M.Jr: Is he in town?

Sullivan: No, he was here Friday and Saturday. What

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Shoup would most prefer is a sliding scale of eight million - eight and a half--

H.M.Jr: Do you have to make recommendations on Thursday?

Sullivan: No, I can postpone it until Friday, I think.

H.M.Jr: Well, I am going to ask you to postpone it until I am satisfied and whoever else in Treasury here is interested is satisfied.

Sullivan: Yes, I will be very happy to have them look it over, sir.

H.M.Jr: You see, the fact that the bill was written so last year that these people - I can't think of any better name than the war babies - can make abnormal profits and the fact that we are not reaching them and are going to soak everybody else, and then you find - do what sounds like sleight of hand and still don't--

Sullivan: Oh, we reach them with this.

H.M.Jr: But you reach everybody else, too.

Sullivan: Yes, sir, we do.

H.M.Jr: Do you reach the companies like J. C. Penney and those companies that have very high returns?

Sullivan: We do, and this is the only way that we will be able to really cut into those fellows because this shift will really take a bite out of the "average earnings" company. Mr. Stam doesn't know that yet.

H.M.Jr: Well, I still say, let's go slow. You have

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got to sell me.

Sullivan: I can understand that.

H.M.Jr: And the rest, anybody else who is interested. Are you interested, Herbert? Anybody?

Gaston: Yes.

H.M.Jr: I am not going off half cocked.

Sullivan: I don't expect you to.

H.M.Jr: All right. What else?

Sullivan: That is all, sir.

Cochran: Sales of securities were a little bigger yesterday than they have been. Net about 500 thousand dollars. Seventy-seven thousand from Switzerland, eighty-three thousand from Canada, and a hundred and fifty-eight from Latin-America. That is principally Venezuela and Panama where the foreign set-ups are in existence.

I have that note from Secretary Knox that you mentioned. We did discuss it with Phillips the other day.

H.M.Jr: I wish you would tell Phillips for me to tell Morris Wilson to tell Lord Beaverbrook in diplomatic language, although he isn't so diplomatic, that I think this is what we call in America a bad bull. What Beaverbrook is supposed to be doing, according to Knox, he is setting up to - every time they give us any information he is setting a value on it which he is going to charge us for. If they get into that kind of business, it is just the height of stupidity. Now Lord

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Beaverbrook, when I wanted the Rolls Royce engine and said, "How much," he said, "You take it and build it, and after the war, if we win, then we will sit down and talk what the Rolls Royce engine is worth."

That is one attitude, and everybody was wonderful. And now every time they give us something, they are setting up something. They begin to do it here, and it is the beginning of friction which shouldn't exist, and if Phillips will tell Morris Wilson, who speaks to Lord Beaverbrook every night, and say I say it is just damned stupidity, and I want an answer so I can answer Frank Knox.

Cochran: The only thing, you might ask Ed if this quid pro quo draft envisages charges for information.

H.M.Jr: No, no, no. But if Knox and what's-his-name starts it, it is stupid. You can say for me to Phillips to Morris Wilson to Beaverbrook, I say it is just plain stupid. Use that word, will you please?

Cochran: All right.

H.M.Jr: I say it is stupid. It is just the starting of putting sand in the works, and Beaverbrook should be the last fellow to do it. He understands that kind of language. And cite the Rolls Royce thing. That was a magnificent gesture.

Foley: Well, under the quid pro quo, don't you think that we ought to wipe off the books the two million dollars that has been set aside in the budget to cover any possible payments to Great Britain for the Rolls Royce patents and royalties? In other words, instead of carrying that two million dollars there indefinitely, it seems to me that when

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we execute this quid pro quo agreement, we can take into consideration that two million dollars, and then wipe it off our books.

H.M.Jr: But that doesn't pay the Rolls Royce Company. Where does that leave the Rolls Royce Company in England?

Foley: Well, that is between Great Britain and the Rolls Royce people. That would wipe off the indebtedness between the United States and Great Britain. That is all that two million dollars was for.

H.M.Jr: I don't think we should take that initiative.

Foley: You mean you would rather leave the two million dollars?

H.M.Jr: I would rather leave it on the books, and say, "If you want two million dollars, we are ready." That isn't information.

Foley: No, those are patents and royalties.

H.M.Jr: No, I wouldn't do that. I wouldn't make any move at this time in any way to make the English suspicious that we are getting down to using an adding machine on them any more than I want them to do it on me, see. Don't you agree, Ferdie?

Kuhn: They are not in the state of mind for that.

H.M.Jr: And if Frank Knox gets this thing in his mind, well, then he is going to begin holding back. It is just plain stupidity if it is true, and they ought to get me an answer back just as soon as possible.

Cochran: All right, sir.

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H.M.Jr: I would use the word, just plain stupidity.

Foley: The Budget keeps calling up Norman Thompson and asking about that two million dollars.

H.M.Jr: Well, that would look as though we didn't want to pay them. The gesture was a good gesture. I would leave it that way unless they want to raise it.

White: In any case, it antedated the Lend-Lease Bill.

Foley: Yes, but there is two million dollars frozen over there which could be used - it is in the President's emergency fund and it could be used for a number of purposes, and they would like to put it out of there and put it over on the lend-lease thing. It is a two million dollar credit that the British have got.

H.M.Jr: But that is cash. I would leave it - let's wait - look, when I get my answer from Beaverbrook, let's see what he says, because he may say, "Well what about that two million dollars?"

Foley: All right.

H.M.Jr: Because I am referring to it, you see. When we got the Rolls Royce thing, he said, "Now, we will talk about that when the war is over, if we win." Will you do that?

Cochran: Yes, sir.

H.M.Jr: Today?

Cochran: Yes.

H.M.Jr: Tell him I would like a prompt answer.

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Cochran: Yes, sir.

H.M.Jr: Walter?

Stewart: Nothing.

H.M.Jr: If you are interested in that tax thing, come on in.

Stewart: Three fifteen?

H.M.Jr: Yes. You ought to be interested. You are always interested in new money in business.

Foley: What time is Stanley coming in?

H.M.Jr: Three thirty.

Foley: Well, it is all in there.

H.M.Jr: George?

Haas: You wanted some figures--

H.M.Jr: I told Philip Young this morning positively no on Lindow.

Haas: Thank you. You wanted the figures on the four-engine bombers.

H.M.Jr: Just stay behind a minute.

Mr. Schwarz?

Schwarz: Harold's speech was so good that I kept the same radio station on and about midnight the Senate Beer Reporter said that you indicated you were - you may have to abandon your two thirds-one third ratio, so I called him and he said he got it from INS, and I called them and they tried to defend it, and by good fortune I had a copy of the transcript

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of the press conference, and they said they would fix it.

H.M.Jr: If anybody said anything to the opposite, I didn't.

Schwarz: Cliff Berryman is sending up an SOS, the cartoonist. He said his cartoon of you shaking the tax payer for three and a half million - he said he promised that to Vice President Wallace, and our enthusiasm caused him to give it to us and forget about it. He would like to trade the original and autograph a copy for you.

H.M.Jr: Well, he has been so nice that - I don't want anything but originals. He can have it back.

Schwarz: We have a catalog now of them.

H.M.Jr: Give it back to him because if I begin to take photostats--

Schwarz: This is a photograph.

H.M.Jr: We may get mixed up, and we won't know which is the original. I only want originals.

Schwarz: It looks almost the same.

H.M.Jr: But he has been so nice. Sure, by all means, let him have it back.

Schwarz: Thank you.

Here are a few stories if you want to see them.

H.M.Jr: Thanks, what else?

Schwarz: Nothing.

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H.M.Jr: Harry?

White: I have nothing.

H.M.Jr: You were to give me a rewrite yesterday on that letter on the Mediterranean Basin thing.

White: I sent it in last night, I guess possibly after you had gone. I sent it in to Miss Chauncey.

H.M.Jr: It was to the President.

White: I told Mrs. Shanahan to bring it in in person, so I know she brought it, but it may have been after you had gone, Miss Chauncey.

Chauncey: I will check on it after I get back.

H.M.Jr: Anything else, Harry?

White: No, sir.

Graves: I told you yesterday that Mr. Bruere had been sick ever since he had been designated. I thought perhaps you would like to sign a note to him.

H.M.Jr: Sure. He felt awfully badly about missing out. I call him Henry.

Graves: Ferdie spoke to me this morning of your interest in our doing an opinion poll on the bonds. That is something we have had under discussion before. We have been in touch with Hadley Cantrel up at Princeton who has offered to do this thing, and if you would like to have us go ahead, we can work it out.

H.M.Jr: Ferdie Kuhn told me it had been going for about three weeks.

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Kuhn: I was wrong on it, because I had seen the questions which Hadley Cantrel had submitted to us for revision, and I assumed the thing was rolling, but Harold has brought me up to date and is now bringing you up to date.

H.M. Jr: Let me explain what I want, you see. I don't know what - this is what I would like to get. We are doing a number of things, you see, and just like any commercial product - because that is what the Gallup Poll started on, and they did it for us on the baby bond thing. They tested for us. I mean, we are doing certain things. For instance, how many of the public are we reaching by radio, and after they listen to the radio, do they go and buy a bond or a stamp? Do you see what I mean? How many were influenced by the President's talk? How many of them are influenced by these posters, you see? How many of them never heard of the thing at all? And then if possible, if you could do this, if it isn't too expensive, what kind of people are we reaching on the radio? I mean, is it the farmer, the banker, the butcher, and the candlestick maker, or which one of those people are we reaching and which aren't we, and the same thing on the posters. In other words, I would like the - which of our efforts are resulting in sales, and then what kind of people are buying and what kind of people aren't we reaching at all. I mean, that is the beginning that I would like to have, do you see?

Graves: Yes.

White: Is that the type of question that the Gallup Poll asks? I didn't think they asked that kind.

H.M. Jr: Harry, Dr. Gallup is associated with a com-

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mercial advertising agency in New York.

White: You have to pay for that, then.

H.M.Jr: Sometimes we do, sometimes we don't.

Graves: I don't think we will have to pay for it if we will allow them to publish the results.

White: Because Odegard asked us to suggest some questions, and we drew up a page of questions, but they were entirely different. I didn't think they would ask this kind.

H.M.Jr: I was surprised when what's-his-name told me last night that this was done, but he is the vice president of some agency and his business is when this agency is selling Ivory Soap or Camels, to go out and test the advertising to see whether it is good or bad. Who they reach and who they don't. Then when they find what they are not doing, they change it and that is the way this business started; and from that got into public opinion, but his business is bread and butter. It isn't from the newspapers that he sells, but he is serving these commercial advertisers as to testing the kind of advertising, where it is profitable and where it is not.

White: I didn't know that.

H.M.Jr: Yes. And you will find he is vice president of - or president of - do you know which agency he is connected with?

Kuhn: No.

H.M.Jr: But that is his business, and this other thing is simply a by-product. I would imagine if he broke even on that, he would figure

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the publicity he gets is worth it, but I think you will find his bread and butter comes from this commercial advertising.

White: I see.

Graves: Our approach to this, as a matter of fact, was made to the university and not Gallup.

H.M.Jr: I am thinking of Gallup in the sense of a man who is connected with commercial advertising. I remember you asked Sloan on his own. He took my ads and went out on the street, and he said, "I think you would like to know, Mr. Morgenthau, that your ads that you are running in the Saturday Evening Post are as well received and get as much results as Ivory Soap." We classify them weekly, advertisements that are as good as that, and that is where I got the idea from. It isn't any--

White: It floats.

H.M.Jr: But he says there is no charge. "I was just curious to know how good were your ads, so I went out and tested them for you."

Graves: You would like us to go ahead with it?

H.M.Jr: Oh, I think it is terribly important. If he doesn't want to do it, the man who does it for Fortune--

Graves: Donald Roper.

H.M.Jr: I would rather have him do it.

Graves: Rather have Roper do it?

H.M.Jr: Yes.

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- Graves: Wouldn't you think it might be wise to wait a few weeks until this thing has taken hold a little better? At this point, I think you--
- H.M.Jr: Until you get it organized. Ask their advice. How soon after they start an advertising campaign do they begin to test?
- Graves: What I meant was that you get one reaction today, and you might get entirely a different reaction the 25th of this month.
- H.M.Jr: Well, it takes a while until you get the correspondence. Certainly on the President's talk and on the beginning you would get the - you would get an answer on May 1.
- Graves: I thought it might be an answer that wouldn't do us as much good.
- H.M.Jr: Try it. I am quite keen about it. So I mean don't wait. Please start it, will you, Harold?
- Graves: Yes.
- H.M.Jr: And I would rather do it with Roper than I would with Gallup.
- White: I don't think Chick Schwarz' bon mot should go unheard. He says it is good for Ivory Soap and it is just as good for baby's skin. I think it is pretty good. Think about it. Baby bonds are just as good--
- Gaston: Ivory Soap is good for the baby's skin?
- White: It is terribly tough to explain a joke. I am sorry.
- H.M.Jr: Well, I am afraid the trouble is that it is

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a dirty joke and it doesn't go well with Ivory Soap.

White: Delete the record.

Schwarz: Ever since I have had children, I forget about dirty jokes.

White: If it wasn't for dirt, Ivory Soap wouldn't amount to much.

Thompson: Mr. Sayre, the Philippine High Commissioner, would like permission to appoint Stewart McDonald, a member of the Processing Tax Board of Review, as legal adviser to his staff. We will probably be requested by Mr. Doughton to fill the vacancy. I don't know whether Mr. Sullivan has anyone in mind or not, but I will talk to him.

Sullivan: I don't know about that.

Thompson: I tried to tell you last night.

H.M.Jr: Don't let Bob Wagner know.

Sullivan: I have to take care of my landlord.

H.M.Jr: Who is that?

Sullivan: Sayre.

H.M.Jr: Oh! Anything else?

Thompson: I would like to stay about 10 minutes.

H.M.Jr: All right.

May 6, 1941
2:52 P.M.

Operator: The Postmaster General.

H.M.Jr: Hello.

Frank Walker: Hello, fellow orator.

H.M.Jr: How are you?

W: All right, how're you?

H.M.Jr: I didn't know when you were coming back or I'd have called you.

W: You came over very clearly, Henry.

H.M.Jr: So did you.

W: Yes. One can't tell themselves. You have to - You were good.

H.M.Jr: Yes.

W: You went over very nicely, Henry.

H.M.Jr: We got lots of compliments on the three of us.

W: Did the speech in Des Moines work in without any interruptions?

H.M.Jr: Oh, it was right on the tick.

W: Your opening and then your introduction following mine came very clearly out in Des Moines.

H.M.Jr: It was right on the tick.

W: Are you satisfied with the way it's going?

H.M.Jr: I think it's going fine; we've had to order twenty million more of those books. I asked you to order them. While we haven't had many reports yet I think ~~everything~~ is going fine. They tell me that the post offices are doing everything that we could ask for, for which I thank you.

W: Yes. They all seem to be interested out in the field. I was in Des Moines; then I made the first

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sale out in Kansas City the next morning,
you know.

H.M.Jr: I know you did.

W: We have six and a half million in bonds
and a million, one twenty in stamps up to
last night.

H.M.Jr: Is that right?

W: Yes.

H.M.Jr: Well, I think it's fine. It's going to be
a long hard road, Frank - just for a day or
two, you know.

W: Well, I just thought I'd call up

H.M.Jr: I can't tell you how much I appreciate
your help.

W: Fine, Henry.

H.M.Jr: Thank you.

W: So long.

May 6, 1941
3:29 P.M.

H.M.Jr: Hello.

Operator: Mr. Sproul.

H.M.Jr: Hello.

Allan
Sproul: Hello, Mr. Secretary.

H.M.Jr: Hello, Allen?

S: Yes.

H.M.Jr: What are you doing for a living?

S: Not much. I'm working for you, though.

H.M.Jr: Well, that's something.

S: I saw your statement in the paper this morning that your reporting system wasn't very good.

H.M.Jr: That's right.

S: I wondered if we were falling down on the job any place and could tighten up for you.

H.M.Jr: Well, I tell you. If you don't mind talking with Harold Graves, I think the fault is ours because we haven't asked for what we wanted.

S: I see.

H.M.Jr: And I said so at my press conference.

S: Well, we might have suggested something else also.

H.M.Jr: He put George Haas on it and they're working and they got, as a matter of fact they just brought in a telegram which either has or will go out in the next ten minutes to Federal Reserves.

S: I see.

H.M.Jr: But I'd like to switch you over to Harold Graves who is in charge of this campaign; but the fault is not yours, it's on us because we didn't ask for the information which we need.

S: What are you proposing to do in the future on

information? These newspaper men are - and some of the people in the market - well the newspaper men of course will ride you constantly for -

H.M.Jr: Well, what we are asking for, what we are going to ask for in the telegram is that Wednesday, up to Wednesday in each week, that the Federal Reserve collect this stuff for us, so that I can have it by the following Monday.

S: Yes.

H.M.Jr: See?

S: I think that any oftener than that would be out of the question; that is not from the standpoint of doing it, but unnecessarily keep the market on their qui vive as to what happened yesterday and what's happening today.

H.M.Jr: Once a week, that sound all right?

S: I think that's plenty.

H.M.Jr: And we'll try to do the same with the Post Office.

S: Yes.

H.M.Jr: But cut the week off on a Wednesday night and try to get the information in here to me by Monday.

S: I think that makes a good program and once that's been announced I think they'll quit bothering you for daily information, or after the post offices, figures which really mean nothing.

H.M.Jr: The fault is the Treasury's because we weren't smart enough to ask for it; but everybody has been rushed around here.

S: Yes, sure.

H.M.Jr: But no reflection on you.

S: Well, I wanted to tighten up if we had slipped any place.

H.M.Jr: Well, as I say, the telegram either has or

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will go out in the next ten minutes.

S: Fine.

H.M.Jr: Just a minute, I'll switch you to Harold Graves.

S: All right, thanks.

H.M.Jr: Please.

Operator: Operator.

H.M.Jr: Hello, will you give Mr. Sproul to Mr. Harold Graves, please?

Operator: Surely.

H.M.Jr: Thank you.

May 6, 1941
4:07 P.M.

H.M.Jr.: Hello.

Operator: McReynolds

H.M.Jr.: Hello.

William S.
McReynolds: How are you, sir?

H.M.Jr.: Hello, you old so and so. How are you?

M: I'm pretty good, thank you.

H.M.Jr.: Yes. That's what you say.

M.: Yes.

H.M.Jr.: How are you?

M.: I feel fine.

H.M.Jr.: Good.

M.: Swell.

H.M.Jr.: Want to borrow some money?

M.: No.

H.M.Jr.: Be good for you.

M.: I want to congratulate you on your assistant's speech on the radio last night. I thought he did a swell job.

H.M.Jr.: Didn't he do a good job?

M.: It was a good speech too.

H.M.Jr.: He's a good man.

M.: You bet he's good.

H.M.Jr.: All of these ex-post office inspectors are good.

M.: What I called you for was Bishop Wright, the president of this negro university --

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H.M.Jr.: He's too late, we got two other negros already.

M.: Oh, you have.

H.M.Jr.: Yes.

M.: All he wanted to do was to just put himself in line to give any help he could on your bond campaign.

H.M.Jr.: For your information, we checked this fellow with the Spingarn organization.

M.: Yes.

H.M.Jr.: He doesn't check too good, Mac.

M.: Doesn't check.

H.M.Jr.: No, we got --

M.: I didn't know anything about him except he got through that university out there --

H.M.Jr.: Well, we got two negros who are really first class.

M.: Yes, I knew you would want somebody and before I'd send him any place else --

H.M.Jr.: No. He's been running a regular campaign on it.

M.: Oh, he has.

H.M.Jr.: Yes. I suggest that he help OPM. (Laughs)
All right, Mac. Hope to see you soon.

M.: OK.

H.M.Jr.: Take care of yourself.

M.: Thank you.

H.M.Jr.: Good bye.

DEPOSITS IN TREASURER'S ACCOUNT FROM SALE OF UNITED STATES SAVINGS BONDS (ALL SERIES)

(In Thousands of Dollars)

(Based on Telegraphic Reports)

	<u>MAY 1</u>	<u>MAY 2</u>	<u>MAY 3</u>	<u>MAY 5</u>	<u>MAY 6</u>	<u>MAY 7</u>	<u>MAY 8</u>	<u>MAY 9</u>	<u>MAY 10</u>	<u>TOTAL TO DATE</u>
Treasury	58	27	36	31	30					182
Boston	23	177	37	2,127	1,959					4,323
New York	511	2,128	683	1,336	1,292					5,950
Philadelphia	201	182	216	246	1,121					1,966
Cleveland	955	246	942	1,158	2,467					5,768
Richmond	163	234	289	292	1,021					1,999
Atlanta	121	305	174	1,317	523					2,440
Chicago	457	634	740	1,233	585					3,649
St. Louis	534	804	1,822	1,538	505					5,203
Minneapolis	150	567	73	238	569					1,597
Kansas City	695	876	388	863	827					3,649
Dallas	271	157	429	271	824					1,952
San Francisco	<u>312</u>	<u>572</u>	<u>534</u>	<u>687</u>	<u>259</u>					2,364
TOTAL - - -	4,451	6,909	6,363	11,337	11,982					
Cumulative Total	4,451	11,360	17,723	29,060	41,042					

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

May 6, 1941.

TO Secretary Morgenthau
FROM J. J. O'Connell, Jr.

For your information

The regular weekly meeting of the Price Administration Committee was held in Mr. Henderson's office at 11 o'clock this morning. All the agencies which are members of the Committee were represented. Mr. Knudsen was there for the first time.

Mr. Henderson told the Committee that he is going to appear before the Ways and Means Committee tomorrow morning to discuss some phases of the tax bill. It is apparently his intention to take exception to some of the Treasury's excise tax proposals, on the ground that they bear too heavily on the small consumer. He also feels that the heaviest excise taxes should be imposed upon articles the consumption of which we wish to curtail as an aid to the defense program. For example, he would have a high excise tax on automobiles, frigidaires, oil burners and other similar articles in order that consumer expenditures might be diverted into lines which do not cut across the defense program so directly. He pointed out the desirability of curtailing the production of these articles in order to conserve aluminum, steel, and other articles needed for defense. He mentioned the fact that there will probably be a shortage in fuel oil next Fall and that curtailment in the production and sale of oil burners would be one way of anticipating such a shortage.

As has happened at other meetings, the problem of ocean transportation was adverted to time and time again. The representative of the Federal Loan Agency stated that efforts are being made to have all trans-Pacific shipments, both government and private, unload at West Coast

Secretary Morgenthau,

2.

ports, inasmuch as doing this would save thirty to thirty-five days for a ship carrying material the ultimate destination of which is in the East. It was pointed out that diverting ocean travel to land travel via the railroads will probably result in a bottleneck in the railroads themselves, since they are admittedly not in condition at this time to handle greatly expanded traffic.

Commissioner Pike made an interesting suggestion with reference to the transportation problem. He suggested that in a period of four or five months pipe lines, both for oil and natural gas, could be constructed from the oil fields in Texas and Oklahoma to eastern points. It was his idea that by so doing you would alleviate several pressing problems, among them being the ocean and land transportation problems. He pointed out that to the extent oil and gasoline move by pipe line they lighten the burden on tankers and the railroads, and that to the extent natural gas is piped to the industrial centers of the East, it reduces the necessity for transporting coal and at the same time utilizes a natural resource which is at present going to waste at the rate of two billion cubic feet per day. Apparently the main resistance to such a proposal comes from the railroad people and the coal people. The subject did not get beyond a very general discussion.

Reference was made to the fact that rubber consumption is up about 50 per cent over normal and that while we have an adequate supply for a reasonable period, it will not last long unless consumption is curtailed or productive capacity for synthetic rubber developed. Here again the problem is largely one of transportation inasmuch as there is plenty of rubber in the Far East available at a reasonable price, if the shipping facilities were only available to bring it here. Mr. Knudsen stated

Secretary Morgenthau,

3.

that in his opinion every rubber company in the country should have a plant for the production of synthetic rubber. He expressed some impatience about what has been done in this regard so far, referring to it as being a "miniature" program.

Mr. Henderson also reported on progress being made in connection with the textile industry. He said they had held meetings with the cotton yarn people and that in all probability a schedule of prices will be worked out and suggested in the near future. He expressed himself as believing that the price situation in that industry has eased somewhat.

Before the meeting I talked with Mr. Henderson about the problem of channeling the flow of capital funds. I told him what we have done in this regard and showed him a copy of the Executive Order which was drafted last month. I explained to him that we were anxious that he be completely informed as to all this and that we did not want any crossing of wires. He expressed himself as being entirely willing to go along with us, and indicated that he had not made any plans to move into that field. He did say that he could see no present necessity for affirmative steps to control the flow of capital funds, inasmuch as there is no shortage of capital. I pointed out that it did not seem to me the problem was so simple as it is important that capital funds not be expended in ways that cut across the defense effort, by using either men or materials needed for the defense effort. He said of course that he realized that and would discuss the matter with me later.

Joseph J. Connell Jr

MEMORANDUM

171

FROM British Supply Council 5/6/41

TO Mrs. Helen S. Klotz

Compliments of Mr. E.N. Gray

STATEMENT NO. 13

172

AIRCRAFT SHIPPED TO U. K. & OVERSEAS COMMANDS

	DESTINATION	ASSEMBLY POINT	By Sea during week ending April 12 1941	By Air during week ending May 3 1941
<u>WITTENBERG</u>				
Comet	M. E.	Takoradi	15	-
<u>CONSOLIDATED</u>				
24	U. K.	U. K. (via. Gander)	-	1
Catalina	U. K.	U. K. (via. Bermuda)	-	1
Catalina	F. E.	F. E. (via. San Diego)	-	1
<u>DOUGLAS</u>				
Boston III	U. K.	U. K.	10	-
<u>LENN MARTIN</u>				
Maryland I	M. E.	Takoradi	5	-
Maryland I	M. E.	Alexandria	5	-
<u>LOCKHEED</u>				
Hudson III	U. K.	U. K. (via. Gander)	-	1
Hudson V	U. K.	U. K. (via. Gander)	-	1
Hudson V	U. K.	U. K.	36	-
Hudson V	New Zealand	New Zealand	3	-
<u>NORTH AMERICAN</u>				
Harvard II	New Zealand	New Zealand	27	-
TOTALS			101	5

British Air Commission
May 6, 1941

IS

GRAY

BERLIN

Dated May 6, 1941

Rec'd 11:10 a.m.

Secretary of State

Washington

1741, May 6, 9 a.m.

My 1273, May 5, 9 a.m.

FOR TREASURY FROM HEATH.

According to the Reichsbank's statement for April 30 investment holdings totaled 16187 million marks (commercial and treasury bills 15645; eligible securities 22; collateral loans 32; and miscellaneous securities 488) compared with 15123 million marks on April 23 and 15775 million marks on March 31. During the first three weeks of April the Reichsbank's investment holdings had decreased by only 652 million marks, whereas there had been an increase of 1402 million marks during the last week of March so that a normal increase during the last week of April resulted in a new record for total investment holdings. Miscellaneous assets also increased during the last week of April from 1015 to 1160 million marks compared with 1246 million marks on March 31.

The circulation of Reichsbank notes reached a new record of 14689 million marks as compared with 13558 million

-2- 1741, May 6, 9 a.m. from Berlin.

million marks on April 23 and 14188 million marks on March 31 which had also been a record figure. Sight deposits stood at 2006 million marks on April 30 compared with 2055 million marks a week earlier and 2127 million marks on March 31.

(*)
During April there has thus/and note circulation than in recent months. Note circulation increased by 501 million marks during April as compared with an average monthly increase of roughly 170 million marks in the preceding twelve months, 282 million marks in February and 212 million marks in March.

MORRIS

WSB

(*) Apparent omission

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PLAIN

TOKYO

Dated May 6, 1941

Rec'd 2:20 p.m.

Secretary of State,

Washington.

645, May 6, 10 p.m.

The Cabinet Information Board issued this afternoon the following announcement regarding the Convention of Establishment and Navigation and the agreement concerning customs tariff, trade, and methods of payment signed at 4 p.m. today by Foreign Minister Matsuoka and Ambassador Hajime Matsuoka representing Japan and Ambassador Arsene Henry and Chief Delegate Rene Robin representing France:

"Contents of the Convention and the Agreement:

The Convention of Establishment and Navigation provides for the reciprocal treatment of nationals and vessels of the two parties. It stipulates that Japan and French Indochina will reciprocally accord national treatment in the main or the most-favored-nation treatment as occasion demands concerning the entry, the establishment, the acquisition and possession of movable and immovable property, the exercise of commerce and manufacturing industry, the imposition of taxes of various kinds and the treatment

-2-

treatment of companies. Concerning vessels of the two countries, it also provides that they will be treated in principle on an equal footing.

An agreement concerning the customs tariff, trade and the method of payment is a voluminous one consisting of thirty articles and annexed documents, and contains the following provisions:

Regarding the customs tariff, the two parties agree to accord mutually the most-favored-nation treatment. Besides, French Indochina agrees to afford the advantage of the exemption of customs tariff or the reduction of the existing minimum customs tariff to the principal products of Japan and to levy the minimum tariff on all other Japanese products: and Japan, in turn, agrees to accord the privileges of favorable customs tariff to the principal products of Indochina.

As regards trade, provisions have been made, with a view to increasing the trade between the two countries for the exports to Japan of rice, maize, coal, minerals and other principal products of French Indochina, and for the export to French Indochina of textiles, other manufactured articles and miscellaneous products of Japan.

With regard to the method of payment, commercial payment between Japan and French Indochina is based on the principle of compensation, and its settlement is made in the yen and the piastre directly through the intermediary
of

-3-

of the Yokohama Specie Bank and the Bank of Indochina, dispensing, thereby, with the exchange of foreign currency. Moreover, French Indochina agrees to afford special favor with respect to the payment for Indochina rice purchased by Japan.

An agreement of views has also been reached with regard to the questions of admission of Japanese commercial firms into the federation of importers and exporters in French Indochina, the participation of Japanese capital in agricultural, mining and hydraulic concessions in French Indochina and the institution of periodical economic conference for the examination of general economic questions between Japan and French Indochina."

GREW

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DEPARTMENT OF STATE

WASHINGTON

In reply refer to
EA 811.20 Defense (M)/1862

May 6, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of a paraphrase of telegram no. 45 dated April 30, 1941 from the American Consulate, Saigon, regarding a shipment of rubber destined for Europe via Russia, which is reported to have been paid for in United States dollars.

Enclosure:

No. 45, April 30,
from Saigon.

C
O
P
Y

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Saigon.

DATE: April 30, 1941, noon.

NO. : 45.

Please see this Consulate's 39 of March 18, 4 p.m.

Reliable information has been received to the effect that the Japanese merchant ship Saigon Maru (which is now at this port) is taking on a cargo of six thousand tons of rubber which is believed to be destined for Europe via the U.S.S.R. According to my informants this shipment is being paid for in U.S. dollars, which payment has already been received. Latest reports would indicate that Union Commerciale Indo-Chinoise et Africaine is the exporter.

FLOOD

RA:MSG

No. 2372

Buenos Aires, May 6, 1941

Sent by airmail May 8.

VISIT OF WARREN L. PIERSON TO BUENOS AIRES;
UNITED STATES LOANS TO ARGENTINA

STRICTLY CONFIDENTIAL

The Honorable

The Secretary of State,
Washington.

Sir:

I have the honor to inform the Department that Mr. Warren L. Pierson, President, of the Export-Import Bank, arrived in Buenos Aires by plane from Chile on the afternoon of Saturday, April 19, and departed for Brazil on May 2. On the morning of April 26 Mr. Pierson left for Asuncion and returned here on the afternoon of Thursday, April 24, the return arrival of his plane having been delayed some 24 hours due to bad weather.

A luncheon was arranged at the Embassy on Thursday April 24 for Mr. and Mrs. Pierson, to which the Minister of Finance, the Presidents of the Bank of the Nation and the Central Bank, the Under Minister of Finance and others were invited.

On the afternoon of April 25 I accompanied Mr. Pierson on a visit to the Minister of Finance. The call was made at Dr. Acevedo's request. Prior to our talk with the Minister we were received by the Under

-3-

Minister. Dr. Irigoyen told Mr. Pierson that their purpose in inviting him to come was to explain the situation in which the Government was placed with regard to the loans and credits negotiated by Dr. Prebisch during his visit to Washington. He stated that, as Mr. Pierson was aware, owing to the deadlock in the Chamber of Deputies arising out of the refusal to consider pending legislation presented to the extraordinary session by the Government, approval of the loans by the Congress here had not yet been secured. As the extraordinary session had now only a few days to run, it seemed almost certain that no action would be forthcoming during this session and that they would have to await such action as Congress might take in the regular session which would probably be convened about May 15 next.

Dr. Irigoyen said that the Government had on April 1 last separated the Washington loans from the budget by embodying them in a special bill which had been presented to Congress (see Embassy's despatch No. 1874 of January 27, 1941 and No. 2371 of May 5, 1941; presumably authorization of a blanket nature is still in the budget bill introduced in Congress last December). While it was true that the Government hoped that favorable action by Congress might be forthcoming, he and the Minister felt they should profit by Mr. Pierson's presence in Buenos Aires to discuss with him what procedure it might be possible to follow in the event approval by Congress of the loan was not eventually forthcoming. Dr. Irigoyen appeared to understand that so far as the 50 million dollar stabilization loan was

- 3 -

concerned, it would be difficult for our Government to make this available without Congressional here, but he wondered whether the 60 million dollar credit negotiated with the Export-Import Bank could not perhaps be made available to them without such congressional approval, either by governmental decree or in some other way. Mr. Pierson said that he would of course have to study this, but reminded Dr. Irigoyen that the contract signed by Dr. Prebisch with the Bank provided specifically for congressional approval. Any change from this procedure, he said, would mean drawing up a new contract that would have to be approved by the Board of the Export-Import Bank. This would present difficulties, particularly as there was now a new Board composed of different members from those who comprised the Board at the time the contract was signed. While Dr. Irigoyen seemed to appreciate this point he stated that, as regards the 20 million dollar credit previously granted by the Export-Import Bank, no approval by the Argentine Congress was envisaged. Mr. Pierson's reply was that while it was true the funds might have been made available to the Bank prior to congressional approval here, such approval was ultimately envisaged. In any event, he added, in the case of the 60 million dollar credit congressional approval had been stipulated and requested by the Argentine Government and he felt that now to proceed without securing such approval might well be interpreted in Argentina as intervention in their internal affairs. I supported Mr. Pierson's position and reminded Dr. Irigoyen that as influential a journal as LA PRENSA had repeatedly insisted in its editorial columns that

Argentine congressional approval must be forthcoming to make the credit legal. Dr. Irigoyen promptly acknowledged this in fact, he added that LA PRIMA had even questioned the authority of the Central Bank to negotiate such a loan without prior authorization of the Congress here. He also readily admitted that if we were now to proceed without such approval LA PRIMA would undoubtedly come out very strongly against such action.

Dr. Irigoyen then raised the point whether it might not be possible to negotiate a new loan made more directly to the Argentine Government, e.g. through the Bank of the Nation. Both Mr. Pearson and I agreed that aside from the inevitable delays which would result from any such procedure, it would create an unfortunate impression in the United States if we had to begin again after the long negotiations that had already taken place in Buenos Aires last October and in Washington last December and January.

We then went in to see the Minister, when much the same ground was gone over. Dr. Acevedo repeated many of the same arguments used by Dr. Irigoyen. He agreed with Mr. Pearson and myself that the best procedure would certainly be for the Government to make every effort to secure congressional approval of the loans in their present form and said that he still hoped that this might be accomplished, adding that he had only brought the matter up in the event that things did not work out along these lines. He seemed to feel that in any event there would be little hope of congressional action before June and possibly July. The ordinary session of Congress will probably extend well beyond even this latter date, but

if by July or August they had not been able to put the bill through, then, the Minister seemed to feel, there would be little hope for it.

Mr. Pierson mentioned to the Minister that considerable surprises had been caused in Washington by the failure of the Argentine Government to secure ratification of the loan; that comment had even appeared in certain of the newspapers in the United States to the effect that they had understood that Argentina needed the money and that the matter was an urgent one and therefore, not perhaps being aware of the internal difficulties here, they could not understand why the efforts of the United States Government and the Export-Import Bank in making the funds available had not been availed of.

I said to the Minister that, while not wishing to seem to intervene in their internal affairs, I wondered whether it would perhaps be possible for the Government to have a talk with the leaders of the Radical Party in Congress with a view to having them agree to consider the Washington loans on a different basis from other legislation. It could, I thought, be pointed out that the negotiation of the loans had created a favorable impression in the United States, and we hoped in Argentina, as evidence of the desire of the United States Government to give practical application to the Good Neighbor policy in helping Argentina in a difficult emergency situation and that continued delay here in Argentina in acting on this could not but cause unfavorable comment in the United States. The Minister seemed to feel that it might be possible to do something along these lines, particularly as the leader of the Radical Party, Dr. Marcelo Alvear, favored the loans and seemed disposed to lend his assistance to carrying the transaction

through. Up to the present, however, he had not been able to persuade the more intrinsigant members of his party to adopt a similar attitude.

The conversation closed with assurances given by Mr. Pierson that he would study the matter but holding out no encouragement that it would be possible for the Bank to agree to make funds available without the procedure envisaged having been adhered to.

Since our talk with the Minister and Dr. Irigoyen I have received a visit from Senor Damonte Taborda, Secretary General of the Radical party and one of the principal representatives of the Party in Congress. Dr. Damonte Taborda mentioned the question of the Washington loans and expressed the opinion that he and his colleagues in the Chamber of Deputies would probably agree to consider a bill approving the loans at the forthcoming regular session. He indicated, however, that certain restrictions as to how the money would be used might be insisted upon by them; in other words, they were not disposed to give the Government free rein in using the funds in any manner in which they might wish to employ them.

On April 30, at a call at the Ministry of Finance, Mr. Pierson was given a memorandum in English marked "Strictly Confidential", a copy of which is enclosed. The memorandum outlines the difficulties confronting the Argentine Government in obtaining Congressional authorization of the loans and states that although the Government still hopes that Congress will take favorable action, it must in the circumstances "be ready to face the alternative of not being able to secure the approval of the Government guarantee to the loans". Continuing, the memorandum states that "it seems unnecessary to point out that the need

- 7 -

for dollar credits is today more pressing than last December and it is also unnecessary to add that it will be increasingly so in the foreseeable future." It then enumerates several legal powers which it declares would enable the Executive to contract extensive loans without the specific authorization of Congress.

Respectfully yours,

Norman Armour.

Enclosure - As stated.

Qn. 851
NA:na

sh:bj:copy

(Enclosure No. 1 in despatch No. 2372)

MEMORANDUM

STRICTLY CONFIDENTIAL

During the last few months the Executive has been unable to secure cooperation from Congress even for the enactment of the most essential bills, i.e. the Budget and the authorization of the Government guarantee to the 110 million dollar credits granted by the Secretary of the Treasury and the Eximbank to the Central Bank.

It must be clearly understood that this attitude of Congress is not the result of any particular policy regarding those credits but arises wholly out of a very complex political situation, chiefly related to the Provincial elections of Santa Fe and Mendoza. On the contrary, the leaders of the opposition and the entire radical party representation in the Chamber of Deputies are on record in favour of external credits. As for the Senate there is no problem.

The Congress is showing an increasing tendency to cooperate and the Executive is making every effort to foster that mood. A special bill has been introduced before the Chamber of Deputies requesting authorization to guarantee the dollar credits and there is a possibility that approval may be obtained in the ordinary sessions beginning May the 15th. In any case the bill would not become law until sometime later towards the end of June. But we are far from certain that action will be taken.

- 2 -

In the circumstances we must be ready to face the alternative of not being able to secure the approval of the Government guarantee to the loans.

It seems unnecessary to point out that the need for dollar credits is today more pressing than last December and it is also unnecessary to add that it will be increasingly so in the foreseeable future. It is the purpose of the Government to explore every possibility of obtaining dollar credits using the existing authorizations by Congress or on the basis of the General Powers of the Ministry of Finance.

By virtue of several laws (Laws 12.576; 12.139, arts. 8 and 9; 12.345, art. 62; 12.150, art. 42; 12.574, art. 57; 11.378; 12.511 and others) the Government has had for some years legal authorization to issue nearly 300 million pesos of domestic or foreign obligations.

At the time these authorizations were granted, the market not being receptive, "pre-financing" bills and appropriations from exchange profits reserves were used as a temporary means of obtaining funds. The Government has legal authority to issue foreign or domestic obligations to replenish the exchange profits fund and retire the above mentioned bills.

There is another standing legal authorization. Under the general powers of the Ministry of Finance the Executive can issue abroad short term notes in domestic and foreign currencies. This power has been

- 3 -

exercised several times in the New York market and there were upwards of 60 million dollars of six months obligations outstanding at a given moment. These notes were issued to commercial banks generally as a means of "pre-financing" while the market got ready for a public offering. The proceeds were chiefly used for paying for necessary imports. There is not any statutory limitation to these powers as to the amounts to be borrowed abroad on these notes.

The legal powers outlined above would enable the Executive to arrange external credits without specific authorization from Congress.

Copy: jpt

RECEIVED MAY 20 1933

RECEIVED MAY 20 1933

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Buenos Aires, Argentina.

DATED: May 7, 7 P.M.

NO: 407

Recently there has been observed an increasing influx of dollars seeking investment in Argentina. A report from the exchange market states that there was an inflow of 14 million dollars on May 4 and 11 million on May 5. Investigations are being made to determine the source and the volume of these transfers during the past few weeks and a report will be forwarded to the Department.

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MEMORANDUM

May 6, 1941

To: Mr. Harry L. Hopkins

From: Oscar Cox

For your information:

Annexed is a letter which I just received on the Middle Eastern situation from Rifat Tirana. Tirana is presently working for the Federal Reserve Bank in New York and apparently knows a good bit about the situation in the Middle East.

(Signed) Cox

OSC:ahb

Dear Mr. Cox,

As the situation in the Middle East threatens to become very dangerous I am addressing to you certain suggestions in the hope that you might pass them on to the right quarters. These suggestions are based on my own personal knowledge of the Middle East and the Arab world and my own instinctive reactions as a Moslem to certain current problems. They are made in the spirit of trying to help in this particularly acute and little understood problem.

The Government and people of the United States occupy an important place in the minds and hearts of Arab peoples because they are the only great nation that has had no ax to grind in that part of the world. Some of the Arab nationalists, like the Syrians, also remember the efforts of persons like Charles Crane to help them gain their independence. I would therefore say that the best method of approach is through the good offices of the United States Government and citizens.

One way of handling the Iraqis is to cause them some trouble on the Kurdistan borders. The Kurds have been persecuted by Turks and Iraqis alike but there is no reason why a good agent of the United States Government, should not be able to win over the sympathies and active collaboration of this hardy mountainous race.

The second method of approach is through Saudi Arabia, particularly King Ibn Saud himself. Saudi Arabia and its present leaders are held in high esteem by the Moslem world, particularly those sects such as the Kurds who are drawn to them by the Puritanical religion and practices of Ibn Saud and his followers. You will remember that the principal difference dividing Ibn Saud from the British has been the establishment of dynasties in Iraq and Trans-Jordan drawn from King Feisal's family. King Feisal himself and Emir Abdullah of Trans-Jordan have always been persona non grata with Saudi Arabia. In view of the fact that King Feisal's line has about exhausted its usefulness to the British, and in view of the fact that Emir Abdullah has not an enviable reputation, it should be possible to win over Ibn Saud by yielding to him on this minor problem. Ibn Saud has no doubt many American friends. As trouble might also be expected from Yemen, Ibn Saud is probably the best person to be entrusted with the forestalling of such trouble. A further concession that might be required is for the British to renounce secretly any support for a small movement which aims at making King Farouk of Egypt the future leader and perhaps Caliph of Islam. Farouk's loose living, Europeanization, and the Egyptians in general, do not appeal to the Moslem masses who are on the whole Puritanical in their beliefs and modes of living.

Of equal importance is the whole Zionist question. For the Zionists in England and in this country to continue discussion of this problem at this moment is the best way of playing into the hands of the German Nazis. This

is true not only with respect to the young Arab nationalists but also important sections of the Arab and Moslem communities throughout the world. I think that President Roosevelt is probably the best person who can hush up or suspend for the entire duration of the war, active or passive, Zionist propaganda speeches and clamor. This suggestion is not motivated by any animosity towards Zionism; it derives exclusively from a desire to suggest help for the solution of a very difficult problem.

While on this subject it might be well to suggest too that it is high time that the British Government should give up trying to exercise control and suasion over the Moslem world through such non-respected figures as the Agha Khan of India and other Moslem leaders in London. These have a very small following.

In view of the possibility that troubles in Iraq might become magnified into a Jihad - religious war - it seems indicated that both the United States Government and people should try to proclaim, publicly and privately, their determination to see the liberation of the Arab and Moslem world from foreign rule both during and after the war. The British are not in a position to do this convincingly as most Arabs remember what happened to the promises made by Lawrence of Arabia.

I hope you will give this matter your keen and urgent attention.

Very sincerely yours,

(Signed) Rifat Tirana.

R. Tirana.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 6, 1941

TO Secretary Morgenthau
FROM Ferdinand Kuhn, Jr.

You asked yesterday about "I Am An American Day". This will be observed throughout the country on May 18 as a sort of graduation day for all those who became citizens during the past twelve months. There will be a meeting or other observance in every city.

In Washington, the meeting will be held in the Departmental Auditorium on the evening of May 18. Mrs. Henry Grattan Doyle will be Chairman. Among the speakers will be Solicitor General Biddle and Archibald MacLeish.

F. K.

195

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 6, 1941.

TO

Secretary's Files

FROM

Mr. Kuhn

The attached editorial made amends in some ways for a preceding article of which the Secretary had complained.

J. K.

EVERY ONE MUST HELP

If the Treasury's proposals for increased taxation left much to be desired, the revisions of those proposals suggested by Congressional tax experts were even more lacking in the political courage and sense of reality which the situation calls for. Following the Treasury's lead in failing to provide any broadening of the tax base or to open up any new sources of revenue, the Congressional experts want to reduce the load on incomes in the middle brackets, still further jack up taxes in the higher brackets, and make up the deficiency by boosting gifts and inheritance taxes, raising existing excises and levying new luxury and nuisance taxes. It is typically of the pattern that seeks to avoid laying visible taxes where the votes are most numerous.

In luminous contrast to these proposals were the general principles laid down by Secretary of the Treasury Morgenthau in his statement yesterday before the House Ways and Means Committee.

Mr. Morgenthau set forth four objectives of the new tax bill. They are: To pay for a reasonable proportion of our expenditures; to provide that all sections of the people shall bear their fair share of the burden; to help mobilize our resources for defense by reducing the amount of money that the public can spend for comparatively less important things; and to prevent a general price rise by keeping the volume of purchasing power from outrunning production.

That is an excellent statement of what the objectives should be. But, except for the first point, the raising of revenue to pay for a part of expenditures, neither the Treasury's suggestions nor, still less, the Congressional revisions measure up to the goal. The failure to broaden the income tax base ducks the second objective laid down by Mr. Morgenthau—that all sections should bear a part of the burden. It throws grave doubt upon the likelihood of effectively realizing the two others, namely the reduction of spending for non-defense goods and the prevention of a price rise. The additional purchasing power that is being pumped out by Government defense spending will flow strongly into the hands of income groups not touched by direct taxes and those groups will spend that money.

To frame a tax bill under existing conditions that shrinks from laying even a small direct tax upon the overwhelming majority of the people is to place far too low an estimate upon the character of that people. As Mr. Morgenthau said, "The job before us is so big that all the American people must help to carry it out in proportion to their ability to pay." He has given a fine statement of the principles that should govern the framing of this tax bill. Let Congress and the Treasury measure up to the standards he has set.

C O P Y
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

197

DATE April 24, 1941

TO Ferdinand Kuhn, Jr.
FROM Secretary Morgenthau

Please talk to me today about the tax editorial in the New York Times. I think maybe we ought to write a letter to them and tell them that if they think our tax bill is so lousy, I would like to have them give me a plan how to raise three and a half billion dollars additional in taxes.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE May 6, 1941

TO Secretary Morgenthau

FROM Mr. Wiley

In the course of our work we have from time to time come across indications that Nazis are employed in key positions in various airplane plants in this country. In general FBI takes the view that it has no jurisdiction over such employment and refers any information it may have to MID or ONI on the theory that it is the concern of the department on whose order airplanes are being manufactured. FBI's view is that it has no power to deal directly with the employers in these cases and that it will not, as a matter of policy, interfere in the employer-employee relationship. Presumably MID or ONI as the case may be will, in view of its contract relations with the manufacturer, insist upon safeguarding of government secrets, prevention of danger of sabotage, etc.

In view of the fact that Coast Guard is in a position similar to that of MID and ONI with respect to plants in which planes are manufactured for Coast Guard it may be that you will want to consider whether the Treasury should not also give closer attention to the employment of Nazis in such airplane factories.

Wiley

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE May 6, 1941

TO Secretary Morgenthau

FROM Mr. Wiley

We have just been informed by FBI that between February 24, 1941 and May 6, 1941 the Banco di Napoli Trust Company withdrew in cash from the Corn Exchange Bank \$2,727,500, mostly in currency of small denominations, the serial numbers of which cannot be traced. It appears that in order to prevent detection transfers are made from the various Italian accounts at Chase, National City, Guaranty Trust, and Irving, to the Banco di Napoli Trust Company which in turn pays out cash from its till. Between April 1 and April 12, 1941, almost daily large cash withdrawals were made from the Banco di Napoli Trust Company by the Embassy and New York Consulate, totaling \$924,000, and between April 21 and April 26, inclusive, similar cash withdrawals were made totaling \$424,000, making a grand total of \$1,348,000. No information was available for the period April 12 to April 21, inclusive.

Wiley

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE May 6, 1941

TO Secretary Morgenthau

FROM Mr. Wiley

Appended are the three memoranda which you requested at our conference.

Enc. 3

A handwritten signature in dark ink, appearing to read "T. W. Wiley", is written diagonally across the middle of the page.

RUECKWANDERER MARKS

Between September 1, 1936, and March 14, 1941 (our latest date), the German government has raised \$13,905,560.53 by the sale of so-called Rueckwanderer marks to some 7,000 or more persons of German extraction. The dollars in question, which, in most cases, represent the life savings of German-American lower and middle-class people, are placed in the accounts of the German Goldkreditbank at the Chase and the Bank of Manhattan and form part of official German dollar assets in the United States. The "purchasers" of these Rueckwanderer marks receive for these dollars the promise of the German government to pay marks at the rate of 4.10 in Germany upon the re-migration of the purchasers to Germany -- i. e., after the war.

The Treasury first brought this matter to the attention of FBI in October, 1940. FBI has made a very thorough and intensive investigation, has traced each of the thousands of applications, has shown the involvement in this business of the German Consuls and the highly-suspect German "travel agencies" established throughout the country, and has, it seems, recommended to the Attorney General a grand jury investigation with a view to prosecution for violation of the Neutrality and Johnson Acts. The Treasury has given to FBI and to the Attorney General its opinion that the Rueckwanderer mark business constitutes a violation of the letter and the spirit of the foregoing statutes. However, in spite of constant prodding by FBI and to some extent by the Treasury, and although the matter has been before them for about six months, the persons charged with the decision on this matter in the Department of Justice have reached no conclusion; in fact, there have been intimations that they are not willing to undertake grand jury investigation, for reasons which do not appear evident to us.

The value of a grand jury investigation with a view to prosecution in these cases would seem to be great and FBI officials have always stressed this aspect of the case. A grand jury investigation would give us power to issue subpoenas for information not now available, because FBI has no subpoena power in its own preliminary investigation, and would disclose the participation of German consular officials in this business, since it is an essential part of each Rueckwanderer mark transaction that the German Consul shall issue a certificate to the effect that the applicant is entitled to re-migrate to Germany (that is, that he is an Aryan, etc.). A grand jury investigation could also go into the use of inheritances and royalties -- two other major sources of dollar balances here. Incidentally, FBI has already found that some of the applicants for Rueckwanderer marks are employed in National Defense work.

General freezing of German assets in this country would tie up the balances still remaining in official German accounts whether derived from Rueckwanderer marks or from other sources. To the extent, however, that the Germans would be permitted to expend money in the United States under general freezing licenses, the Rueckwanderer mark racket, as well as similar rackets, could conceivably continue to operate.

GERMAN FOOD PACKAGE SITUATION

Totalitarian countries have raised dollars in this country by inducing persons in the United States to feed their relatives in countries under totalitarian control. This business seems to have been originally developed by the Russians but the Germans have exploited it even more thoroughly. German travel agencies, and corporations specifically set up for such business, have taken dollars in the United States upon the promise to deliver packages of food to persons in Germany. It is clear that these food packages are not shipped through the British blockade and that if packages are actually delivered, they contain food already under German rationing control. Necessarily the cost to the German Government for this food may have no necessary market relation to the dollar payments made in the United States.

Between July 1, 1939 and March 31, 1941, deposits in the accounts of the major food package companies in this country, monitored by FBI, have totaled \$12,601,395.03. The subject is under active investigation.

We have been informed by FBI that the Criminal Division of the Department of Justice has ruled that the food package business does not involve a violation of either the Neutrality Act or the Agents of Foreign Principals Registration Act. It does not appear, however, that the Attorney General has been asked to rule whether this business involves a violation of the Johnson Act. In any event, it is not believed that the lawyers in the Department of Justice who considered this problem have fully understood the racketeering nature of this business.

Should there be general freezing of German assets in this country the dollar profits of the food package business in accounts in this country would undoubtedly be subject to freezing. However, that in itself would not necessarily prevent the Germans from raising money in this country by the food package device for such uses as might be permitted under licenses.

AXIS CASH WITHDRAWALS

In the course of its monitoring of the major embassy and consular accounts of Axis powers, mainly in New York, FBI has come upon ever increasing instances of large cash withdrawals:

The Italians withdrew in cash from May 10, 1940, to January 31, 1941, \$13,709,250. Of this sum Luigi Podesta, representative of the Italian Exchange Institute, withdrew in his individual name \$8,992,500, of which \$2,500,000 was in small denominations not capable of tracing. We know that \$4,450,000 in cash was transported to Latin America by Italian officials last Fall.

German cash withdrawals from official accounts, November 1939 to April 11, 1941, amounted to \$3,130,000. While about \$1,500,000 has been traced to J. P. Morgan and Company, representing payments on account of German bond obligations, large sums are still not accounted for. There is no doubt that Germans have large cash hoards in this country for use here and elsewhere in this hemisphere.

Japanese cash withdrawals from official accounts in New York and Washington from September 14, 1940, to February 14, 1941, totaled \$596,000, of which \$546,000 has not been accounted for. It is to be noted that the Japanese Embassy recently increased the insurance coverage of currency in the embassy safe from \$100,000 to \$200,000.

It has become very clear that an elaborate shadowing and under-cover organization would have to be set up to enable FBI to follow these cash withdrawals. Recently the Germans and the Italians have been insisting on being paid in small denominations, which cannot be traced by serial number.

Freezing would undoubtedly be useful as a means of controlling cash withdrawals from official accounts, provided there is a strong investigative and enforcement unit to check on the actual expenditures made under license. (It would be necessary that the executive order be so drafted as to enable us to freeze resident aliens.)

There is a grave question, however, whether the Axis manipulation of cash would be seriously affected by freezing. Of course, official Axis accounts do not represent by far the assets available to the Axis governments within this country. Official Axis balances have been reduced to a minimum. We already have abundant evidence that businesses in the United States nominally owned by persons who would not be subject to freezing control would be used as covers for Axis activities. The Axis governments would necessarily resort to wholesale evasions and concealment as well as outright violations rather than to submit their subversive activities to the scrutiny of this government. Therefore, the cash withdrawal problem under freezing in the case of Axis funds would be largely one of investigation and enforcement, based in the main on violation of reporting requirements.

The proposed freezing order would also have no effect on Axis funds already hoarded outside of banking institutions--in hotel vaults, strong-boxes, etc. This results from the fact that the statute under which freezing operates is limited to transactions with banking institutions. It is therefore necessary to reconsider our regulations concerning hoarding. It is believed, however, that with some ingenuity, including amendment of our hoarding regulations, this problem can be largely controlled.

5/6

MILITARY ORDER

By virtue of the authority vested in me as President of the United States and as Commander in Chief of the Army and Navy of the United States, I hereby designate Major General James H. Burns, of the United States Army, as Executive Officer of the Division of Defense Aid Reports in the Office for Emergency Management, to administer the functions described in the Executive Order establishing said Division, which functions are essentially of a military character, under the direction and supervision of the President as Commander in Chief of the Army and Navy of the United States.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

May 6, 1941.

MEMORANDUM

May 6, 1941

To: Mr. Harry L. Hopkins
From: Oscar Cox
Subject: Colonel Lindbergh

One of the possibly effective ways to meet Lindbergh's talk would be to find out how much he knows about the field in which he is supposed to be an expert. My own hunch is that he probably knows enough about a standard aircraft engine to do a repair job in the same sense that a truck driver away from garages knows how to repair a truck engine, but when it comes to questions of superchargers, thermodynamics or the other highly technical and intricate questions involved in aircraft design and construction, I would suspect that he would be lost.

It might be a good idea to have an American Forum of the Air session in which Lindbergh is asked to participate with such people as Theodore Wright, Seversky and other individuals who know the technical phases of aircraft and aircraft design. It may well be that they can show him up in what is supposed to be his own field of expertness.

Cot

OSC:ahb

TO:

Mr Secretary Magenthan ²⁰⁶

I took the liberty
of relaying your idea about
the Boeings.

6 May 1941

OSC

MR. COX

MEMORANDUM

To: Mr. Harry Hopkins
From: Oscar Cox
Subject: Boeing Military Aircraft.

Secretary Morgenthau called to my attention yesterday a fact which you may want to check up on through Lovett or otherwise: No Boeing military aircraft are scheduled for delivery in May, June or July 1941.

Five B-17E's are scheduled for delivery to the Army and six B-24 bombers are scheduled for delivery to the British in August 1941.

It may be that the cessation of deliveries for the three month period is due to the change over to the B-17E model. However, it might be wise to continue production of the B-17D, if practicable, until the B-17E comes off the line. This might be one way of not losing three month's production. There may also be other ways of preventing this loss.

Cox

OSC:lwb
5/6/41

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 6, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£39,000
Purchased from commercial concerns	£12,000

In the open market, sterling opened and closed at 4.03-1/4, and there were no reported transactions.

Continuing its improvement, the Argentine free peso advanced to close at .2375, as compared with the level of .2355 which has prevailed during the past few weeks. A small Continental demand for pesos was reported.

The Cuban peso strengthened to 3-1/4% discount, as compared with 3-13/16% yesterday.

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

Canadian dollar	12-1/16% discount
Swiss franc	.2321
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Brazilian milreis (free)	.0505
Mexican peso	.2066

In Shanghai, the yuan advanced 1/32¢ to 5-7/32¢. Sterling was 1/2¢ higher at 3.87-1/4.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

In London, a price of 23-1/2d was again fixed for both spot and forward silver, equivalent to 42.67¢.

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

We made one purchase of silver amounting to 100,000 ounces under the Silver Purchase Act. This silver, bought for forward deliver, represented new production from Peru.

The report of April 30 received from the Federal Reserve Bank of New York giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$6,991,000, a decrease of \$400,000 in the short position. Net changes were as follows:

Country	Short Position April 23	Short Position April 30	Change in Short Position*
England**	\$ 656,000	\$ 648,000	- \$ 8,000
Europe	3,522,000	3,424,000	- 98,000
Canada	157,000 (Long)	240,000 (Long)	- 83,000
Latin America	375,000	383,000	+ 8,000
Japan	1,387,000	1,328,000	- 59,000
Other Asia	1,440,000	1,418,000	- 22,000
All others	168,000	30,000	- 138,000
Total	\$7,391,000	\$6,991,000	- \$400,000

*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.

J.M.F.

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