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March 5, 1941  
9:30 a.m.

GROUP MEETING

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

H.M.Jr: Norman, did you give Philip Young the clerks he wanted so he can run his office properly?

Thompson: Only 50 percent. We got one of the two employees, but the National Labor Relations Board won't release the one we want from them.

H.M.Jr: He said he gave you 50 percent of what you wanted. You got one clerk.

Young: Already? I never got such service in my life.

White: What proportion were women, Norman?

Thompson: It was fifty-fifty. One we didn't get was a woman. She was so good they would not release her. But we will take care of Phil.



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H.M.Jr: What else have you got?

Thompson: Here is a letter for your signature. (Pehle's promotion)

H.M.Jr: All right.

Mr. Bell?

Bell: The expenses of the Federal Reserve Banks in 1939 were four million nine. In 1940, the figures from some of the agencies are not available yet, but they were over five million, partly because of the Foreign Funds Control.

H.M.Jr: I see. Could I get some kind of a break-down on that?

Bell: Yes. We have got a little break-down here.

H.M.Jr: I will tell you what I would like you to do. Would you mind just taking your pencil and giving this back to me, which of these things could be done, say, by a national bank, if we wanted them to do it?

Bell: Most all of this is mechanical stuff.

H.M.Jr: How much of that could be done by a national bank?

Bell: Probably most of it.

H.M.Jr: Well, that is all I want.

Bell: It would probably cost us a million more.

H.M.Jr: It might cost us less.

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Bell: This is largely mechanical work.

H.M.Jr: Not that I have any ideas. You know, I am just curious.

Bell: I am not so sure about the law, whether we can legally do it through national banks.

H.M.Jr: Well, where is my lawyer? Good morning, Ed. I woke him up, unfortunately, this morning, at 10 minutes of 8.

Foley: I made up my mind the next time you asked me if you woke me up, I would say, "Yes."

H.M.Jr: Ed, you don't have to.

Foley: I know. (Laughter)

H.M.Jr: I wouldn't try and give an imitation. I am under the impression that I can designate any national bank as fiscal agent of the Treasury to perform any duties. Would you look that up?

Foley: Yes.

H.M.Jr: I think I am right. I mean, for instance, if I wanted to give Foreign Funds Controls to the national bank of Podunk, South Dakota, or Tucson, Arizona. That would be a good idea.

Klotz: Very good.

H.M.Jr: Or San Diego? Would you prefer San Diego?

Klotz: Yes.

H.M.Jr: You see? Seriously.

Bell: There are certain of these functions, many of which they get no reimbursement for which are

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directed by Congress to be taken over by the Federal Reserve Banks when we abolished the Sub-Treasury.

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

Bell: I don't know how that ties into the fiscal agency thing.

H.M.Jr: Look into it, Ed.

What else, Dan?

Bell: Mr. Delano, I assume, told you about Paul Davis.

H.M.Jr: Yes.

Bell: And his tie-up also over there?

H.M.Jr: Well, I told him nothing doing.

Bell: Nothing doing?

H.M.Jr: Yes.

Bell: The suggestion was made by Burgess that you might want to take a look at Rounds, the second man in the Federal Reserve. I don't know how he stands politically, but he is more or less of a career man since 1914. He was there all through the War and he is a real wheel horse.

H.M.Jr: Well, if you don't mind, I would like to wait now to see what luck I have finding a Roosevelt Democrat.

Bell: Well, I don't know how he stands in that respect.

H.M.Jr: I have got my lines out to see what we find. Remind me. All right?



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Bell: Well, this is a man you can keep in the back of your head if you don't get somebody outside of New York. It is pretty hard to get a banker, I understand.

H.M.Jr: Well, if there isn't any, that in itself is news. Now, will you be here at 10 with Sullivan on this - I would like you to listen to that - there is Mr. Bruere, Randolph Burgess, Luther Gulick and Elihu Root, Jr., coming in representing the public--

Sullivan: Institute of Public Administration.

H.M.Jr: Institute of Public Administration. Will you be here?

Sullivan: Yes, sir.

H.M.Jr: And Bell. Now that would be a - are you going to have your own economist here, Blough.

Sullivan: I will be very happy to have him here.

H.M.Jr: I would have Blough here.

Bell: All right.

H.M.Jr: Harry?

White: A comment made by Phillips yesterday may or may not be news to you. He stated that the gold which they are now getting newly mined from South Africa and possibly from Australia, I don't know, is not available to them because of the - they haven't got the adequate ships, and he suggested that if there were cruisers available, the gold would be available.

H.M.Jr: How much have they got?

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White: He didn't specify.

H.M.Jr: Well, find out.

Cochran: They will have a statement of that in a couple of days. They have cabled for it.

H.M.Jr: And also find out whether that hasn't already been mentally ear-marked.

Cochran: Yes, it has. It isn't available for shipment.

White: It isn't available?

Cochran: Well, it could be shipped, but there is no need of our going to the risk.

White: Oh, I thought you meant it wasn't available to them.

H.M.Jr: I mean whether they haven't already used it once.

Cochran: They have planned to use it monthly as it accrues.

Bell: Well, it is in that statement. It was in White's statement of estimates.

White: Well, it should be cleared up. My impression was that he said that he said that could be available only if there are cruisers available.

H.M.Jr: To them? Check up.

White: Yes.

Cochran: Yes, I understand.

H.M.Jr: I think they have used it once.

White: They couldn't have because we haven't got - if they used it, I don't know where.



H.M.Jr: We know they have used 90 million of it.

Cochran: Yes.

H.M.Jr: I know of 90 million that they have used.

White: Here, to us?

H.M.Jr: Talk with Cochran, will you?

White: That is different. That is something I don't know about.

H.M.Jr: Is it more than 90?

Cochran: There is this last transaction of 75. Pinsent was in yesterday and talked to me. I have written a memo to Harry about it. The memo was circulated last night.

White: Collado called up to say that Welles had wished him to call to inform you that the Mexican negotiations were going forward, and it looked rather promising for some settlement, and that apparently they expected to come to the Treasury soon to see what might be done under the stabilization operations, but that soon, I think, is a matter of possibly months and not days.

H.M.Jr: Does that necessitate another trip to Mexico?

White: Not for a long time.

Bell: That is a result.

White: Maybe the Legal Division might need to go. (Laughter)

That is all I have.

Foley: What do you mean, "Need to go?" (Laughter)



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White: I thought you might want to settle some of the things you started.

Foley: I didn't start anything. (Laughter)

Bell: Well, sooner or later.

Foley: If you start talking, I will talk too. (Laughter)

White: Next is Mr. Graves.

H.M.Jr: Did I hear something, Harry?

White: No, I didn't have a word to say.

Bell: You will get a report yet.

White: I am through.

H.M.Jr: That is wonderful. All right. Is that all, Harry?

White: Yes, that is all, very definitely.

H.M.Jr: Harold?

Graves: Nothing.

H.M.Jr: You don't want to get in on this fishing expedition?

Graves: No.

H.M.Jr: Chick?

Schwarz: You wanted to mention the story in the Washington Post yesterday on Bulgaria.

H.M.Jr: Well, sometime we will talk about it. Fitzmaurice - talk to Bernstein first and tell him how Fitzmaurice knew every move that they made on that order. They knew when they went from one office

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into another. That is really what I wanted you to bring out.

Schwarz: I will talk to Bernie.

H.M.Jr: Somebody is telling Fitzmaurice every time they make a move.

Schwarz: He has been living over there.

H.M.Jr: What?

Schwarz: He came over here also and found us out to supper, and I saw him yesterday at the White House press conference. He said he decided that nothing had happened since we closed up.

H.M.Jr: Well, somebody is tipping him off.

Schwarz: Flynn has been blasting again, and Mr. Kuhn and I talked about it. Apparently nobody is paying much attention to it because what he had Monday would have been sufficient to elicit questions in the press conference, and none of the boys paid any attention to it.

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H.M.Jr: I will leave it in the hands of you and Kuhn.

Schwarz: We still feel it is best to ignore him.

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

Schwarz: That is all.

H.M.Jr: George?

Haas: I have nothing this morning.

Young: I have nothing.

Kuhn: Nothing.

Pehle: Nothing.

H.M.Jr: All right, we have left the couch.

Wiley: FBI would be very interested to find out what their responsibilities would be if there is an extension of freezing. Who looks for evasions?

H.M.Jr: Talk that over with Gaston and Pehle, will you?

Gaston: There isn't any question in my mind about it. I think we are responsible. I don't think the FBI is.

H.M.Jr: Well, would you talk it over?

Gaston: Surely.

H.M.Jr: Talk it over. Anything else? Merle?

Cochran: You saw on Monday Mr. Gifford published a further short list of liquidated stocks and bonds.

(March 4, 1941, re meeting in Mr. Hull's office re amendments to H.R. 1776.)



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H.M.Jr: John, I see you have been doing business.

Sullivan: Yes, we did a little. I wonder if you are going to have a chance to see the President before he signs that bill?

H.M.Jr: What is that to you?

Sullivan: Quite a lot to me and a lot to you. I think he might take occasion to haul off and take a crack at the thing and --

H.M.Jr: Didn't you get what you wanted?

Sullivan: Yes, we got what we wanted, but now, having ironed out the hardship cases, we are in a position to go to town and get some money without hurting anybody too badly; and in view of the remarks he made at the time of the press conference on the Budget, he might want to take this occasion to say, "Now, we have got to go to work on this thing."

H.M.Jr: Well, draw up something and let me take a look at it.

Sullivan: All right, I will be glad to do that. Am I going to have a chance to see you before these men come in? There are one or two things we ought to talk over between ourselves before we listen to them.

H.M.Jr: You will have a chance.

Sullivan: All right, sir.

H.M.Jr: Anything else?

Sullivan: That is all.

Foley: Here is a memorandum on that meeting yesterday.  
(March 4, 1941, re method of operation of H.R. 1776 with respect to defense articles.)

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H.M.Jr: Now wait a minute. Just one second. Bell, I wish you would read this memorandum from McCloy and after you have read it, if you would talk to me, because this whole question of appropriations is up on that and I would like you to know about it.

Foley: You had better give him this one, too.

H.M.Jr: Yes. This is important, you see.

Foley: I would like to get settled the changes that are necessary to the New York office due to Hanson's resignation, because it is getting around on the Hill and Senator Wagner wrote you about this man Schwartz, who comes from New York.

H.M.Jr: Chick wanted that job?

Schwarz: I will study law.

Foley: This fellow that was on the Processing Tax Board of Review. He came in yesterday and said that you had written Wagner a letter and said that you were reluctant to do it because he came from New York, and Rupert had read the letter to him and Wagner was down in Miami and he wanted you to wait until Wagner got back before you made the appointment, so that Wagner could argue with you about it.

Well, in the first place the fellow isn't competent enough to do the job, and in the second place, he comes from New York and it was your policy when we decentralized the Bureau to send people to regions where they didn't originate from.

H.M.Jr: Yes.

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- Foley: And Phil has recommended that Algire, who has been in the Bureau since 1918, who may be Division Counsel up there, he is the second man at the present time, that we move him up and make him the first man and then move the fellow in Kansas City to New York and make him the second man, and move a man from New York out to Kansas City and make him the first man out there; and that is the recommendation of the lawyers over in the Bureau, and it is O.K. with me.
- H.M.Jr: Is that the Tripartite Agreement? (Facetiously)
- Foley: That is the Tripartite shift. They are all career men, and the three of them have been in the Bureau a long time. If it is O.K. with you, we will do it that way.
- H.M.Jr: O.K. That is all?
- Foley: That is all.
- Gaston: For some time in several years past, Mr. Creighton, Customs Agent in Texas, has been making frequent trips to Mexico City and the amount of Customs investigations in Mexico is increasing quite heavily. We would like to set up Creighton in a permanent office in Mexico City with a couple of helpers, and appoint a new supervising Customs Agent on the border.
- H.M.Jr: Have you discussed it with Foley and White?
- Gaston: Well, I think that ought to be done.
- Sullivan: Maybe their visit was the cause of the need. (Laughter)



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Gaston: I am sorry this other conversation occurred. I might have been able to promote something. I think that office ought to be properly established.

Sullivan: Where are those films you took, Foley?

Gaston: If it is agreeable to the State Department, do you have any objections?

H.M.Jr: No.

Gaston: The 250-foot cutter, the Shoshone, with Mr. McKay as executive officer, left San Francisco yesterday, and will put into San Diego today for supplies, and will be around here about the 21st or 22nd of March. The other nine are all in Navy Yards, except for one which is in Curtis Bay, and they are doing as much work as they can waiting for word from the British.

H.M.Jr: Are you stimulating the British, Philip?

Young: Yes. I stimulated them so far and it hasn't shown any results.

H.M.Jr: Purvis came over here night before last with another list of what they wanted. While he was waiting for me, he said he found five mistakes and said he was going to return it. I never got it back.

Young: I haven't seen it. You told him about the deal at that time, did you?

H.M.Jr: I mentioned it to him.

Young: When I talked to him on the telephone, I went a little easy.

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H.M.Jr: That is all right.

Gaston: Has anybody made any authoritative offer on this matter of the cutters, or have they just learned about it through this Navy inquiry.

H.M.Jr: Well, other than that I mentioned it to Purvis very informally, and I have asked the President for a yes or no, and I have got no word from the President.

Gaston: Well, I suppose it has to be pretty informal at the moment.

H.M.Jr: That is right.

Gaston: All right, that is all I have.

H.M.Jr: If you (Sullivan) would get your crowd together, I could see you and Bell and Blough at five minutes of.

Sullivan: All right, sir.

MEMORANDUM OF CONFERENCE

MAR 4 1941

Place: Secretary Hall's Office.

Time: 9:15 A.M. to 10:55 A.M.

Present: Secretary of State Hull; Secretary of the Treasury Morgenthau; Secretary of War Stimson; Under Secretary of the Navy Forrestal; Director of the Budget Harold Smith; Special Assistant to the Secretary of War, John McCloy; General Counsel of the Treasury, Foley; L. B. Lockwood, Assistant to Forrestal, and Oscar Cox, Assistant to the General Counsel of the Treasury.

Senators Barkley, Byrnes and George came in between 9:40 and 9:50 A.M., and General George Marshall, Chief of Staff, came into the conference at 9:50 A.M.

The following points were covered at the conference:

- 1) Secretary Morgenthau opened the discussion by stating that since the conference on Sunday, March 2nd, the assistants of the Cabinet Officers had met with the Director of the Budget, and had drafted an amendment to take the place of the Byrd Amendment. Secretary Morgenthau stated that, after this amendment had been drafted, he had asked Oscar Cox to take copies of it to Senators George,



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Barkley and Byrnes, and to answer any questions which they might have about it. He asked Cox to report his discussion with these three Senators.

2) Cox stated that he had delivered the material to the three Senators, and discussed it with them. He added that Senator George had said that the amendment was satisfactory to him, and that he thought Senator Byrd might well be sold on it. Senator George suggested that Cox show this amendment to Senators Barkley and Byrnes. Cox did this. Byrnes said that he did not know whether Byrd would accept the amendment in the place of his own, but added that the amendment was satisfactory to himself, and suggested that Senator George was the man to try to sell the amendment to Senator Byrd. Senator Barkley told Cox that he thought it might be unwise to raise the question at all by proposing the counter-amendment. Senator Barkley thought that it would be better merely to point out that Congress retains control of the purse strings through the appropriation acts to be subsequently passed.

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3) Before the three Senators arrived at the meeting, Secretary Hall put forth three possible ways to meet Senator Byrd's amendment:

a) A percentage limitation on the amount of appropriations to the Army and Navy which could be used for defense articles transferred under H.R. 1776;

b) A provision in the bill to the effect that any defense articles procured from appropriations made after the passage of the bill to the Army and Navy can be transferred to Britain, etc., if, within thirty days, Congress does not disapprove the transfer by concurrent resolution; and

c) That a six months' time limit be placed on the transfer of defense articles procured from appropriations made after the passage of H.R. 1776, with the idea in mind that the greatest emergency would occur within that period, and Congress could be faced at



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the end of that period with a request for more flexibility.

4) Senators George, Barkley and Byrnes thought that the proposed amendment to meet the Byrd Amendment ought to be presented to Senator Byrd by Senator George. Their thought was that a great deal of time would be saved by doing this. Senator Barkley still felt that it might be undesirable to offer the amendment at all.

5) Secretary Hull raised for discussion the Ellender Amendment providing that nothing in H.R. 1776 authorizes the ordering of troops outside the hemisphere. Secretary Hull pointed out the fact that such an amendment would be a fraud on the public, since nothing in the bill in any way authorizes the ordering of the troops outside of the hemisphere. Senator George pointed out that the only political argument that could be made against Secretary Hull's position was that, if nothing in the bill authorizes the ordering of the troops outside of the hemisphere, why not say so in the bill?



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6) Senator George suggested that consideration ought to be given to an amendment making it clear that radios and newspapers are not covered by the bill. It was tentatively thought that by changing the word "facilities" in the bill to the word "plant" this could be covered.

7) General Marshall then gave a detailed analysis of how equipment originally intended for the Army could, as a military matter, be made available to Britain in our own best interests. He pointed out that in the case of guns and ammunition, for example, for an army of 1,200,000 men, there are enough guns on order so that, if Britain held out when we were in quantity production, the nine months' supply of such guns, ammunition, etc. which was contemplated to maintain the army in a time when we were at war, could be made available to Britain. He pointed out that this amount of equipment, which could soon be made available to Britain, would have a dollar value of about \$2,000,000,000. Similarly, General Marshall pointed out the situation in connection with

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critical items, such as heavy ordnance, which has already been authorized for purchase by Congress. Here again, in circumstances similar to that, for guns and ammunition the Army could make available to the British about \$50,000,000 worth of critical items.

General Marshall also pointed out the situation in connection with aircraft. He indicated that the Army had in mind ultimately setting up 180 squadrons, consisting of 54 groups, but that its immediate requirements in minimum form were only 30 squadrons, as long as the productive capacity was such that in a very short time 180 squadrons could be equipped with aircraft. He pointed out that this assumed an adequate amount of training planes to train the pilots ultimately necessary for the 180 squadrons. He made clear that when we had reached or approximated this quantity production, we could, and it would be to our advantage, make available to the British the number of aircraft that made up the difference between the 30 and the 180 squadrons.

OSC:djb  
3-4-41

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



MAR 4 1941

#2

Some of the Ways in Which H.R. 1776  
Can Work with Respect to Defense  
Articles on Hand and on Order

- - - -

The following are some of the ways in which H.R. 1776, in its present form, can operate in connection with defense articles on hand and on order.

(1)

Defense Articles Already Delivered  
to the Army and Navy.

There are several possible ways in which defense articles on hand can be disposed of to Britain:

- a) Within the \$1,300,000,000 limit, any defense articles now on hand can be transferred to Britain. This applies not only to defense articles acquired years ago, but also to those procured out of appropriations made before H.R. 1776 is enacted.
- b) Outside of the \$1,300,000,000, aircraft now on hand--whether or not they are surplus--



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can be traded in for new models. Then these older aircraft can be procured under Sec. 3(a)(1) for Britain. To so procure them for Britain, subsequent Lend-Lease appropriations would be necessary. The wisdom of this kind of transaction should be carefully considered.

- c) Other types of war material on hand can be traded in if they are surplus, obsolete, deteriorated or unserviceable and handled in the same way as aircraft. Here again it should be seriously considered whether it is wise to do this.
- d) Traded-in aircraft and other war material can also be handled in still another way. If some of Britain's present orders, capital commitments or other obligations are taken over through the use of regular Army and Navy appropriations or under 3(a)(3) of the bill, that will release dollars to the British. These

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dollars can be used to buy the traded-in material from the manufacturers to whom they are delivered, if it is deemed wise to do this.

(2)

Defense Articles on Order

Here again there are several ways in which H.R. 1776 can be made to operate:

- a) Within the \$1,300,000,000, defense articles which are on order under appropriations made before H.R. 1776 is passed can be transferred to Britain.
- b) Defense articles which are now being produced under contract authorizations to be backed up by appropriations made after H.R. 1776 is passed can be transferred without limit unless ~~Congress~~ puts a limit into such subsequent Army and Navy, etc., appropriation acts.

I understand that a very substantial amount of equipment is being produced or can be reasonably shifted to production under



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contract authorization. Under Secretary D. W. Bell is now getting up the figures on the dollar amount of outstanding contract authorizations which have not yet been backed up by appropriations.

- c) Defense articles which are now on order under appropriations made before H.R. 1776 is passed can be made available to the British by a procedure similar to the deferment procedure now being used. These Army and Navy orders can be transferred into 3(a)(1) orders and the Army or Navy can agree to take later delivery of more modern or the same type of defense articles. To be able to transfer these Army and Navy orders to Lend-Lease orders, appropriations to carry out H.R. 1776 will, of course, be necessary.
- d) Defense articles on order out of appropriations made after H.R. 1776 is passed can be transferred to the British unless Congress prohibits



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or limits such transfer in these subsequent appropriation acts. In the main, two types of situations will be presented: 1) Appropriation requests such as the pending War Department supplemental request for about 3 billion 8 hundred million dollars; and 2) The appropriation requests to carry out H.R. 1778. Congress may well handle each appropriation request differently. It may say that none, all or any part of the defense articles so procured can be transferred under H.R. 1778.

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OSC:aja - 3/4/41

March 5, 1941  
10:00 a.m.

RE TAX STUDY

Present: Mr. Root  
Mr. Gulick  
Mr. Bruere  
Mr. Burgess  
Mr. Sullivan  
Mr. Blough  
Mr. Bell

H.M.Jr: What is on your mind, Dan?

Bell: Me?

H.M.Jr: No, John.

Sullivan: I think this group is still contemplating their being financed by the Carnegie Corporation.

H.M.Jr: I thought that was settled.

Sullivan: That was settled definitely, that there should be no one other than the Institute of Public Administration. Bruere's ideas on the subject have been quite different in the two or three times I saw him from those of Gulick at the time Gulick reported to me that they wouldn't let him touch it. The other thing I wanted to bring to your attention was that the seeds you have sown on the Hill have been growing



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very, very fast and throughout the hearings and the debate on the public debt act, and again in our contacts with them on the Hill and the amendment to general relief, time after time there have been constant remarks about when are we going to go in with a federal commission and also from the floor in debate, and I thought you might want to have in mind the desirability of discussing this with the--

- H.M.Jr: Now, look, John, you don't want this, and I do want it.
- Sullivan: I beg your pardon, sir, I do.
- H.M.Jr: Let's be honest with each other. I have been here seven years, and I have been unable to get anybody in the Treasury to give me a study on overlapping taxes. Now, for seven years I have waited.
- Sullivan: Excuse me, sir.
- H.M.Jr: Now don't excuse me. There is nothing to show me. Now, I am not going to be - I am going to go ahead with this thing, and for seven years I have waited.
- Sullivan: Now, this was first brought to my attention in December.
- H.M.Jr: Well, but nobody starts it. In November, before I went down - before I went down on my vacation, right after - before I went away.
- Sullivan: I think it was in December.
- H.M.Jr: Well, whenever it was. I have sat around here now, and I am not going to sit around any longer.

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- Sullivan: Well, I hope you don't think I am obstructing it, sir.
- H.M.Jr: Well, I don't think you are helping it any.
- Sullivan: We didn't learn until late in February that Gulick would be able to do it.
- H.M.Jr: Now he tells me he can do it. In the meantime, have you (Blough) got anything in your shop on overlapping taxes?
- Blough: Yes, sir.
- H.M.Jr: No one shows it to me.
- Blough: I have never received an assignment of any study on overlapping taxes. We have done piecemeal work on the subject.
- H.M.Jr: I still say, Roy, I have been here seven years, and I have yet to see anybody take the initiative and do a job and get the public interested. Dan, do you know of any study that the Treasury has really gotten on top of?
- Bell: No, I don't, but then that doesn't mean they haven't done it, because I haven't been in touch with it.
- H.M.Jr: I get so exhausted in trying to do these things, overcome the resistance inside and out, it is awfully discouraging. If one-tenth of the energy would be put into overlapping taxes that has gone into this relief bill to get these fellows this relief - it is the only thing that has happened around here. I don't know anything else that has happened.
- Bell: As I understood from Dr. Burgess the other day--

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- H.M.Jr: I don't. My God, the whole Treasury tax section has gone into getting this relief thing through.
- Blough: Mr. Secretary, I am amazed. We are eager to do this job.
- H.M.Jr: Well, I am here. I get eight or ten reports a week from Harry White and eight or - four or five a week from George Haas. I take them, I read them. They are constantly on their toes. The stuff just flows to me. I can't begin to take it all, which is the way it should be, but they are pushing me. I don't get a God damned thing out of the tax section.
- Blough: It flows through Mr. Sullivan, sir.
- H.M.Jr: But I don't get it.
- Sullivan: I would be delighted--
- H.M.Jr: But I have got to push on everything. I mean, Harry White is pushing me on his business, Haas on his, and Dan Bell has got the bond thing. He pushes me on that. I don't know that there is a tax section in the Treasury except on relief. I don't know that there is anything. I don't know that you exist, Roy. I had to ask for you to be in here this morning. I don't get a thing.
- Blough: You don't even get our monthly report?
- H.M.Jr: Do I?
- Blough: You started that sometime ago. We submit it religiously every month showing what we are doing during the month.
- H.M.Jr: If it has, I am sorry, I don't--



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Why can't somebody have a spark plug around here and push me? I have been at this thing for eight years, and I don't have the energy that I used to have. How can I after 12 years? and this constant, all the time, push, push, push. Now, here is a crowd that wants to go to town.

Sullivan: Did you have the impression, sir, that I had prevented their going to town on this thing?

H.M.Jr: No, I got the impression that you don't want it.

Sullivan: Oh, no, that is quite untrue. Dr. Stewart, with whom I have discussed this, has felt very distinctly that Gulick isn't the fellow to do it.

H.M.Jr: And I asked Stewart, "Where is there somebody else? Where is there somebody else?"

Sullivan: Now--

H.M.Jr: He is good enough for the President of the United States.

Sullivan: Gulick reported to me, as I reported to you, that his organization wouldn't let him do it. There was a political situation within his group that he told me about, and he was afraid that if he went away on leave or resigned to do this job, the Columbia crowd would take over and his job wouldn't be waiting for him when he got back, but if you have gotten the impression that I am opposed to this thing, it is a mistaken impression, sir.

H.M.Jr: Well, I have got it. But I just cannot on every single front create all the energy and all the initiative and the constant follow-up.

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Sullivan: I will be only too glad to have every one of those reports come to you.

H.M.Jr: I don't know who is in Blough's section. I don't know what he does. I don't know that he exists.

Blough: About six or eight months ago, I voluntarily submitted a report on what we did in the section, in the division, and you liked that and wanted it repeated, and we have done it religiously every month.

H.M.Jr: Well, what has happened to it?

Blough: And it goes to Mr. Thompson's office, that is the regular routing, but if it doesn't come to you, it isn't our fault.

H.M.Jr: Yes it is, excuse me. I mean, how do the other fellows get their stuff to me?

Blough: Well, they have direct assignments under you, sir.

H.M.Jr: Well ....

Sullivan: I will get every one of them in here, sir. There has never been any indication that I have had--

H.M.Jr: Well, I can't push on all fronts. There are 22 divisions in the Treasury, and God knows how many others there are of breakdowns. I can't be pushing everybody. That is why I have got to go outside and hire it done.

Blough: If that is all that is standing in the way, you don't have to go outside and hire it done.

H.M.Jr: But, Roy, I get so tired of pushing everybody.



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I just can't do it.

Blough: Mr. Secretary, I am very much distressed. I have been here longer than Mr. Sullivan has, and I certainly was not aware that you had this interest in this subject because it has been my interest for 10 years, a very vital interest, and the thing I have been wanting to do and get done, but with a very limited staff we haven't been able to do it.

H.M.Jr: Well, don't talk to me about a limited staff. You haven't asked me for any increases. Philip Young comes to me. He can come in here and say, "Mr. Morgenthau, I am under water. I need two clerks." I pick up the phone and Norman Thompson gives them to him. He gets them in 24 hours. Harry White says, "I want to talk to you about my organization. I need a hundred thousand dollars more." I said, "Harry, we have got to talk about it. Take on the people until we can settle it." George Haas needs more people. They can get to speak to me.

Blough: I didn't know I was permitted to do that, Mr. Secretary.

H.M.Jr: Well, there is John Sullivan. I mean, he hasn't asked me about any increase in staff.

Blough: Well, I have--

H.M.Jr: Maybe I am being unfair to John Sullivan.

Blough: Well, I am being unfair to him, Mr. Secretary. I haven't asked him for any increase in staff.

H.M.Jr: You haven't?

Blough: I have not. I have memoranda on my desk now asking him for some, however.



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H.M.Jr: I know I am repeating myself, but I can't go around and - I don't know what Dan has, but if he needs more people, I don't expect Heffelfinger - well, take this baby bond thing. We went through this thing, and I got the service that I needed; and, if I hadn't, I would be saying the same thing, but I got the thing, and we got what we wanted, and - but if we didn't, I would be saying the same thing, but Dan evidently has got enough people, but there comes a time, after so many years, that I am not going to sit around and wait and if I have got to hire it outside, I hire it outside.

(Mr. Root, Mr. Burgess, Mr. Gulick, and Mr. Bruere entered the conference.)

H.M.Jr: How did you get away from your bankers meeting today?

Burgess: I had a speech on Friday.

H.M.Jr: Well, who is the mouthpiece?

Burgess: I think it would be appropriate if Mr. Root started with a little background, Henry.

Root: Well, it is very simple. Mr. Burgess and I are on the board of the Carnegie Corporation, of which Fred Keppel is the head. Sometime ago they were down trying to contract their ordinary education fund to help in studies relating to the emergency. They thought that with their academic connections and their sort of detachment that they have they would be in a good position to do that and that was the only thing that they really seemed to fit into. They had a feeling that if they avoided anything like a hullabaloo and publicity or trying to make policies, but simply embarked in an effort to make studies where the officers of the Government felt that it would be useful and felt that

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they were perhaps so put upon by the daily impact of the emergency that they didn't have quite the leisure for it, that they might very quietly do something that was useful. We had a feeling that generally we find that the things we thought of to help England had already been started by somebody else or were being done by the Government, but there might be cases where we could be of some help, and we turned, in connection with that idea, to the Institute of Public Administration and Dr. Gulick, with the thought that there might be something done by way of looking at the changes in taxation and fiscal setup that might be forced on use by the impact of this crisis, you see, just to sit down and roll it over and have ideas that could be handed to somebody ultimately charged with the decision and go in with the other data before him, perhaps, broaden out the - his imagination as to the combinations and sideswipes and effects of what might be done. And then we found that Dr. Gulick had ideas on that and had been in touch with you, sir, so we are very much interested in it. The only interest that we have is trying to supply the sinews of war and help it along if the Government feels that it might be useful to it.

H.M.Jr: Well, there is no--

Root: We will help if we can in whatever way you want us to help.

H.M.Jr: I need the help desperately, and I have got a job here and the administrative responsibilities are terrific and the day just isn't long enough. Mr. Sullivan has to be up on the Hill half of his time, and he has got a big administrative job, and so has Mr. Bell, so if we can get people who could be helpful - I notice you said tax and fiscal - I would more than welcome it to work in



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with our own people in the tax section, economic section, being headed by Roy Blough, and I have been very much discouraged by getting practically no response from Congress on this thing, and therefore I feel that we have just got to go ahead and I think it is a job where outside people can make a definite contribution. I would welcome it.

Root: Well, then, the only interest that we have from the Carnegie Corporation's point of view is to facilitate that in whatever way fits in best with the wishes of the Department.

H.M.Jr: Well, now, could I ask this from the standpoint of the - I don't know all of these titles. The Public Administration group, are you on that board, too?

Root: No, just Carnegie Corporation. We set up, when we came to the Institute of Public Relations, a little committee with Mr. Bruere and Mr. Childs, who are on the board, and Dr. Gulick, who is the director of the board of the Institute, and Mr. Burgess and myself who are trustees of the Carnegie Corporation and Roswell Magill.

H.M.Jr: Which one is Magill on?

Root: He is at Columbia U.

Bruere: He is on the administrative board of the Institute.

Root: But not the trustees.

Gulick: No.

Burgess: This is a little steering committee, you see, to stand behind this particular study.



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- H.M.Jr: And you (Bruere) are the treasurer of it?
- Bruere: I suggested that this committee see you on this matter because this is the committee which is the uniting committee between the Institute and the Carnegie Corporation and the Foundation - the Corporation will supply the funds necessary to do the work which the Institute will undertake to do.
- H.M.Jr: That is something. I don't have to look back of that.
- Bruere: You don't have to look back of the Institute. The only point was that this steering committee was serving as an advisory group to the staff of the Institute in order that the work that is done is work which is contemplated by the Corporation in providing the funds, and that it has - carries out the general purposes of the administrative officials--
- Root: May I make one more comment on that? We had a feeling that the committee might be useful, being a practical group, might be useful as sort of giving a place where the experts - I don't mean the Treasury men, but the outside academic men could sit down and thrash out their ideas. If it is more convenient to have the committee drop out of it and have the academic men come right down into the Department, I would be for that.
- H.M.Jr: Well, let me just put it this way at the beginning. I would be very glad to have Sullivan, Bell, and me act as a committee to meet at frequent intervals with you three gentlemen until we got this thing started, you see.
- Root: Yes.

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- H.M.Jr: And then we have got really three different staffs in the Treasury, one on monetary, one on statistical, and then one on taxes. Of course they would meet. But I mean as to the plan - what do you think of that, Dan?
- Bell: I think that is very good until it gets going.
- H.M.Jr: Until it gets going. I am so much interested in this, and I feel the need of it so badly, and I - I mean, after all, what are we going to study - what staff have we got? Where are we short? Where should it be supplemented? Right?
- Root: That is right.
- H.M.Jr: And then which is the most important thing, which should come first?
- Root: That is right.
- H.M.Jr: Is that - and I would--
- Burgess: Fine.
- H.M.Jr: I have got the time, because I am tremendously interested, and if we - if I don't do it, my own people here - I mean Congress isn't going to do it.
- Gulick: You have given up hope on that have you, Mr. Sullivan?
- Sullivan: Oh, I think we have felt all along that we would have to start it, and after we got rolling, they might take over and put their weight behind it after we are showing some results.
- Bruere: Isn't the first thing to do, Mr. Secretary, to try to define a plan and scope of inquiry, what



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it is we are setting out to do.

- H.M.Jr: Well, we have gotten started on the thing, overlapping taxes, but I think you are going to find the thing will be much bigger than that.
- Burgess: Oh, yes.
- H.M.Jr: Because I can't give a technical explanation, a legal one, but we are right in now one with the - the question of states on their sales taxes in connection with--
- Sullivan: Defense projects.
- H.M.Jr: National defense. That is one angle, and we have got all these things. I mean, that is the trouble. Something comes up that seems terribly important because you have to make a decision, I mean drop everything else just to do that one part, and that is just what I would like not to do. I mean, just now, this sales tax thing in connection with national defense is, for the moment, terribly important, and it has to be decided. You forget everything else. But besides this, I just want to explain that I don't know whether we can get into the thing, but I am practically licked today on doing anything on non-defense expenditures.
- Bruere: What do you mean, you can't make any reductions of non-defense?
- H.M.Jr: That is the way it stands. So it is - I would be more than willing, certainly, to start to cover the whole waterfront, and then narrow down and see what comes first because right now, as it stands, I am completely licked on non-defense. I haven't made any dent whatsoever. I haven't made any progress on trying to get the spending committee and the tax committee to sit together



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on the Hill. We have gotten nowhere. I would like to talk this way to you gentlemen and in confidence, and you can see how tough it is.

Root: Yes.

H.M.Jr: How does that sound to you? I like to talk on that basis. I mean, I like to talk to you people the way I am talking now, "Here, gentlemen, is one of my headaches."

Bruere: It is a problem that everyone sees now, and it is one of the great problems in the country. It is a massive problem, really. We were talking yesterday afternoon, meeting at the mayor's office - the mayor talked the same way you talked, we have got no more money, but we have many more things to spend money on, what are we going to do? This morning the teachers came out with a suggestion for a city income tax and a percentage addition to the state tax for the benefit of the city.

Burgess: They say it is a progressive tax too.

Bruere: It was always progressive.

Bell: That is an incentive.

Burgess: That is a good word, too.

Bruere: Incentive to move to Connecticut or someplace.

H.M.Jr: What do you think, Dan?

Bell: I think that is all right. I think we should meet from time to time, and we can get each other's ideas, and I think the subject certainly won't be limited to the one that you started out with. You probably will get the subject of local taxes and state taxes applied to Government

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property before you are through with it, which is quite a subject and has been for the last 10 years.

Burgess: Well, there is this question of state taxes, which are really the equivalent of tariffs. You are beginning to get built up in this country tariffs on state lines. That is a dreadful thing. That ties right in here.

Bruere: How would this strike you, Mr. Morgenthau, to have Mr. Gulick come down here for - as soon as he can for two or three weeks and with a selected group of two or three men from the Treasury to map out what ought to be done, carve it up and tear it apart, split it and revise it, and finally come to some conclusion as to what ought to be done. It might take less than two or three weeks, and then to arrange for the staffing of these different projects or as soon as possible preliminary reviews of the situation can be brought to you, so that if you do want any conference with others on that subject, it will be on specific topics which would be Mr. Gulick's function to assist the staff here to arrange. I thought that - my thought at the moment - the fact that the Stenotype is going--

H.M.Jr: Does that bother you?

Bruere: Will not prevent my exploring the subject with you, because it is just thinking out loud.

H.M.Jr: There is only one copy that goes in the safe. Nobody else ever sees it.

Bruere: I think that Mr. Gulick can be helpful, as I said to Mr. Sullivan the other day, in being a - marshalling this inquiry, taking it over your minds for a moment, getting it into some



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shape so that work can be begun and then finding the staff assistance that is necessary to carry it through. The outside - the fact that it comes from the Institute of the Carnegie Corporation is merely incidental, as I understand your viewpoint.

Burgess: We want to be lost.

Bruere: And the job is to get it done under the agents of the Treasury Department and the rest of us are entirely anonymous. The financing of it to be merely an arrangement of an accommodation between the Treasury, so far as you can go and the outside funds necessary to secure the right persons, but if Mr. Gulick could do that - could you, Luther, now - get this thing focused so you have something before you of a tangible pattern.

Sullivan: I think that is a splendid suggestion, and I think the preliminary survey that determines, at least for the time being, the scope of the work to be done is terribly important. I think Mr. Gulick would probably want to go over the work that our shop has already done, and then map out individual studies just as Mr. Bruere suggested.

Gulick: Yes, there are areas in which no one would - could find anybody better qualified to tackle it than the people that are already here in the Treasury, and then there are other areas where we can supplement by drawing in people from the outside.

H.M.Jr: To be slightly mercenary, how much money is available?

Root: I can give you an answer on that, as far as it can be answered. Carnegie Corporation set -



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got cleared of its ordinary commitments this year half a million. Next year they ought to be able to get clear more, but that was for the general purposes of the emergency. We have had a small grant already, just a sort of trial grant to the Institute, to get started, but we have part of that, considerable part of that fund left, and as the need begins to foresee - the need and the scope of the thing finds itself, we will go after whatever amount is necessary. We can't guarantee what the board will do, but you (Burgess) and I would certainly go out for any amount that the Treasury sought or thought would be useful.

- Burgess: Out of the 500 we have already appropriated a hundred and seventy-five for specific purposes, but funds can be forthcoming for what needs to be done.
- H.M.Jr: Well, that is certainly - from what we have, I can't see that - but what that would be more than ample. I think one of the things, if Mr. Gulick will come down, that should be done, is that he should ask all other departments what they are doing.
- Blough: There is quite a little work going on.
- H.M.Jr: I think that ought to be brought into line. Commerce is doing something.
- Sullivan: Budget, too.
- H.M.Jr: Federal Reserve is doing something. National Defense is doing something. In other words, we don't want to overlap, and if we have got any good men, we can ask them to join up.
- Sullivan: Fine.

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- H.M.Jr: So I mean we won't - there is no use - and then could we also approach any other foundations - what is this institute here?
- Bruere: Brookings?
- H.M.Jr: Find out what they are doing, if anything.
- Root: They are working hard on emergency tax policies because we keep getting - we have gotten two books from them already.
- Bell: Hanson is down at the Federal Reserve Board making quite a study on it, isn't he, Roy.
- Blough: They are not doing much about federal-state relations.
- Gulick: I think in this field of federal-state relations, Mr. Morgenthau, everybody is waiting to see how it can be started and in what way it can be done. Everybody feels it is fundamental and they don't quite know how to start. That is the feeling at Budget and at Commerce, and it is the feeling at Federal Reserve.
- Bell: Frank Bane is down here on some of that work, isn't he, with the Defense Commission?
- Gulick: That is on the division that is responsible for the development of state and local council for defense, not going into the tax end at all.
- H.M.Jr: All I am suggesting is, in the two weeks or month, whatever it takes, could that include finding out what federal and private agencies are doing along these lines. Don't you think that would be a good idea.
- Burgess: Oh, yes.

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- H.M.Jr: Now, what is the foundation - the Filene Foundation?
- Bruere: Twentieth Century Foundation.
- H.M.Jr: They have done some very good work.
- Bruere: Yes, that can be accomplished.
- H.M.Jr: Just so there isn't duplication.
- Gulick: I think Mr. Shoup, who is already on your list of consultants, is a man you might want to swing onto this thing.
- H.M.Jr: What is Carl doing?
- Blough: Teaching at Columbia. We are using him all he will give us, but he isn't giving us much. I think from now on we could probably get him about two days a week.
- Gulick: He is the man who directed this study for the Twentieth Century fund.
- Bell: He has also led in the federal.
- Root: We might be able to get him free for that.
- H.M.Jr: Well, he is an excellent man. There is none better, and he knows the Treasury. Where will Roswell Magill fit into this?
- Burgess: He is one of our committee.
- H.M.Jr: Of this committee?
- Bruere: He is on this.
- Gulick: He would have been here today, but he had to teach.



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H.M.Jr: But he is on this group?

Bruere: Yes.

H.M.Jr: Fine.

Gulick: He couldn't come today.

H.M.Jr: Then it gets down to how soon Gulick can get down here.

Gulick: In the next 10 days, I can come down.

H.M.Jr: Not for 10 days?

Gulick: I have next week pretty well sewed up.

H.M.Jr: How does it hit you gentlemen?

Sullivan: Fine. First rate. In the meantime, we will assemble all of the studies we have done. I think you will probably want to look those over, too. How is Professor Haig now?

Gulick: He is very sick, you know.

Sullivan: I knew he hadn't been very well. He made the first study for us.

Gulick: But he has apparently pulled through. That is, they were pretty worried about him. He had a complication of pneumonia and something else hit him, with the flu, and he was a very sick man, but he is all right now.

H.M.Jr: Well, I just want to say one thing more. Start with overlapping taxes. But this whole question of federal expenditures, this whole impact on our economy and all that, I mean it is something that just never leaves me.

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Root: Yes.

H.M.Jr: I mean, I can't get away from it at any time, and I don't think that any of us - well, I can't, talking for myself, comprehend the size of this thing once we get going for the English, and just what it is going to do to us and all of that. I just don't know. To give you some ideas - I think it is public property - Dr. Clark, the Undersecretary of the Treasury in Canada, was in yesterday, and I know that they are spending for national defense somewhere close, I think, to 60 percent of their national income.

Bell: Between 50 and 60 percent of their national income.

H.M.Jr: And while he was down here, we got the figures that he had. He had a top figure of 68 yesterday.

Bell: Next year he thought it would be much higher.

H.M.Jr: But I mean that proportion.

Burgess: It is appalling.

H.M.Jr: It is.

Root: We are going to have a completely different kind of an economy for a while, and then we have got to try to get back on the other one again.

H.M.Jr: Yes. But the Congressmen put it much better than I could. "Investigate vested interests like WPA and Agricultural Relief," as one of them put it the other day. "If you don't break that now, you never can break it."

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Burgess: That is right.

H.M.Jr: But they won't take the initiative. They want us to do it, they say. Just to illustrate - I can't illustrate it really. We were sitting up there - I won't mention the man's name - but the President was the speaker and the Chairman of the Ways and Means and the leader, McCormack, and Cooper. One of them got up to say, "I am sorry, I have got to leave this meeting. We are going to have a meeting in the War Department at four o'clock," and the Speaker says, "Did you get another munitions factory for your state?" And here we were talking economy, but he had this meeting, and he walked out on us to go down on a four o'clock appointment to get another factory. At least my eyes are open. Now, if you fellows could help me, believe me, you will get a very, very hearty welcome.

Bruere: Luther, could you be here on the 16th of March?

Sullivan: That is Sunday.

Bell: Monday.

H.M.Jr: You (Bruere) might come down on Sunday night so as to be fresh on Monday morning.

Bruere: I want to get the date fixed so we can get really started.

Gulick: Tuesday, the 18th.

Bruere: Is that satisfactory to you, Mr. Secretary?

H.M.Jr: Entirely satisfactory.

Burgess: You are thinking for another meeting of this--



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Bruere: No, for Luther to get started.  
H.M.Jr: And then we will have another meeting.  
Bruere: Yes.

March 5, 1941  
11:01 a.m.

Operator: Mr. Early talked to Mr. Gaston.  
H.M.Jr: Oh. Well, let me talk to Gaston and find out what it is.

11:06 a.m.

H.M.Jr: You took it.

Herbert  
Gaston: Bob Doughton.

H.M.Jr: No, they said Steve Early called.

G: Oh, Steve Early. Yes, he called me about - I also had a call from Bob Doughton and I thought that might be the one. Steve Early just called, he didn't say about trying to call you. He called in the interest of Clarence Linz who has just been fired by Ritter of the Journal of Commerce, and he wanted to see if we couldn't find a job for Clarence, of whom Steve thinks very highly, has great confidence in him.

H.M.Jr: Why did they fire him?

G: Well, Clarence thinks that it's a money-saving proposition. The Ritters own the St. Paul Press Dispatch and Wiggans - not Wiggans but, oh, the man that was over there in Agriculture - former correspondent, is the correspondent of Pioneer Press Dispatch here, and what they are apparently going to do is to combine the two bureaus.

H.M.Jr: I see. What do you think of Clarence?

G: Well, I think he's thoroughly honest, thoroughly reliable. He told me that in view of this experience he was rather sick of the writing game and he wished he could get into some administrative job as an assistant to some

- 2 -

important administrative officer. Many years ago he was a stenographer in the Government service.

H.M.Jr: I see.

G: But he's a very careful fellow and, as I say, I think thoroughly honest.

H.M.Jr; Oh, well.

G: But that's what he called about.

H.M.Jr: O. K. Thank you.



March 5, 1941  
11:47 a.m.

H.M.Jr: Hello.

Operator: Congressman Kopplemann.

Cong.  
Kopplemann: Goodmorning.

H.M.Jr: How are you?

K: Fine, thank you, and I hope you are.

H.M.Jr: I'm all right.

K: Now, I've received your letter this morning. I thought it was a very good letter. I didn't want to send a copy of it unless I had your permission. The fellow who wrote me is a very good personal friend and he's all right, and I think that your letter ought to go to him so that he could take it up with those that are lambasting, you know.

H.M.Jr: I have no objection.

K: Well, then it's all right.

H.M.Jr: I have no objection.

K: Yeah. Well, that's the only reason I called you.

H.M.Jr: O. K.

K: I hope to see you one of these days.

H.M.Jr: Any time.

K: Thank you.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 5, 1941

For Miss Channing  
 9:00 AM  
 5/1/41  
 J. M. R.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Sir Frederick Phillips telephoned me at 11:50 to inquire whether Secretary Morgenthau could give him an appointment for this afternoon. Pinsent had told me earlier in the morning that they had received a message from London to the effect that the desired arrangement with the Belgian Ministry of Finance in London in regard to gold had been signed, and that Phillips would probably ask to see the Secretary sometime today. Pinsent also let me know that a cablegram had been received from London which appears to be the answer to the request for latest data on gold holdings of British throughout the world, but this message is not yet in shape for delivery to us.

Pinsent is coming to see me shortly after 12 o'clock.

March 5, 1941

12:55 p.m.

H.M.Jr: Hello.

Operator: Hopkins:

H.M.Jr: Hello, Harry.

Harry Hopkins: Hello, Henry. How do you feel about the bill now - any better?

H.M.Jr: Well, nothing has happened to make me feel any better.

H: Well, I gathered that the fact that you put Foley and Cox into the picture legislatively, I think, has helped. I think that's a distinct help.

H.M.Jr: You do.

H: I certainly do, and I gather from what Cox told me that you told him to step on it and he was going to do it.

H.M.Jr: Sure.

H: And apparently you don't have to tell him twice.

H.M.Jr: No. What do you hear from the Hill?

H: Well, I don't hear - the most disquieting things that I hear from the Hill are the delay in the damn thing.

H.M.Jr: Yeah, that's what bothers me. The radio this morning had something. It said that the White House had indicated that the President felt - no amendments of any kind other than those which have been agreed on. Any truth to that?

H: Not that I know of, although I hope it's true. He certainly hasn't indicated to me that he's going to favor any amendments.

H.M.Jr: I see. Well, if I hear any good news I'll let you know.



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H: All right.

H.M.Jr: Are you going to be around tonight or are you out dining at some night club?

H: No, I'm going out. Bob Sherwood and Madelaine are coming to town.

H.M.Jr: Oh, are they?

H: For a couple of days. Are you going to be home tonight?

H.M.Jr: We're at the White House.

H: Are you going to be here for dinner?

H.M.Jr: Yes.

H: Is it going to be a big dinner?

H.M.Jr: No, they say very small, very exclusive.

H: Why don't I ask Mrs. Roosevelt to ask them?

H.M.Jr: That'd be wonderful.

H: Would you like that?

H.M.Jr: Oh, it'd be grand.

H: Fine.

H.M.Jr: They'll be lots of fun. In fact, I don't think anybody is going to be there except us.

H: Well, I mean, did you want a private affair tonight?

H.M.Jr: No!

H: You're just going to relax.

H.M.Jr: Very much.

H: All right. I'll ask Mrs. Roosevelt right this minute.

H.M.Jr: That'd be wonderful.

H: All right.

March 5, 1941  
3:55 p.m.

RE AID TO BRITAIN

Present: Mr. Pinsent  
Sir Frederick Phillips  
Mr. White  
Mr. Cochran  
Mr. Playfair

H.M.Jr: Let me ask the advice of you two men (White and Cochran). I don't know what to do. Oumansky wants to see me on an informal basis. I don't want to see him. I can't help him on this machine tool business. Do you think I could turn him down? I don't know what to do.

Cochran: That is what it is about, is it?

H.M.Jr: Well, I think so. He has gotten nowhere. They have been fooling around for a long time.

White: I should think it would be a little difficult for you to turn him down without knowing what he has in mind.

Cochran: I agree with Harry. I would see him and --

White: After you have found out what he has in mind, you could say it is out of your bailiwick, you can't help him; but when an ambassador asks to see you in an informal way --

H.M.Jr: Maybe it is just another of the other thing.

Cochran: That is what Phillips is coming on, I think,

- 2 -

this afternoon, and they have another cable in.

- White: Also, I think the last time we had some discussions with Oumansky, you indicated he should come to see you. Of course, it was with reference to gold, but you didn't specify.
- H.M.Jr: Oh, he has had hours and hours of conferences with Philip Young since then.
- White: Oh.
- H.M.Jr: Hours he has spent with him.
- White: That is right.
- Cochran: Well, we are buying their gold. There have been two shipments this last week, so there is no question about that.
- H.M.Jr: He has been with Philip for hours.
- Cochran: The British have a cable on gold which Pinsent was unraveling today, so we will have some of these details.
- H.M.Jr: Now, what was the thing that you wanted to talk to me about?
- Cochran: What I had here was, Pinsent said that their office in London had wired them that our embassy there was protesting rather vigorously, as he put it, because of the inability of American heirs to get legacies out of England because those are blocked there under regulations which they put in last October, and Pinsent wanted to know if we could let them know informally whether they ought to accede to the State Department representations or not.



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I talked with Livesey, not putting it up that way. I said, "Have you had anything up with the British on American people who are entitled to legacies?" And he said they had in a few cases, usually coming from Congressmen, and that they have passed them on to the embassy over there, that they have piled up a little bit. They are sort of putting it up to the British as to whether they want to --

H.M.Jr: May I interrupt you?

Cochran: Yes.

H.M.Jr: I would turn it over to John Sullivan. Let them see Sullivan.

Cochran: No, it is not that, it is whether we want the British to use their dollar exchange which they have to pay American heirs here or whether - and then we have to give them that much more. The point is --

White: Well, that is the problem. It is a problem for Sullivan as well. They are putting the question up to us because for every dollar they give the heirs, they won't have that much dollar exchange.

Cochran: That is it, yes, but on the other question, over here the legacies are state matters, you see, and some states have taken direct action as a result of the German position on that where they wouldn't give out --

White: How much is involved?

Cochran: Well, they are not important amounts so far.

White: I wouldn't bother with that.

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- H.M.Jr: Well, I wouldn't give a snap judgment, anyway. Does he want an answer?
- Cochran: I don't think Phillips will raise that today, but if Pinsent comes along he might, because he was asking me this..
- H.M.Jr: Sit down, gentlemen.
- Cochran: I told him I would speak to you when I had a chance.
- H.M.Jr: I want you to stay, Harry. He is outside. I can't handle that. I wish you would take that up with Dan Bell. Couldn't that go through the Foreign Funds Committee?
- Cochran: No, it is not their business at all.
- White: It is the other way.
- Cochran: Well, Dan and I can fix it up.
- White: I think maybe the Legal Division ought to be on it, or Sullivan, plus Merle.
- H.M.Jr: Well, go to Bell and see what he does with it. I am not going to - I am going to forget about it.
- Cochran: All right, sir.
- If I could get you to sign a letter to Senator Gillette. He has written in that a Colonel Lindberg, Collector of Customs down in Texas, has \$25,000 in sterling tied up in England. I just wanted you to acknowledge it. I will look into it.
- H.M.Jr: Thank you.

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- Cochran: And I can give you this other stuff whenever you want it, because I did have a rather interesting talk over there.
- H.M.Jr: You are to stay behind when they are through, please.
- Cochran: All right, sir.
- H.M.Jr: I would like you to stay behind.  
(Mr. Phillips, Mr. Pinsent, and Mr. Playfair entered the conference.)
- H.M.Jr: What can we do today?
- Phillips: I would like to get on a little further from where we were on Monday, sir.
- H.M.Jr: Right.
- Phillips: There is one remark I wanted to make, and I don't think I did, but I will just make it, and that is to say that the view of the British Government is in favor, with regard to Canada, of giving them actual production on top of the production of the United Kingdom and the United States of munitions, you see, and they are extremely anxious to get the absolute maximum of production of munitions out of Canada on top of the other two countries. I think it is obvious but it ought to be made clear. That is their point of view.
- H.M.Jr: Yes.
- Phillips: Now, there are two points in connection with Canada which I rather hoped to clear up. One was the question we mentioned about the airplane engines and component parts which come from the



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United States to Canada to be processed and completed there, the engines being put into airframes, and we made a suggestion that possibly those might be brought under the Lend-Lease Bill, which would help the problem to a certain extent. It doesn't solve the problem, but it does give a certain amount of relief. I brought over with me a short note just explaining what those things are, what it comes to, you see.

H.M.Jr: I would be glad to receive it.

Phillips: Now, the other point I wanted to discuss with you, sir, if you are willing, is that question of what we pay Canada. You know, we did last year down to December pay them quite a lot of gold.

H.M.Jr: Yes.

Phillips: Then when it became obvious that there was going to be a delay of a couple of months before the bill passed and our balance began to run down, of course we had to stop paying them gold and in fact we haven't paid them anything since about the middle of December.

Now, after the bill is passed, the question arises as to whether we can pay them anything out of our newly mined gold in Africa. It won't come to any great part of our debt to Canada. For instance, for the four months, March to June, I make our debt to Canada \$385,000,000, whereas at the very outside I don't suppose we could scrape together more than a hundred and twenty billion dollars of gold. That is more than we could possibly spare. So it is only about a third of their bill, but there is that point we are not clear about. Do you take exception to our paying

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gold to Canada and Canada using it to pay her own unfavorable balance with you, or have you any other suggestions to make?

- H.M.Jr: Well, this is the first time this has been put up to me.
- Phillips: It is rather important from the point of view of the figures.
- H.M.Jr: I wouldn't give any snap judgment. I would like to think that over.
- Phillips: No.
- H.M.Jr: I mean, I can't just give you an answer like that.
- Phillips: I wanted to raise it with you and put it in your mind.
- H.M.Jr: We will think about it. I mean, I want to think about it.
- Phillips: Yes. It does affect the problem, of course.
- H.M.Jr: Well, as I understand it, you people haven't sold them any gold now for months.
- Phillips: Not since about the middle of December. That is three months.
- H.M.Jr: That is the figure I had, three months, and in his calculations with us, he had figured on getting gold from you.
- Phillips: He had?
- H.M.Jr: Oh yes. You must have seen him down here.
- Phillips: Oh yes, I knew he was here.

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H.M.Jr: So his calculations were out by whatever that amount was, gold, for three months?

Phillips: Yes, that is true.

H.M.Jr: It was out that much?

Phillips: Yes. But I can't go ahead for the future promising I will pay him gold until I know your views about it.

H.M.Jr: Well, I can't answer it on a split second, either. I want to think about that.

With this shipment of 75 million in gold, what does that put your balances to?

Pinsent: I don't think I can answer that immediately, Mr. Secretary. I can have the answer in a moment for you when we get back to our office.

H.M.Jr: You might let Cochran know.

Pinsent: I have the particulars of how we made up that shipment now, and I can hand those in. I just received it this morning.

H.M.Jr: Good.

Playfair: We are just working out those figures.

Cochran: Yes, we understand.

H.M.Jr: Then - well, do we have that figure ourselves?

Cochran: I have that, yes. It was sixty-one two days ago.

White: On March first it was sixty-one.

Cochran: Sixty-one two days ago.



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Pinsent: This would put it up to a hundred and thirty-six less whatever has been spent in those two days.

H.M.Jr: And you are giving us the particulars on that shipment?

Pinsent: Yes, I can give you those.

H.M.Jr: Well now, I got that one question about do we or don't we care to advise you about your future sales of gold to Canada. Is that right?

Phillips: That is right.

H.M.Jr: Is that the only question?

Phillips: Well, that is one question I wanted to raise.

H.M.Jr: All right, that is question Number one.

Phillips: That and the question of those component parts of airplane engines under the Lend-Lease Bill are the only questions I have got about Canada.

H.M.Jr: I thought you were going to give me a memo on the Lend-Lease.

Phillips: I will. I will leave it with you.

H.M.Jr: Asking, will Canada come under the Lend-Lease?

Phillips: That is right. I have got it here.

H.M.Jr: Clark asked me the same thing yesterday, and I didn't answer him. I didn't answer him. All right?

Phillips: Well now, the other problem I wanted to raise with you, if I might, is whether you have any - formed any judgment about our financial position in the months immediately ahead,

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because as you probably remember, I said we had a big deficit, as far as we could see, over the next four months, part of which was due to Canada and part of it being due to you. Well now, we have more or less touched the Canadian side. Now, what about the United States?

H.M.Jr: Well, I come back and ask you when is Sir Edward Peacock going to show some results? We figure that you have got about a billion dollars now worth of direct investments in this country, and he hasn't yet sold one, so how can I tell? I don't know if he is ever going to sell any.

Phillips: Well sir, it doesn't quite meet my point. You said that you considered the remaining marketable securities we had here and the direct investments against our existing commitments.

H.M.Jr: That is right.

Phillips: When I say we have got a deficit coming, it isn't only due to those existing commitments, it is due to the fact that we have payments to make to third countries.

H.M.Jr: Well, let me get this thing straight, what you have now been asking me, not necessarily today but a number of times. The last time I saw you, your balance was about to be sixty-nine million dollars on the first of March, and after that there was no more money in sight. Well, then you find seventy-five million dollars in gold. And we have got a situation which I didn't - I mean, I don't know whether that is part of the hundred million of the Belgian or not.

Phillips: Which, the seventy-five? Surely not.



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- Pinsent: No, sir, the seventy-five has been made up as to a small part out of our own gold in Ottawa and as to the main part, as a result of a fresh decision that we were prepared to switch French gold against not only the gold lying in South Africa, but also the gold lying in Australia and other places. That we had understood previously was not regarded as a proper step to take, but apparently they seem to have changed their judgment on that.
- H.M.Jr: Who is they?
- Pinsent: London.
- H.M.Jr: I thought it was MacKenzie King last time that was objecting.
- Pinsent: No, this is exclusively a question of the French gold in Canada under our jurisdiction, so far.
- H.M.Jr: Well, you see there are a lot of things. You had better state your question again.
- Phillips: Very well, sir. In the next four months, it is quite obvious that we shall have a large deficit expressed in United States dollars. I gave you a figure of four hundred sixty million dollars, part of which is clear when we have made our arrangements with Canada, but a substantial part of which still remains. We have no balances. In reaching that deficit, I have allowed for the newly mined gold and any securities we may be able to sell. Where does the balance come from?
- H.M.Jr: Well, I have got to come back and ask you this. Of the four hundred and sixty million dollars, what part of it is for outstanding commitments, contracts in this country, and what are the other component parts? I don't know.



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Phillips: Well, I can supply you with the figures, sir, right off. Our existing commitments in this country for those four months are five hundred ninety million dollars.

H.M.Jr: Five hundred and --

Phillips: Ninety.

H.M.Jr: Between now and the first of July?

Phillips: Yes.

H.M.Jr: Five hundred and ninety?

Phillips: Yes.

H.M.Jr: And you say you are going to have a deficit of four hundred sixty?

Phillips: Yes.

H.M.Jr: I don't know. I am not getting it.

Phillips: Well, I have fitted in everything I can possibly fit in.

H.M.Jr: I am not getting it at all. You see, I can't take it, Sir Frederick, in bits like that. I don't get the question. I mean, if I would - couldn't you write down --

Phillips: I could perfectly well, sir, but I haven't done it - the only reason for not giving you the actual figures hitherto is that I have been very vague, as I said, about Canada, but I have got a little more light on the Canadian situation, and it was very difficult previously to give you figures, but I can try.

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- H.M.Jr: Well, wouldn't you try, because frankly, you and I never spar with each other and I frankly don't understand what you are trying to get me to say, but maybe if I had it on a piece of paper I could understand it.
- Phillips: All right, sir, you can have it.
- H.M.Jr.: And you could write it two ways, one way, if you sell the gold to Canada, and one way if you don't.
- Phillips: All right, we can do that.
- H.M.Jr: And you can make another proposal, one way if Canada sells its American securities and if they don't. That will affect you.
- Phillips: No, it wouldn't affect our deficit.
- H.M.Jr: Well, it will affect them in their relationship with us. But anyway, it would be one thing if you would sell some gold to them and another if you don't. What you wanted, I take it, is to show me what your position is between now and the first of July.
- Phillips: As near as we can do it.
- H.M.Jr: And one is the - your obligations against outstanding munitions contracts.
- Phillips: Yes.
- H.M.Jr: And the other is - well, everything else except that.
- Phillips: Yes.
- H.M.Jr: Now, do you throw food, for instance, into that?

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Phillips: Oh yes, but it is a small item compared with --

H.M.Jr: Shipping?

Phillips: Yes, certainly, all our expenditures in dollars.

H.M.Jr: Well, if I could get something, and then the other thing, I don't know just what - how successful they are, the Army, in taking over some of these contracts, and the RFC - I mean, how much between now and the first of July of these contracts will they pick up.

Phillips: I wish I knew, sir.

H.M.Jr: Well, how much are they thinking of doing.

Phillips: Yes, sir.

Pinsent: Of the capital assets, Mr. Secretary?

H.M.Jr: The RFC is buying some of the factories and that sort of thing.

Pinsent: I don't know whether my information is up to date, but I heard a figure of something like eighty to a hundred million mentioned four or five days ago as a possibility.

H.M.Jr: Well, you see, eighty to a hundred million dollars one way or the other makes an awful lot of difference.

Pinsent: But that won't come in for some time, probably.

H.M.Jr: Well, do you want to figure this to July 1 or September 1? Everything else you have done is until September 1, isn't it?



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Phillips: Yes.

H.M.Jr: Well, let's figure September 1.

Phillips: All right.

H.M.Jr: Don't you think so?

Phillips: July is --

White: I think they might do both if it is possible, but if both are not possible, I think probably July would be --

Phillips: Between two, four and six months, I can give you those figures.

H.M.Jr: Two, four and six? That would be all right.

White: If we had it also until September 1, it would be easy for us to fit it into the figures we already have.

H.M.Jr: Everything we have got is built up to your war year now, which is September 1.

Phillips: Yes.

H.M.Jr: It would be - you could do July 1 and then do two more months, if possible.

Phillips: All right. Well, there is nothing in it except of course it does get --

H.M.Jr: Well, the plain thing --

Phillips: ..... a little sketchy --

H.M.Jr: I really don't quite get what you ask and if you could put it down on a piece of paper and whenever it is ready, I am at your disposal.

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Phillips: I know.

H.M.Jr: I am ready whenever you are.

Phillips: Yes. Very well.

H.M.Jr: You know what I want on paper?

Phillips: I think so, yes.

H.M.Jr: Well, I think I know what you want, but I am not sure.

Phillips: Well, it is comparatively easy, I should say.

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

Phillips: I think that is all I wanted today.

H.M.Jr: All right.

Phillips: But I should like to get on with the Canadian figures whenever you are ready.

H.M.Jr: Well, you just sort of popped it at me.

Phillips: I am just as unhappy about it as you are.  
(Mr. Phillips, Mr. Pinsent, and Mr. Playfair left the conference.)

H.M.Jr: I knew what he wanted, but I wasn't going to have him put it to me, "What are you going to do about it?" To hell with him. He can't tell me what I am going to do about his debts. Let him tell me what he is going to do.

White: And let him go into more detail, because he just asked me what I thought you wanted, and I said a detailed statement of the character

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that he gave us for the coming year except for the period in question would be most helpful to you. That would show where his money is going, where he expects to get it from, how much he is going to have left, which is what you want to know. After you know that, the problem is, what is he going to do, because he can raise the money if he wants to sell the investments.

H.M.Jr: Sure.

White: That is the crux of the problem.

H.M.Jr: I threw it right back at him. He isn't going to come in here and say, "Mr. Morgenthau, I have got to pay four hundred sixty million dollars. What are you going to do about it?" I am not going to get on that footing. Don't you agree, Merle?

Cochran: Yes, and he should have come out and explained that Belgian cablegram.

H.M.Jr: Well, he whispered it to me just now, and then he whispered that they were going to take a hundred million of the Belgian gold, but I didn't like his attitude today.

Cochran: I hadn't seen him before.

H.M.Jr: I didn't like his attitude, and I think I showed it to him, didn't I?

He can't come here and say, "What are you going to do about that money I owe?" What the hell!

Cochran: No, he ought to give the balance sheet to you.

White: He should give more details, how much are



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these direct investments, how many are the securities, what gold is he going to get, where is it coming from, whether there is any more gold here and there, if he is putting all his cards on the table, as he will --

H.M.Jr: He isn't.

Cochran: On this gold, they have changed their basis of calculation. That is what has confused Harry, because they haven't counted this Australian gold as available. Now they have decided they can switch French gold in Canada against that.

White: This figure of four hundred fifty million, Mr. Secretary, presupposes that they pay Canada everything, and that will leave them four hundred fifty million to hold here. If they don't pay Canada, then they are only seventy-five million, you see, in the hole. I don't know whether that was clear to you.

H.M.Jr: No, I didn't carry those figures, so I couldn't be clear; but there is time enough to answer about the Canadian thing when we see his whole figures.

White: Yes. About the Canadian thing, that is a different problem, and I think there is something to be said for having him pay us the money and if - making whatever arrangements are necessitated by that with Canada. I don't know whether Canada would like that.

H.M.Jr: Well, Harry, I am not going to do this.

White: No, No, I merely say that is something - there are pros and cons on that problem.

- 19 -

H.M.Jr: Well.....

Cochran: I copied that Canadian memorandum of yesterday that had the bad percentages in it. Did you want a copy?

1. There are two questions on which we should like guidance from the Secretary in connection with our financial arrangements with Canada. The first question is whether he would see objection to our paying Canada in gold so far as we have any gold available for that purpose in future. This would not cover more than a fraction of our adverse balance with Canada. As an illustration, the total payments due to Canada in the next four months are of the order of \$385 millions U. S., whereas the maximum gold we could in any circumstances provide would not exceed \$120 millions. The gold would, of course, reach the United States eventually in payment of Canada's adverse balance with the United States.

2. The second question is connected with the operation of the Lend-Lease Bill. At present, when munitions are manufactured in Canada for the U.K. for which components or materials have to be bought in the United States, Canada buys the materials out of her dollars and we pay Canada the full price of the goods. If these components or materials could be lease-lent to the U.K., we could deliver them to Canada for processing and they would only charge us the net cost. The amount involved is uncertain, but is of the order of \$100 or \$200 millions a year. Examples are:

- (1) Aero-engines manufactured here and fitted to air frames made in Canada,



- 2 -

- (2) Materials needed in the manufacture of guns and trucks which are being made in Canada for the U.K.
- (3) On the present arrangements Canada buys aircraft and other training equipment for use under the Empire Training Scheme for pilots in Canada and the U.K. bears the cost of these purchases.

If this equipment could be obtained directly in the U.S. by the U.K. under the Lend-Lease Bill and then delivered free to Canada, further relief would be given. The sum is of the order of \$60 millions a year.

Washington, D. C.  
5th March 1941.

March 5, 1941  
4:30 p.m.

H.M. Jr: Hello.

Philip  
Young: Yes, sir.

H.M. Jr: How much?

Y: The \$16 million contract for Allison engines that I spoke to you about yesterday I have sitting here on my desk at the moment with a letter from Sir Frederick Phillips, which says:

"I would be grateful if you would give this commitment your retrospective approval."  
Whatever that means.

H.M. Jr: No. It goes into the same - this week's.

Y: Yeah.

H.M. Jr: This week's.

Y: Right.

H.M. Jr: No, we can't - this Air Mission - we can't treat them separately.

Y: Right.

H.M. Jr: Don't you agree?

Y: Yes, I do. And he goes on to say:

"I hope it may be possible to include it within the total of \$35 - of commitments for this week without asking for that figure to be increased."

H.M. Jr: Well, that's all right. In other words, the 16 will become part of the 35.

Y: For this week, that's right.

H.M. Jr: What does he mean, in retrospect?

- 2 -

Y: Oh, he means that they've already committed for it without approval.

H.M.Jr: Well, but the total still would be 35.

Y: Right.

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

Y: That's all at the moment. There is about \$3 million 9 of machine tools for which they've committed that haven't showed up yet.

H.M.Jr: Your boy fried, Oumansky, is coming in here at 10:00 tomorrow. What do you suppose he wants.

Y: Raise hell probably.

H.M.Jr: What?

Y: Probably wants to raise hell.

H.M.Jr: All right.

Y: Do you want a note on it first?

H.M.Jr: Yeah. Up to the house I guess. Oh, I'll see you in the morning.

Y: Right.

H.M.Jr: O.K.



3/6/41

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Mr. Dennis gave Mr. White and Mr. Cochran  
copies of this today.

The Secretary took this to the 11 am  
meeting at the White House today, 3/6.

3/5

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Washington, D.C.,  
5th March 1941.



3/6/41

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Photostats furnished to Mr. Cochran,  
Mr. Bell and Mr. White today

15 BROAD STREET, NEW YORK



TELEPHONE HANOVER 2-2460

## BRITISH PURCHASING COMMISSION

March 5, 1943

Dear Mr. Secretary,

I have to acknowledge your letter of March 3d, and beg to inform you that I have communicated it at once to the Ambassador.

I take good note of your suggestion that work should be pursued as actively as possible along the lines which I have established since my recent arrival and I shall continue to press the work forward.

I am at work preparing the ground for sales with regard to the more prominent concerns, including the Viscose Company and the chief thread companies, J & P Coats, Clark Thread Spool Cotton Company, American Thread Company and the Linen Thread Company, Inc. A British director of Coats and Clark has been summoned to this side and is on his way. I have also asked for the Chairman or Vice-Chairman of the British-American Tobacco Company and believe he has left for this country. Other businesses which have been interviewed are The Borax Company and their associates, The U. S. Potash Company, The Distillers Company, Keasbey & Mattison Company, Crown Mills, Olympic Portland Cement, and a number of smaller companies. One company, The Pacific Commercial Cable Company, is at the stage of negotiations over price.

In no case that I have come across has the controlled company issued any public accounts or reports, with the result that when the question of sale arises there is really no basis upon which to work except the word of the management. It is necessary, therefore, to have some investigation and, in important cases, a thorough one. This accounts for the delay that might otherwise seem unreasonable.

Special problems are arising in the case of some of the companies and when we have these in concrete form I should like to have the opportunity of consulting you as to how they should be treated, if you will be so kind as to express an opinion and give me the benefits of your advice. I shall, of course, be glad to go to Washington at any time that suits your convenience and Sir Frederick Phillips can get me on short notice if necessary.

Believe me, dear Mr. Secretary,

Yours sincerely,

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





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



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE March 5, 1941

TO Secretary Morgenthau  
 FROM Mr. Cochran

## STRICTLY CONFIDENTIAL

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

	No. of Shares Sold	\$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	\$ Proceeds of Bonds Sold
February 24	38,869	976,610	124,000	107,055
25	67,899	2,825,812	55,000	51,665
26	17,232	704,146	42,000	42,810
27	23,210	1,115,103	126,000	118,507
28	39,057	2,144,912	164,000	143,684
March 1	<u>3,500</u>	<u>37,001</u>	<u>115,000</u>	<u>125,958</u>
	189,767	7,803,584	626,000	589,679
February 28 Gift to Treasury	<u>500</u>	<u>80,092</u>		
	190,267	7,883,676		
Sales from February 22, 1940 to February 22, 1941	<u>5,404,821-1/2</u>	<u>164,338,923</u>	<u>18,857,700</u>	<u>18,075,139</u>
TOTAL FEBRUARY 22, 1940 TO MARCH 1, 1941	5,595,088-1/2	172,222,599	19,483,700	18,664,818

Miss Poate reported sales of non-vested securities for the week ending February 22 totaled \$900,000.

March 5, 1961.

CONFIDENTIAL

My dear Mr. Secretary:

I have your confidential letter of February 25, 1961, in which you forward for my information and an expression of my views in the matter, the pertinent portions of a memorandum of conversation held in the Department of State between the Honorable Neville M. Butler, Minister Plenipotentiary of Great Britain, and Mr. James Clement Dunn, Adviser on Political Relations, regarding the interest of the British Government in having a third Coast Guard cutter added to the two cutters already stationed in the mid-Atlantic ocean for the purpose of observing and reporting meteorological conditions, and stressing the great importance that the British Government attaches to this weather patrol by Coast Guard cutters.

I am also in receipt of information from the Chief of the Weather Bureau and the Civil Aeronautics Administration, of the Department of Commerce, stressing the importance of these meteorological observations to the Weather Bureau and to the Civil Aeronautics Administration in safeguarding practically the only remaining means of quick transportation to Europe, namely, the Atlantic Clippers.

Owing to very recent developments in connection with Coast Guard cutter assignments there are but five cutters available for weather patrol duty which permits the maintenance of but two mid-Atlantic stations. Two more vessels would be required to establish a third station, and no suitable

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vessels are available to the Coast Guard at this time. It is possible, or even probable, that the five cutters now on weather patrol may be diverted to more important duty in the near future.

It is probable, therefore, that we shall be faced very shortly with the need for obtaining and equipping merchant vessels for maintenance of the weather stations if the service is to be continued, and I shall greatly appreciate the help of the State Department in working out this problem.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable  
Cordell Hull,  
Secretary of State.

*[Handwritten initials]*  
By *[Handwritten initials]* 3/10



copy to Gesta 88  
1/26/41



DEPARTMENT OF STATE  
WASHINGTON

In reply refer to  
IN

February 25, 1941

CONFIDENTIAL

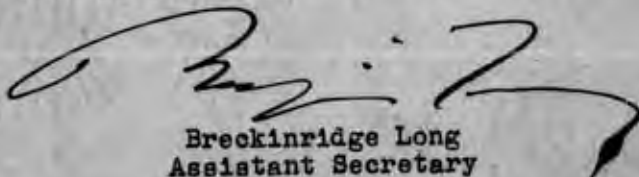
My dear Mr. Secretary:

I quote hereunder for your information and an expression of your views in the matter the pertinent portions of a memorandum of conversation held in the Department on February 14, 1941, between the Honorable Neville M. Butler, Minister Plenipotentiary of Great Britain, and Mr. James Clement Dunn, Adviser on Political Relations:

"Mr. Butler then went on to state that the British Government would be extremely interested in having a third Coast Guard cutter added to the two American cutters already stationed in the mid Atlantic ocean for the purpose of observing and reporting meteorological conditions. He said that all of this information with regard to meteorological conditions was of great importance to Great Britain and, at the same time, his Government was anxious that as much as possible of such information not be received by certain other countries."

Sincerely yours,

For the Secretary of State:



Breckinridge Long  
Assistant Secretary

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

Copy to Mr. Kuhn March 6, 1941

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Copy to Dean Acheson March 8, 1941

Copies to Mr. D. W. Bell, Mr. Hopkins,  
and Secretaries Stimson and Knox on March 10th.

Copy to Mr. Philip Young on March 11th.



March 5, 1941

My dear Mr. President:

With the signing of the Lend-Lease Bill the period of cash-on-the-barrelhead will come to an end for the great bulk of foreign government orders in this country. Your appointment of an advisory committee, to assist you in administering the provisions of the bill, means that a vital new phase of our effort has begun. I shall be delighted to serve as a member of this committee.

Complete coordination of all foreign buying will, in my opinion, be even more necessary under the new system than under the old cash sales plan. You may remember that at the first meeting of the newly constituted advisory committee, on March 1, I brought to your attention the problem of Russian purchasing, and you said that you felt this came within the scope of the new committee's work. I think that the same considerations should apply just as much to the Dutch and the Canadians, who will continue to pay cash, as to the British and others who will come under the Lend-Lease procedure. It seems to me that all foreign government purchasing, commercial as well as military, can be handled more efficiently and fitted more smoothly into United States production if this purchasing is coordinated in one place.

Therefore, I should like to suggest that all the complex liaison work on foreign purchases, which has been done in the Treasury for the past two and a quarter years, should be consolidated immediately and completely with the work to be done by Harry Hopkins as Secretary of the new advisory committee. This will relieve me of all direct responsibility with respect to foreign purchases, except for the great and continuing responsibility that now faces all the committee members alike. I have already begun to turn over to Harry Hopkins a part of the foreign purchase work we have been doing, and, complying with the request stated in your letter of February 25, I have offered him the assistance of anyone he needs in the Treasury.

Faithfully,

(Signed) H. Morgenthau

The President,  
The White House.



March 5, 1941

Mrs. Klotz

Mr. Morgenthau

Please look up how long ago I asked Bell to take a look at the Agriculture Department appropriations to see where we could cut some of the appropriations. I think I also asked him something about field investigations. I think it was at least a couple of weeks ago, and as far as I know I have had no answer.

How is your follow-up system working that we spoke about a day or two ago? *(Talked to H. M. J. today)*

Today's New York Times' editorial shows how in 1934 farm aid cost 780 million; 1935, one billion 76; 1936, it cost 938 million; in 1937, 976 million; in 1938, 860 million; in 1939, one billion 235 million; and in 1940, one billion 567 million.

I want to bring these figures to Bell's attention and again ask him what he is doing about making a study for me as to where we can cut this year's proposed budget, starting with Agriculture, CCC, and any other non-defense items that may be cut.

Also I want to ask Bell whether the Bureau of the Budget has any field organization that goes out and checks regularly on public works, Army cantonments, and any other expenditures. Does the Bureau of the Budget do that or does anybody in the Government have a field organization which goes out and checks on public expenditures? I am aware of what the Comptroller General does, but that is not what I have in mind.

*See memo to D. H. Bell*

*of 3/6/41-*

#### COST OF FARM AID

The House has begun consideration of the 1942 fiscal appropriation of the Agriculture Department. The over-all figure for the fiscal year to end June 30, 1942, is \$1,421,000,000, compared with \$1,477,000,000 for the 1941 fiscal year. The saving—if, when present estimates are turned into actual expenditures, it should turn out to be a saving—would be less than 4 per cent. The total sum to be saved is microscopic when compared with the enormous increases in expenditures for defense.

The cost of the Federal Government's aid to agriculture over the last eight years has been steadily mounting. Here are the figures in millions of dollars:

1933.....	\$200	1937.....	\$976
1934.....	780	1938.....	860
1935.....	1,076	1939.....	1,335
1936.....	938	1940.....	1,567

The present annual expenditure on agricultural aid is twice the total annual expenditure of the Federal Government for all purposes in the years immediately preceding the World War. It is greater than the entire tax receipts from all sources in the war year 1917.

The various agricultural subsidies and bonuses were all originally urged as purely "emergency" measures. The farmers were to be "tided over" an embarrassing but temporary period. But as farm income rose from the depression levels of 1932 and 1933, the Government's agricultural aid showed no corresponding tendency to diminish. On the contrary, it kept rising also. Gradually the theory seems to have got itself established that the Government owes certain groups of producers a permanent living. They are to continue to receive a "fair share of the national income"—usually conceived as a permanently fixed share of that income—no matter how the conditions of production and consumption change in the meanwhile. And though the need for economy in nondefense expenditures has now become vital, Congress does not even seriously inquire whether there may not be more economical forms of farm subsidy than the recklessly wasteful ones at present employed.

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE March 5, 1941

TO Mr. White  
FROM Mr. Taylor

Subject: Report of conference meeting to consider the control of exports from the Philippine Islands.

Present

Major William S. Culbertson, Chairman, O.A.E.C.  
Lt. Colonel John G. Burr, O.A.E.C.  
Mr. Leonard H. Price, Department of State.  
Mr. Ely, Department of the Interior.  
Mr. Wolf Ladejinsky, Department of Agriculture.  
Mr. Louis Domeratsky, Department of Commerce.  
Commander H.M. Shaffer, Army-Navy Munitions Board.  
Dr. Ben Dorfman, U.S. Tariff Commission.  
Mr. J.E. Andrews, U.S. Maritime Commission  
Mr. William J. Hoff, Production Division, O.P.M.  
Mr. Offa L. Casey, O.A.E.C.  
Mr. William H. Taylor, Treasury Department.

It was unanimously agreed by all the Committee members that export control should be extended to the Philippine Islands. It was recognized that most of the goods to which American export control applies and which are now going to Japan and Vladivostok from the Philippines are of local origin and are not reexports. Difference of opinion, however, developed over the commodities to be controlled, it being held by the Tariff Commission's representative that Filipino goods not now on the American control list, should be included.

The view was advanced that the United States has full authority to legislate control for Filipino Exports. The Treasury already exercises foreign funds control in Manila and the Neutrality Act applies to the Philippines. It was considered that the easiest method to obtain control would be to amend Section 6 of the Export Control Enabling Act of July 1940 to specifically include the Philippines.

Every effort should be made to obtain Filipino cooperation and concurrence in the measures to be adopted. It was agreed, however, that control should be imposed by the United States, rather than the Philippines, because: (a) The Philippines, during the present critical times in the Pacific should not be encouraged to develop an independent policy in foreign affairs; (b) Uniformity of control can only be assured



- 2 -

Division of Monetary  
Research

under American law, due to the fact that political dissention and internal conflict in the Philippines is great. It is, therefore, unlikely that legislation locally passed would be strong enough to attain the objectives set. Filipino legislation would probably have to make exceptions for important domestic products; (c) Japan would have less reason for threatening the Philippines if the control were imposed by the United States.

It was recognized that some method of compensating losses to Filipino producers would probably have to be worked out. The main items affected would be iron and steel, iron and steel scrap, abaca, and probably copra and coconut oil.

The State Department's representative contended that control procedure should be similar to that under the Neutrality Act. This would place the controls in the hands of the American High Commissioner acting as a representative of the State Department through whom all applications and permits for export would have to be cleared. It was further stated in this regard, that no restriction of any kind should be imposed upon American products going to the Philippines, though reexport of these products should be rigorously examined. The Philippine Islands, moreover, should be allowed to export their own domestic products to the extent considered normal in the pre-war period.

Before the next meeting, the various measures by which control could be best set up will be examined and reports compiled on commodities likely to be affected. It was also decided to request the State Department to cable Mr. Sayre, the High Commissioner, to obtain his opinion on these matters and impressions of what Filipino reaction will be.

MEMORANDUM

March 5, 1941.

TO: Secretary Morgenthau  
FROM: Mr. Sullivan

The Amendment to the Excess Profits Act is expected to be on the President's desk by noon today, together with a letter from the Budget requesting expeditious action. In the event that the President sees fit to comment upon this amendment, we believe his comment will be helpful for future use if he points out that many of the inequities and hardships which arose under the original act have now been eliminated and that inasmuch as we now have an equitable tax base the Congress might well address itself to a study of the returns filed on March 15th. As a result of that study it will be in a position to determine what revisions in rates will be necessary to accomplish the primary objective of this bill, namely, the prevention of the creation of war millionaires. If an increase in rates is indicated, this could now be accomplished with far less hardship than heretofore.

I attach hereto a memorandum from you to the President in the event that you wish to bring this to his attention.

JLS



THE SECRETARY OF THE TREASURY  
WASHINGTON

March 5, 1941.

MEMORANDUM FOR THE PRESIDENT:

I understand that the Amendment to the Excess Profits Tax Act awaits your signature. In the event that you see fit to comment upon this amendment we believe it will be helpful for future use if you point out that many of the inequities and hardships which arose under the original act have now been eliminated and that inasmuch as we now have an equitable tax base the Congress might well address itself to a study of the returns filed on March 15th.

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JLS:jba

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JLS:jba

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 5, 1941

TO Secretary Morgenthau

FROM H. D. White

SUBJECT: Statistics for Foreign Exchange Control

The Foreign Funds Committee believes that the control requires more adequate statistics on frozen funds and transactions, and economic analysis of problems.

The reporting system is undeveloped, and there is inadequate checkup and analysis of the reports received. Statistics of licenses and reports, which should guide the control, are disturbingly scanty. There is concern also because we do not have statistics necessary to answer a large number of questions which may legitimately be asked by the newly-formed Cabinet Committee, Congress or the public. (A sample of questions which we should be able to answer, but in many cases cannot, is given on page 3 of the appendix of a memorandum to the Foreign Funds Committee dated November 25, 1940. The memorandum is appended.) Decisions with respect to important problems of the control are being made with a minimum of systematic economic analysis.

The Committee believes that we should supply the Control with economic analysis, the statistics and other economic data. Mr. Lehle is in thorough agreement on this matter. For these reasons I asked you to consider the appended Order, which authorized the work and made the expense fall on the Foreign Funds Appropriation, where it legitimately belongs. The work proposed should be done by economists familiar with international transactions, but it is work necessary to efficient administration of Foreign Funds Control and its cost should be considered a part of the cost of administering that control.

We estimate that a small staff of full-time economists devoting themselves to problems of exchange control will cost \$25,000 to \$35,000 a year. But the development of a system of adequate statistical reports, the economic analysis of the reports, and the preparation of statistics



to show what is happening to the money and what international transactions are being carried out will be a much more extensive proposition, running possibly to \$100,000 a year or more. This expense, however, is not large in relation to the funds involved or to the total cost of administration. A more exact figure of cost will be available only after several weeks of work devoted to planning the proposed reporting and statistical system.

In view of the specific responsibility which the Secretary of the Treasury has in the Administration of foreign exchange controls and in the guardianship of the very large sums of money, the Committee is convinced that the system of statistical and analytical controls should be set up. The establishment of the Cabinet committee of three, and the possibility of extension of control to new geographical areas in the near future, in our opinion, make the need for the additional service more urgent than ever, especially as it will take several months before fruitful results can be obtained. (Mr. Cochran, it should be said, is doubtful about this whole question.)

Therefore, if you agree, I should like your approval to go forward with the hiring of the best personnel we can get for the specific task in mind. We will borrow men from other agencies wherever we can at existing salary levels, but where we cannot borrow we must have the lee-way to hire competent personnel quickly. Unfortunately available competent economists with knowledge of international economics are scarce and the demand has greatly increased during the past few months. Our task of getting competent economists is rendered more difficult by the fact that we can give no promise to applicants that the work will last more than a few months and by the fact that the work, though statistical in character, is more specialized than usual. We therefore cannot be as "choosy" as we would like, and must in some instances be able to offer higher salaries than we would have six months ago. If you approve this project, as herein outlined, will you please indicate below that you do so.

Approved

*W. W. Bell*  
Acting Secretary  
3/24/41

*WPN JWP BB*

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau

March 5, 1941

FROM

E. H. Foley, Jr.

I am attaching an excerpt from a letter which K. P.  
Chen had written to Larry Morris.

I thought this would interest you.

*81-76*

Attachment

Excerpt from letter of K. P. Chen  
to Lawrence Morris, dated Hongkong,  
February 5, 1941.

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As you know, my health has not been good of late. I realize, perhaps more today than ever before, the limit of everything in life, and feel that I must not attempt to do too much. But I do wish to pursue energetically the one thing to which I have committed myself. I often recall the words that Secretary Morgenthau said to me on our parting, and feel concerned over the fulfilment of obligations undertaken through my own hands. So far, I believe we have repaid about \$7,000,000 toward the first loan. We have, as on January 19, 16,000 tons of woodoil in U.S.A. and en route, and 1,200 tons in Hongkong and 8,000 tons in Burma, ready for shipment, so that there is another \$6,000,000 available ready to apply to the loan. That is not too bad for two years' performance of the agreement, and I hope that Providence will help us keep the traffic going and continue this record, so that I can have discharged these commitments and can face my friends squarely when I come to America again.





expression "Chinese yuan" means the standard unit of currency of the National Government of the Republic of China.

CHINA shall establish a Fund to be known as the Stabilization Fund of China (hereinafter referred to as "the Dollar Fund 1941") for the purpose of checking undue fluctuation in the exchange value of the Chinese yuan in relation to the United States dollar and other foreign currencies. China shall cause to be transferred to the Dollar Fund 1941 by Chinese Governmental Banks an amount of at least 12,500,000 United States dollars and such other assets as may be acquired by China or the Bank from the Secretary of the Treasury of the United States pursuant to the American Agreement and China or the Bank may from time to time transfer or cause to be transferred other assets to that Fund. All the assets transferred to the Dollar Fund 1941 shall be used exclusively for the purpose of checking undue fluctuations in the exchange value of the Chinese yuan in relation to the United States dollar and other foreign currencies.

(1) THE 1939 Fund shall be maintained and the Sterling Account, the Sterling Income Account and the Chinese Dollar Accounts established in connection with that Fund (hereinafter respectively referred to as "the Sterling Account 1939", "the Sterling Income Account 1939" and "the Chinese Dollar Accounts 1939") shall be controlled and operated by the Board on the same terms and conditions as are provided in relation thereto in the 1939 Agreement save that for the purposes of Clause 3 of that Agreement that Fund may be used for the purchase and sale of Chinese dollars and other necessary operations on such other markets in addition to the markets of Hong Kong and Shanghai as the Board may with the consent of the Treasury direct and for the purposes of



Clause 4 (a) all Chinese dollars purchased with sterling belonging to that Fund shall, instead of being deposited in Shanghai or Hong Kong for account of that Fund in the Hongkong Bank or the Chartered Bank or in both such Banks be deposited in such place or places and in such Bank or Banks as the Board may with the consent of the Treasury direct.

(2) This clause shall come into force on such date as the Treasury may by notice given to the Board determine.

THERE shall be established a further Sterling Fund for the purpose of checking undue fluctuations of the exchange value of the Chinese yuan in relation to sterling (hereinafter referred to as "the Sterling Fund 1941") and for that purpose the Treasury shall, within 7 days after being requested to do so by the Board, pay to an account at the Bank of England (hereinafter called "the Sterling Account 1941") such sums not exceeding in the aggregate £5,000,000 as the Board may certify to be necessary for checking undue fluctuations of the exchange value of the Chinese yuan in relation to sterling. The sums so paid by the Treasury are hereinafter referred to as "the Treasury subscription".

THE Sterling Fund 1941 shall be used solely for the purchase and sale of Chinese yuan and other necessary operations on the exchange markets of Hong Kong and Shanghai and on such other markets as the Board may with the consent of the Treasury direct in order to check undue fluctuations of the exchange value of the Chinese yuan in relation to sterling.

(1) ALL Chinese yuan purchased with sterling belonging to the Sterling Fund 1941 shall be held in Chinese legal tender money and in no other form and shall be deposited in such place or places and in such Bank or Banks as the Board may with the consent of the Treasury direct in a separate account or accounts (which accounts are hereinafter



to as "the Chinese Yuan Accounts 1941").

(2) Such deposits shall be available for satisfaction of sales of Chinese yuan made on behalf of the Sterling Fund 1941 and for no other purpose.

7. ALL sterling sums received on sales of Chinese yuan made on behalf of the Sterling Fund 1941 shall be paid to the Sterling Account 1941.

8. (1) ALL sterling in the Sterling Account 1941 and not for the time being required for the purposes set out in Clause 5 hereof shall remain in the Account and may to the extent to which it is not, in the opinion of the Board, currently required for market operations be invested in Treasury Bills of the United Kingdom or prime Bank Bills of not more than ninety days maturity.

(2) ANY interest or discount earned on such sterling assets shall be paid into a separate account at the Bank of England (hereinafter referred to as "the Sterling Income Account 1941") and until the Treasury subscription has been repaid in full shall be used solely in or towards satisfaction of the interest payable to the Treasury in accordance with the provisions of Clause 9 hereof.

9. (1) UNTIL the whole of the Treasury subscription has been repaid in full China and the Bank undertake that there shall be paid to the Treasury in London interest in sterling at the rate of  $1\frac{1}{2}$  per cent per annum on so much of the Treasury subscription as remains unrepaid.

(2) THE first payment of interest shall be made on the 1st day of April 1941 and subsequent payments shall be made half-yearly on the 1st day of April and the 1st day of October provided that the last payment shall be made on the date on which repayment of the Treasury subscription is completed.

(3) THE interest payable under this Clause shall be paid out

of the Sterling Income Account 1941 if and to the extent to which the sums standing to the credit of that account are sufficient for that purpose.

0. (1) CHINA shall establish and maintain a Stabilization Board of China (hereinafter referred to as "the Board") which shall be charged with the duty of managing, controlling and giving directions for the operation of the Dollar Fund 1941, the 1931 Fund and the Sterling Fund 1941 (hereinafter collectively referred to as "the Funds") in the manner best suited to achieve the objects for which they are respectively established. The Board shall consist of five members all of whom shall be appointed by China and at least three of whom shall be nationals of China. China shall designate one of such nationals of China as Chairman of the Board. At least one member of the Board (hereinafter called "the British member") shall be appointed by China upon the recommendation of the Treasury, and at least one member of the Board (hereinafter called "the American member") shall be appointed by China upon the recommendation of the Secretary of the Treasury of the United States. The British member shall be a British subject, shall be permitted to serve so long as desired by the Treasury, shall be removed from office by China upon request of the Treasury and shall be permitted to keep the Treasury fully informed of all activities of the Board effected or contemplated. If the British member dies, resigns or is removed or otherwise vacates his office his successor shall be appointed by China upon the recommendation of the Treasury on the same terms and conditions as were applicable to such member. Any member of the Board may with the approval of the Board appoint any person of his own nationality to be an alternate member of the Board in his absence and the person so appointed while he holds office as an alternate member shall be entitled in the absence of the



member appointing him to attend, vote at meetings of the Board and to exercise the powers of that member. An alternate member shall vacate office if the member appointing him removes him from office or if the member appointing him himself ceases to be a member of the Board.

(2) The Board shall have authority to delegate its powers to sub-committees of the Board, to determine what constitutes a quorum for a meeting provided that a quorum shall contain either the British member or the American member and to take action by a poll of the members of the Board without a meeting on questions submitted to them by, or at the request of, the Chairman, provided that such action shall have been approved by such number of members as are necessary to constitute a quorum and by either the British member or the American member and shall be (confirmed and) recorded at the next meeting of the Board. Subject to the provisions of this sub-clause the Board shall have unfettered authority to determine its own procedure.

Upon any vacancy arising on the Board, China shall forthwith fill the vacancy but the Board may act notwithstanding any vacancy. All acts bona fide done by any meeting of the Board or by any person acting as a member of the Board shall notwithstanding it be afterwards discovered that there was some defect in the appointment of any such member or person acting as aforesaid or that they or any of them were disqualified, be as valid as if every such person had been duly appointed and was qualified to be a member of the Board.

(1) TO enable the Board to carry out the purposes of the Funds China shall vest in the Board power and authority to deal for account of the Funds in gold and foreign exchange and the Board shall be authorized and empowered by China to take such action directly or through such persons or agencies as may be designated by the Board. The Board shall also be authorized and empowered by China to invest and re-invest from time to time the moneys



standing to the credit of the Sterling Fund 1941 in Treasury Bills of the United Kingdom or prime Bank Bills of not more than ninety days maturity.

(2) At the end of each month the Board shall prepare a statement of the operations of each of the said Sterling Funds during that month and every six months shall prepare a balance-sheet and a report showing in detail the policy of the Board and the operations of the said Sterling Funds. Copies of such Statements reports and balance-sheets shall be furnished to China and the Treasury. China and the Bank will in every way assist the British member of the Board in obtaining complete information relating to each of the said Sterling Funds and their respective assets and all activities of the Board effected or contemplated. (in relation to any of those Funds) In this connection China will give or cause to be given to the British member all necessary facilities and information.

12. CHINA shall cause the Board to perform all obligations and discharge all liabilities provided in, and otherwise act in all respects in accordance with, the terms and conditions of this Agreement.

13. (1) The Board may pay a commission to banks for their services in operating on behalf of any of the Funds.

(2) Any such commission all cable charges and brokerage paid to and retained by any exchange brokers and other out-of-pocket expenses of a similar nature incurred by the Board in operating any of the Funds may be charged to the Fund in respect of which the operation is made.

(3) All other expenses incurred in connection with the activities and functions of the Board and the salaries of the members of the Board shall be paid by China.

14. (1) THE Treasury may at any time serve a notice on China determining this Agreement and requesting repayment of the Treasury subscription and on the expiration of one month from the date of service of such notice the Sterling Fund 1941 shall be liquidated and the following provisions shall have

effect, that is to say :-

- (a) Any sums standing to the credit of the Sterling Income Account 1941 shall be applied in the following order of priority:
- (i) in paying to the Treasury any interest due to them under sub-clause (1) of Clause 9 hereof
  - (ii) in reimbursing to China and the Bank any sums paid by them to the Treasury under the said sub-clause (1), and
  - (iii) in paying the balance to the Treasury in or towards repayment of the Treasury subscription.
- (b) All sterling standing to the credit of the Sterling Account 1941 shall be applied in or towards repayment of the Treasury subscription.
- (c) If and so far as necessary all sterling standing to the credit of the Sterling Account 1939 and Sterling Income Account 1939 shall be applied in or towards repayment of the Treasury subscription.
- (d) In so far as the sterling standing to the credit of the Sterling Income Account 1941, the Sterling Account 1941, the Sterling Account 1939 and the Sterling Income Account 1939 is insufficient to repay the Treasury subscription in full China and the Bank shall pay the amount of the deficiency to the Treasury in London in sterling.
- (e) In the event of China and the Bank or either of them failing to pay the amount of the deficiency as aforesaid, the Board shall, if the Treasury so requests, sell for sterling any Chinese legal tender money standing to the credit of the Chinese Yuan Accounts 1941 and, if necessary, of the Chinese Dollar Accounts 1939 and the sterling proceeds of such sale shall be applied in or towards repayment of the Treasury subscription.



(f) Any Chinese legal tender money standing to the credit of the Chinese Yuan Accounts 1941 on the date when the Treasury subscription has been repaid in full shall be transferred to the Chinese Dollar Accounts 1939 and any sterling standing to the credit of the Sterling Income Account 1941 and the Sterling Account 1941 on that date shall be transferred to the Sterling Income Account 1939 and the Sterling Account 1939 respectively and the sums so transferred shall be dealt with in accordance with the provisions of the 1939 Agreement.

[(2) A copy of any notice served by the Treasury under the foregoing sub-clause shall at the same time be served on the Bank and the Board.]

5. CHINA and the Treasury on behalf of His Majesty's Government in the United Kingdom hereby concur in the renewal of the 1939 Agreement until a date not less than seven days after the expiration of notice of repayment served by the Treasury under the last foregoing clause.

6. [ALL of the Chinese legal tender money held in the Chinese Dollar Accounts 1941 and the other obligations of China, the Bank and the Board under this Agreement shall in so far as the rights, powers and privileges of the Treasury may thereby be affected be exempt and immune from any taxes, charges, restrictions, regulations and controls of any nature under the laws of China or any political sub-division thereof]

7. ANY notice given by the Treasury to China, the Bank or the Board [shall be deemed and taken as full notice to all of them, China, the Bank and the Board, under this Agreement and such notice] may be given by the Treasury to the Bank at its head office in China or any other place indicated by the Bank, to China at the Office of the Minister of Finance of China at the seat of the National Government of China or to



the Chinese Embassy in London, and to the Board at such address as may be indicated by China or the Board.

8. ANY obligation of the Treasury pursuant to this Agreement shall be conditional and dependant upon the prior performance of China, the Bank and the Board of any obligations to be performed or liabilities to be discharged by them or any of them under this Agreement and any arrangements made pursuant thereto.

9. CHINA and the Bank and the Officers signing this Agreement on behalf of China and the Bank each for itself or themselves represent and agree that the execution and delivery of this Agreement by such Officers on behalf of China and the Bank have in all respects been duly authorized and that all other legal formalities which should have been performed and completed prior to the making of this Agreement in order to make this Agreement binding and effective upon China and the Bank have been performed and completed as required by and in conformity with the laws, decrees, statutes and regulations affecting China and the Bank.

20. THIS Agreement shall be governed by the law of England.

I N W I T N E S S etc.

No. 303.

Chungking, March 5, 1941

subject: Establishment of Gasoline Supply  
Stations on Burma Road.

Air mail

Confidential

The Honorable

The Secretary of State,

Washington, D. C.

Sir:

I have the honor to report that the Ministry of Communications of the Chinese National Government has signed an agreement with the Standard-Vacuum Oil Company, the Texas Company and the Asiatic Petroleum Company whereby four gasoline storage stations will be installed along the Burma Road between Wanting and Kunming.

According to this arrangement the Ministry of Communications will pay for the construction of the four stations and will transport gasoline for the three oil companies at the current freight rates. The oil companies will maintain their own staffs at the storage depots to conduct their sales operations. Gasoline and oil will be sold at the regular retail market rates prevailing in Burma plus the additional expense incurred for transportation.

The

The establishment of these stations is an important step in facilitating the movement of traffic over the road. Trucks will be able to increase their pay load considerably since formerly they had to carry most of the gasoline required for the trip. The depots will be large enough to store sufficient gasoline for all the trucks that the road can handle at present.

Respectfully yours,

Nelson Trusler Johnson

Original and two copies to Department by air mail  
Copy to Peiping  
Copy to Shanghai

815.4

JJM:MCL

True copy  
of signed original  
MCL





DEPARTMENT OF STATE  
WASHINGTON

March 5, 1941.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses 6 copies of paraphrase of telegram No. 31 of March 4, 1941 from the American Consul, Hanoi, French Indochina, concerning the proceeds of the sale of certain rubber to the United States Government by the Government General of Indochina.

Enclosure:

No. 31 of March 4  
from Hanoi.

*Handwritten initials*

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consul, Hanoi

DATE: March 4, 1941

NO.: 31

Reference is made to the Department's telegram no. 10 of November 29, 1940.

The Government General of Indochina by a contract dated December 2, 1940 sold to the Rubber Reserve Company 8,000 tons of rubber, with provision that the proceeds of this sale were to be credited to the free and unrestricted account of the Bank of Indochina.

The Inspector General of the Bank of Indochina has informed the American Consul that 5,700 tons have already been delivered on this contract but that the proceeds thereof have been credited to the Bank's revoked free account and that the Inspector General therefore desires to protest against this diversion of the credits of the Bank to an unusable account. The Inspector General also requests prompt information as to how the proceeds from the remaining 2,300 tons will be credited (the 2,300 tons are now being loaded at Saigon). The Inspector General states that he has informed the Government General of Indochina of his request and he indicates that he will ask that the Government General take appropriate steps unless the proceeds are credited in accordance with the stipulation in the contract.

REED

PLAIN

London

Dated March 5, 1941

Rec'd 12:23 p.m.

Secretary of State,

Washington.

843, March 5.

A scheme of major importance for industries engaged in production for civilian needs, designed to facilitate turn-over of industrial power to munitions, was announced in the House of Commons yesterday by President of Board of Trade. In order to further cut down civil consumption and release labour, materials and factory space for war purposes Government has decided that industries producing consumer goods must concentrate production in a reduced number of factories working full time. These industries are mainly those making goods affected by limitation of supplies orders or rationing of raw materials, such as textile and leather products. The aim is that these factories should produce the output required for (a) greatest practicable export trade, (b) minimum home market needs and (c) Government orders. Intention is to preserve goodwill of the closed factories and for Government to assist such factories resume operations at end of war. Factories continuing operations will be expected provide some compensation for closed factories, but there will be no compensation from public funds. Detailed machinery for carrying out this policy to be worked out in discussions between Board of Trade in association with Ministry



of Labour and representatives of employers and workers. The Government is depending on the different industries to work out plans for achieving the necessary concentration but indicates that in last resort it will use compulsion. In order assist Board of Trade carry out this work, the export council is to be expanded and renamed industrial and export council, with an enlarged membership to include experienced business leaders to assist in the reorganization of the various industries. It was also announced that Board of Trade will establish an executive organization under a controller general of factory and warehouse accommodation to coordinate requirements of all government departments for factory and warehouse storage accommodation, so as to avoid interference with factories involved in above scheme.

WINANT

CSB

Copy:bj

March 5, 1941

My dear Mr. President:

I am sending you herewith the latest statement of aircraft shipped to the United Kingdom and other points. It will be noted that this statement is submitted in the usual form which gives figures showing the number of planes which have been received at the assembly points during this last week.

I am also inclosing the latest Treasury tabulation showing deliveries of airplanes, by purchasers and by types of planes, from January 1, 1940 to March 1, 1941.

Yours sincerely,

(Signed) H. Morganthau, Jr.

The President,

The White House.

2 Enclosures

By Messenger X 45

March 5, 1941

My dear Mr. President:

I am sending you herewith the latest statement of aircraft shipped to the United Kingdom and other points. It will be noted that this statement is submitted in the usual form which gives figures showing the number of planes which have been received at the assembly points during this last week.

I am also inclosing the latest Treasury tabulation showing deliveries of airplanes, by purchasers and by types of planes, from January 1, 1940 to March 1, 1941.

Yours sincerely,

(Signed) E. Mungerton, Jr.

The President,  
The White House.

By Mungerton



March 5, 1941

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Yours sincerely,

(Signed) H. Morganthau, Jr.

The President,  
The White House.

By Messenger

CONFIDENTIAL(To Keep You Posted)

March 5, 1941

To: The Secretary

From: Mr. Young

Re: British Aircraft Shipments

Attached herewith is the latest statement of aircraft shipped to the United Kingdom and other points. It will be noted that this statement is submitted in the usual form which gives figures showing the number of planes which have been received at the assembly points during this last week.

*J. O. Y.*

121  
SECRET.

Statement No. 4

STATEMENT OF AIRCRAFT SHIPPED TO U.K.  
& OVERSEAS COMMANDS

Type	Destination	Assembly Point	By Sea during week ending Feb. 8/41	By Air during week ending Mar. 1/41
<u>Douglas</u> Boston II	U.K.	U.K.	5	
<u>Lockheed</u> Hudson IV	U.K.	U.K.	2	
<u>Consolidated</u> P.B.Y.	U.K.	via Bermuda		5
<u>Crewster</u> Buffalo	F.E.	Singapore (via Panama)	25	
			<u>32</u>	5

British Air Commission  
March 3, 1941

RECEIVED

MAR 10 1941

RECEIVED  
MAR 10 1941



## DELIVERIES OF AIRPLANES, BY PURCHASERS AND BY TYPES OF PLANES

January 1, 1940 - March 1, 1941

**STRICTLY CONFIDENTIAL**

	Bombers	Pursuits	Trainers	Other military planes	Commercial planes	Total
<b>TOTAL ALL PURCHASERS</b>						
Jan. 1 - June 22	554	500	608	100	379	2,341
June 23 - July 20	101	198	234	14	81	628
July 21 - Aug. 17	111	170	270	10	105	666
Aug. 18 - Sept. 14	70	146	303	20	98	637
Sept. 15 - Oct. 12	53	220	377	17	141	808
Oct. 13 - Nov. 9	66	158	343	17	61	645
Nov. 10 - Dec. 7	100	211	275	16	56	658
Dec. 8 - Jan. 4	158	247	315	6	98	824
Subtotal June 23 - Jan. 4	659	1,350	2,117	100	642	4,868
Jan. 5 - Jan. 18	83	97	188	5	36	409
Jan. 19 - Feb. 1	79	151	323	33	22	608
Feb. 2 - Feb. 15	78	113	155	13	31	391
Feb. 16 - Mar. 1	171	102	304	19	27	623
Total Jan. 1, 1940 - Mar. 1, 1941	1,622	2,313	3,695	270	1,137	9,237
<b>ARMY</b>						
Jan. 1 - June 22	28	31	461	61	-	581
June 23 - July 20	14	40	131	6	-	191
July 21 - Aug. 17	18	69	156	5	-	248
Aug. 18 - Sept. 14	12	54	161	7	-	234
Sept. 15 - Oct. 12	10	86	173	-	-	269
Oct. 13 - Nov. 9	12	20	159	-	-	191
Nov. 10 - Dec. 7	8	14	129	2	-	153
Dec. 8 - Jan. 4	4	19	75	-	-	98
Subtotal June 23 - Jan. 4	78	302	944	20	-	1,344
Jan. 5 - Jan. 18	6	6	86	-	-	98
Jan. 19 - Feb. 1	1	2	166	-	-	169
Feb. 2 - Feb. 15	13	9	74	4	-	100
Feb. 16 - Mar. 1	43	33	153	7	-	236
Total Jan. 1, 1940 - Mar. 1, 1941	169	383	2,924	92	-	3,568
<b>NAVY</b>						
Jan. 1 - June 22	42	1	78	35	-	156
June 23 - July 20	-	2	26	6	-	34
July 21 - Aug. 17	5	9	14	5	-	29
Aug. 18 - Sept. 14	10	9	17	13	-	49
Sept. 15 - Oct. 12	16	13	44	17	-	90
Oct. 13 - Nov. 9	22	23	35	17	-	97
Nov. 10 - Dec. 7	17	11	82	14	-	124
Dec. 8 - Jan. 4	18	18	76	6	-	118
Subtotal June 23 - Jan. 4	66	76	299	78	-	519
Jan. 5 - Jan. 18	17	14	79	5	-	115
Jan. 19 - Feb. 1	35	11	113	33	-	192
Feb. 2 - Feb. 15	21	17	41	8	-	87
Feb. 16 - Mar. 1	30	12	32	12	-	86
Total Jan. 1, 1940 - Mar. 1, 1941	231	131	642	171	-	1,175
<b>BRITISH ENGINE AND FRAMES*</b>						
Jan. 1 - June 22	469	289	164	2	9	933
June 23 - July 20	86	139	56	2	1	284
July 21 - Aug. 17	86	95	89	-	4	274
Aug. 18 - Sept. 14	30	83	52	-	1	166
Sept. 15 - Oct. 12	24	121	50	-	10	205
Oct. 13 - Nov. 9	26	99	57	-	3	185
Nov. 10 - Dec. 7	75	147	48	-	8	278
Dec. 8 - Jan. 4	128	194	144	-	-	466
Subtotal June 23 - Jan. 4	455	678	476	2	27	1,638
Jan. 5 - Jan. 18	57	69	9	-	5	140
Jan. 19 - Feb. 1	43	120	40	-	-	209
Feb. 2 - Feb. 15	44	87	26	1	10	168
Feb. 16 - Mar. 1	72	57	96	-	2	227
Total Jan. 1, 1940 - Mar. 1, 1941	1,140	1,506	811	5	53	3,515
<b>OTHER</b>						
Jan. 1 - June 22	15	179	105	2	370	671
June 23 - July 20	1	17	21	-	80	119
July 21 - Aug. 17	2	6	31	-	101	140
Aug. 18 - Sept. 14	18	-	73	-	97	188
Sept. 15 - Oct. 12	3	-	105	-	131	239
Oct. 13 - Nov. 9	6	16	98	-	60	174
Nov. 10 - Dec. 7	-	39	16	-	46	101
Dec. 8 - Jan. 4	10	16	20	-	96	142
Subtotal June 23 - Jan. 4	40	94	358	-	615	1,107
Jan. 5 - Jan. 18	-	8	14	-	31	53
Jan. 19 - Feb. 1	-	12	4	-	22	38
Feb. 2 - Feb. 15	-	-	14	-	21	35
Feb. 16 - Mar. 1	20	-	23	-	25	68
Total Jan. 1, 1940 - Mar. 1, 1941	62	293	818	2	1,064	1,979

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

March 5, 1941

\* Deliveries under French contracts were made up to June 30, 1940.

Regraded Unclassified

March 5, 1941

MEMORANDUM

TO: The Secretary

FROM: Mr. Young

You may be interested in this reprint of an article which appeared in "Foreign Affairs" for January, 1941. We have no guarantee that it is authentic, but at least it is interesting.

J.Y.

## WINGS FOR THE TROJAN HORSE

*By Melvin Hall and Walter Peck*

THE drone of German and Italian airplanes over South America is not a new sound. It has been heard, at least in the case of German aircraft, in steadily increasing volume for the past twenty years. But we in the United States have been slow to recognize it as the audible warning of Nazi-Fascist penetration in the Western Hemisphere. Only belatedly are we coming to realize that one of the most dangerous weapons in the hands of the dictators is the ever-widening network of airways controlled by them throughout South America.

The airlines under German and Italian control or domination on that continent comprise more than 20,000 miles of scheduled routes. Many of these have no commercial justification, and serve political and military rather than commercial aims. They are arteries of totalitarian propaganda, nerve centers of totalitarian espionage. Many hundreds of German military pilots have used them as a training ground for long-distance flying and as a means for becoming familiar with South American topography. The lines traverse the continent from the Atlantic to the Pacific along two separate routes and provide swift means of communication between the Nazi-Fascist *Stützpunkte* strategically located all over South America.

The airlines controlled by the Nazis and the Fascists fall into three general categories. One is represented by the *Syndicato Condor*, a camouflaged offshoot of *Deutsche Lufthansa* flying the Brazilian flag. The second comprises a half dozen ostensibly national lines whose management and policies are controlled by *Lufthansa* through the device of long-term equipment contracts which provide that the operating personnel shall be appointed by or be acceptable to the German company or its Brazilian subsidiary. Third, there are the undisguised operations of *Deutsche Lufthansa* itself and the Italian *Lati*, international air transport enterprises which are agencies of their respective governments.

The United States is represented in South American skies by the 15,000 miles of *Pan American Airways*. In addition, the Brazilian and Colombian affiliates of *Pan American*, *Panair do Brasil* and *Avianca*, cover 11,000 miles between them. *Pan American* operates from Miami via the West Indies down the



## FOREIGN AFFAIRS

east coast of South America to Rio de Janeiro and Buenos Aires. Lines also extend from both Miami and Brownsville (Texas) to the Canal Zone. Another line operates along the northern shore of South America to Trinidad, where connection is made with the east-coast route. The Brazilian affiliate conducts local services in Brazil over much the same routes as Pan American and also extends into the Amazon hinterland. Pan American-Grace Airways operates a line from the Canal Zone down the west coast to Santiago, Chile, and two transcontinental lines across to Buenos Aires — one out of Santiago, the other via La Paz in Bolivia. Schedules on both the east and west coasts have recently been speeded up through the use of more modern flying equipment and the opening of a direct "cut-off" route in Brazil from Belém to Rio de Janeiro. These new schedules have reduced the trip between Miami and Rio de Janeiro to three days. Further improvements are projected for the near future. Even so, the Fascist Lati line reaches Rio from Rome as quickly as Pan American does from Miami.

The Dutch K.L.M., whose services in Europe have been suspended by the Germans, operates 1,850 miles of route along the north coast of South America, connecting Dutch Guiana and Curaçao with points in Venezuela and Colombia. Before the war, it also ran lines to Trinidad and Barbados. Air France used to operate a transatlantic air mail service from Toulouse to Natal in Brazil, and from there a passenger and mail line to Santiago de Chile via Rio de Janeiro and Buenos Aires. But this line was suspended following the capitulation of France. Thus far the British have failed to open any lines to or in South America.

Neither the Dutch nor the French lines have ever constituted a menace to the safety of the United States. The airway network of the Nazis and Fascists and of the national affiliates which they control, however, does represent a definite threat to the security of the United States. Let us therefore examine it in detail.

## CONDOR

Syndicato Condor, Limitada, though not the oldest, is the most strongly entrenched and most aggressive of the German-controlled airlines in South America. It covers the whole of Brazil's 4,000-mile seaboard, traverses Uruguay to Buenos Aires in Argentina, and thence swings west across the Pampas and the Andes to Santiago. It penetrates deep into Brazil's sparsely

populated interior, following the Bolivian border to the far western Territory of Acre<sup>1</sup> and serving a vast unremunerative area in the northern states of Pará, Maranhão and Piauí. It connects, through the German-affiliated Lloyd Aereo Boliviano, with the German-owned Lufthansa of Peru, and thus reaches Lima. Its lines cover nearly 10,000 miles.

Syndicato Condor is a but slightly disguised offshoot of Deutsche Lufthansa, though its officials persist in denying any connection with its German forebear. It flies the Brazilian flag and receives a subsidy from the Federal Government of Brazil. To all intents and purposes, however, it is a German concern, owned and controlled by Deutsche Lufthansa — which in effect is an organ of the German state. Condor is the spearhead of Germany's aerial penetration in South America. Its primary purpose is to further Nazi expansion in the Western Hemisphere.

Condor's managing director is a German named Ernst Hölck, or Ernesto Hölck as he calls himself in Brazil. The company's technical staff is also German. Its chief pilot is "Senhor" Fritz Fuhrer. Of its eighteen registered pilots nine are, or were until quite recently, "naturalized" citizens of Brazil who have retained their German nationality, and nine are native-born Brazilians of whom six have German names. The mechanic personnel consists of seven native-born Brazilians of German descent, three "naturalized" Brazilians born in Germany, and three uncamouflaged German citizens employed as instructors. The "naturalized" pilots, radio operators and flight mechanics log about three times as much flying as do the native-born.

Some of Lufthansa's German flight personnel remained in Brazil when the parent company's trans-Atlantic and South American operations were suspended as a result of the war. At that time Lufthansa's aircraft and operations in South America were turned over to Condor. Though not listed on the Condor rolls, the former Lufthansa crew members have made frequent flights in charge of Condor planes. It has been noticed that on the coastal trips the Condor crews are usually larger than necessary. One German crew member who flies both as pilot and mechanic on scheduled runs holds a valid aerial photographer's license. The company maintains an aéro-photogrammetric section which during the past five years has carried out air surveys over large areas of Brazil for the Federal Government.

<sup>1</sup>Condor's service between Corumbá and Porto Velho is reported temporarily suspended.



Brazilian law requires that at least two-thirds of the executive personnel and all the flying staff of air transport enterprises under domestic registry shall be native-born. The affiliate of Pan American Airways, Panair do Brasil, has complied with this law to the fullest degree. But owing to an insufficiency of Brazilian transport pilots, the authorities have only recently attempted to apply it to the other air carriers operating under the Brazilian flag. Approximately half the pilot personnel of Condor, Varig and Vasp — the three other commercial air lines under Brazilian registry — were Germans who for expediency's sake have taken on Brazilian nationality. It is of course well known that Germans who naturalize themselves in other countries remain Germans in the eyes of the Third Reich. Early this year, Condor asked for, and obtained, a two-year extension of its exemption from the rule requiring it to replace its foreign-born pilots with those of Brazilian birth. On October 6, President Vargas renewed his ruling that pilots of Brazilian-registered aircraft must be native-born Brazilians, except in the case of Varig, which was given until next February to comply. Condor was subsequently granted another extension; but it now appears that the government is insisting on full compliance.

The main offices of Condor and those of Deutsche Lufthansa for South America occupy the same premises in Rio de Janeiro. They are designed to impress the Brazilians with the strength of German air "commerce." Well supplied with funds for many not too obscure purposes, working closely with the diplomatic, naval and military staffs of the German Embassy and with "Cultural Attaché" Herr von Cossel, the airline's offices constitute a busy and important propaganda center. Condor's plans to extend its coastwise line from Belém to the border of French Guiana, over jungle wastes of no possible commercial interest, followed a prolonged visit to Pará state by the German Naval Attaché. The concession to operate this extension has, however, been annulled on the order of the Federal authorities. It has quite recently been reported in the press that Sindicato Condor has entered into a contract with the Amazon River navigation company and port authority, known locally as "SNAPP," for the development of traffic to the Atlantic from the Amazon hinterland and, eventually, Ecuador and Colombia.

The Lufthansa-Condor system has kept its passenger fares well below those of Pan American Airways. Commercial revenue is not



a primary consideration to the Germans. Some of Condor's operations into the remote interior of Brazil have little other justification than to provide transport for government officials.

In equipment Condor is at present the largest airline in South America. Its radio communication and direction finding systems consist of the latest types of Telefunken and Lorenz installations. Its fleet comprises sixteen tri-motored Junkers Ju52 17-passenger convertible land or seaplanes, eight older Junkers, and two 26-passenger four-engined Focke-Wulf FW200's. Accompanied by a fanfare of publicity, the two Focke-Wulfs were flown across the Atlantic last year to be placed in service on the Rio de Janeiro-Buenos Aires route. The first to arrive made the trip from Berlin to Rio in 34 hours 55 minutes flying time, or 40 hours 50 minutes elapsed time including stops at Seville, Bathurst and Natal. Together with Lufthansa's six Ju52's these planes were turned over to Sindicato Condor by Deutsche Lufthansa when the parent company suspended its South American operations owing to the war.

There is an interesting story in connection with these two Focke-Wulfs. Shortly after the outbreak of hostilities, officers of the British cruisers *Ajax* and *Exeter*, on patrol duty some 75 to 100 miles off the south Brazilian coast, sighted a large plane flying high above them. Through binoculars they identified the plane as a Focke-Wulf bearing the Sindicato Condor insignia. The cruisers reported their observation by radio to the British Naval Attaché in Buenos Aires. Immediate inquiry by this officer disclosed that one of Condor's Focke-Wulfs had departed from Buenos Aires several hours earlier on a test flight and had not yet returned. When the crew returned after a flight of ten hours they were questioned as to the reasons for going so far out to sea, but failed to give a satisfactory explanation.\*

Following this incident the Argentine Government issued instructions that no Condor plane was to make a non-scheduled flight out of sight of the airport without having on board an Argentine Army officer as observer. It further ordered that Condor aircraft were not to depart from the airway between

\* *La Nación* of Buenos Aires, reporting this incident on September 15, 1939, offered a possible explanation. The German steamer *Monte Pascoal* had left Buenos Aires on September 9 taking some two hundred Germans, including part of the Lufthansa personnel, back to military duty in the Fatherland. Information as to the position of the *Ajax* and *Exeter* on September 10 would have been of extreme value to the *Monte Pascoal*. It is quite possible that her captain received such information from the Condor plane. There is no report that the German vessel was intercepted.

Buenos Aires and Rio de Janeiro while making regular passenger flights. The Condor management vigorously protested these rulings, and on the very next day requested special permission to make another "test" flight without an observer. They said the flight was being made at the instance of the Brazilian Government in order to conduct certain special trials desired by the Brazilian Army. Argentine officials communicated with the Brazilian Government, and learned that no such trials had been requested. Permission for the flight was refused.

There were other instances of Condor planes being sighted well out to sea, in spite of the efforts of both the Argentine and Brazilian Governments to prevent the use of Condor aircraft for military observation purposes. It may have been that the action of the Argentine officials in refusing permission for the second "test" flight saved the *Ajax* and *Exeter* from an untimely end. The German pocket-battleship *Admiral Graf Spee* was lurking in the vicinity at that time. The Condor crew, having located the two British cruisers the day before, may well have wished to communicate the latter's position to the *Graf Spee*, so that, if no British battleships were near, she might attack and have the effect of her fire reported by the Condor plane.

Syndicato Condor was officially founded at Rio de Janeiro December 1, 1927, though it had been engaged in operations between Porto Alegre and Rio since February of that year under the name of the Condor Syndikat. The latter was the outgrowth of a project dating back to May 1924, when a group of "American and European businessmen" organized a company to establish an air mail and passenger service between Key West, Florida, and Colombia via the Canal Zone. It does not appear that the "American businessmen" included any North Americans. The principal proponents were Dr. Peter Paul von Bauer and Captain Fritz Hammer, respectively managing and technical directors of Scadra, a German-Colombian airline which had been operating in the northwestern corner of South America since 1920. Dr. von Bauer visited the United States in 1925 with the object of obtaining capital and government support for this project. In April 1925 he wrote to an official in the United States Department of Commerce that a company to be called Inter-American Airlines had been incorporated under the laws of Delaware, with "three dummy directors so that the identity of the real promoters will not appear in the charter."



To this letter there was appended the confidential prospectus of the International Condor Syndicate.

The Syndicate realized "that it was inadvisable at this time to organize national German companies." Its proponents therefore sought to form a holding company in which the financial control would be American but in which they would furnish the technical direction and would handle the sale of their own equipment to the company. With this end in view they had associated with themselves the developers of a type of seaplane called the Dornier Wal. This was being built at Pisa (Italy) by a company registered under Italian law — since the manufacture of aircraft in Germany was restricted by the Treaty of Versailles — with the "technical assistance" of Dr. Claude Dornier, former chief engineer of the Zeppelin Company, and a full staff of German experts. Thirty percent of the initial capitalization of the International Condor Syndicate, or Condor Syndikat, was reported held in the name of Deutsche Lufthansa of Berlin through Aero Lloyd, and thirty percent by Schlubach, Thiemer & Co., of Hamburg — with possibly some participation by the Hamburg-American Line. Central and South American capital controlled a minority.

Dr. von Bauer failed to interest United States capital in his inter-American air service. Condor Syndikat then shifted the field of its activities to Brazil. In November 1926 a Dornier Wal named the *Atlantico* was flown from Buenos Aires to Rio on a successful demonstration tour in which an ex-Chancellor of Germany, Dr. Luther, took part. Shortly after this the Condor Syndikat obtained a license from the Brazilian Government to establish a regular air transport service between Rio and Porto Alegre. From that modest beginning the enterprise has spread over the greater part of South America.

#### VARIG

Condor's initial Brazilian undertaking was an airline established in January 1927 between Porto Alegre, Pelotas and Rio Grande over the coastal lagoon known as Patos. This line lay wholly within the state of Rio Grande do Sul, whose population is strongly German. Four months after its establishment, following the opening by Condor of a service between Porto Alegre and Rio de Janeiro, certain capitalists of Rio Grande do Sul bought up the Condor interests in the Rio Grande line. The terms of purchase have never been disclosed, but it is clear



## FOREIGN AFFAIRS

that the deal which resulted in the founding of Varig — S. A. Empresa de Viação Aérea Rio Grandense — in no wise excluded Condor's participation in that enterprise. Varig purports to be purely Brazilian. In reality it is an affiliate of Sindicato Condor, and therefore of Deutsche Lufthansa.

Varig receives a substantial subsidy from the state of Rio Grande do Sul, and for the past two years has obtained an equal amount from the Federal Government. Ever since its formation it has received strong support from the principal officials of the State. In 1932, the State became an important stockholder, reputedly to the extent of a quarter interest, the balance of the stock being privately held. It is generally believed that Sindicato Condor controls a substantial interest in the enterprise. Sindicato Condor acts as Varig's agent in Rio de Janeiro, while Varig is Condor's agent for Rio Grande do Sul. Condor cooperated in Varig's first experimental flight in 1927. Varig's latest plane, a Ju52, was assembled in Condor's Rio de Janeiro shops. It is supposed to have been acquired on one of the long-term Lufthansa-Junkers equipment contracts. Varig's managing director is Otto-Ernst Meyer, a German World War veteran of dual nationality, German and Brazilian, either of which he assumes as the situation may suggest. Its technical director is Rodolfo Ahrons, a Brazilian of German extraction. The Board is composed of nine members and nine alternates, all of German extraction or strong German sympathies.

Varig's flying equipment consists of seven planes, all German, including the one tri-motored Junkers Ju52. The routes which it is at present operating total some 940 miles, serving the principal towns of Rio Grande do Sul and extending to the Uruguayan border, with connections to Montevideo through the Uruguayan air transport company Pluna. At Porto Alegre, connection is made with the Condor system. Varig also maintains a German-equipped flying school.

## VASP

The third Brazilian-flag airline under German control or influence is the Viação Aérea São Paulo, usually known as Vasp. This concern was formed in 1934 by a group of German-Brazilians of São Paulo State. It receives subsidies from the state governments of São Paulo and Goyaz and from the Federal Government. The State of São Paulo is the largest stockholder. The balance

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of the stock is ostensibly held by São Paulo citizens, but as with Varig it is generally believed that Deutsche Lufthansa controls a substantial interest. German influence is further entrenched through Lufthansa-Junkers equipment credits.

The managing director of Vasp is a German-Brazilian, Dr. Ismael Guilherme. Instruction of the company's personnel and aspirant pilots is in the hands of Commander von Buedring, a German specialist designated by Lufthansa. Two of its six pilots are, or were, German applicants for naturalization. The other four, of whom one has a German name, are native-born. At the invitation of Lufthansa-Junkers, Dr. Guilherme made a four-months' visit to Germany, all expenses paid, in the early part of 1939. The purpose of the trip was to study German airline practice, and to arrange certain details in connection with the delivery of two new Junkers Ju52's ordered from Dessau, for which the State of São Paulo had provided an additional subsidy. Owing to the war these planes were not received. One of them is reported to have been en route to Brazil via Russia and Japan since last July.

The Vasp fleet consists of three tri-motored Junkers Ju52's and two small twin-engined planes of English make. The Junkers units are under the technical supervision of Sindicato Condor. Vasp operates approximately 1,200 miles of routes in São Paulo and contiguous states in southern Brazil. Its most profitable run is the direct line between São Paulo and Rio de Janeiro, operated twice daily. Its lines connect at various points with the Condor system. Present plans call for further extensions totalling 1,950 miles across the wild country of central Brazil to Cuyabá in Matto Grosso and to Carolina in the State of Maranhão, in order to connect at both points with Condor's "penetration lines." An international service from São Paulo to Asunción in Paraguay is also projected.

#### LLOYD AEREO BOLIVIANO

Condor's activities within Brazil and across the continent to Santiago are becoming increasingly coördinated with the activities of other air lines under German control or influence. On the west, Condor's Rio de Janeiro-São Paulo-Corumbá line meets with Lloyd Aereo Boliviano, which in turn connects with Lufthansa of Peru at La Paz to form a second German-dominated route between the Atlantic and Pacific coasts. For, while Lloyd



Aereo is nominally a Bolivian company with forty-six percent of its stock held by the Bolivian Government, its managerial and operating personnel is German, seven of its nine aircraft are German, and its schedules are coordinated with those of the German network.

Lloyd Aereo Boliviano was founded in 1925 when the German colony at La Paz presented a German airplane to the Bolivian Government during the celebration of the centennial of Bolivia's independence. It thus antedates Condor as an active operator. There is small question that Deutsche Lufthansa has furnished equipment to Lloyd Aereo Boliviano on long-term contracts at low cost, and that in so doing has acquired an effective control over Lloyd Aereo's activities. Deutsche Lufthansa Peru is believed to hold thirty percent of Lloyd Aereo's stock.

Lloyd Aereo Boliviano's founder and present vice-president is Wilhelm (or Guillermo) Kyllmann, a German allegedly the head of the Nazi Party in Bolivia. Its general manager and chief pilot is Herman Schroth, also a German, who has held this position since 1927. Two of its pilots and most of its technicians are German. Its flying equipment consists of three tri-motored Junkers Ju52's, one twin-engined Junkers Ju86, three older Junkers and two American-built amphibians. Deutsche Lufthansa has reputedly offered to supply Lloyd Aereo with three new Junkers planes from Germany, though how delivery could be made is difficult to see. The Junkers planes now on hand are overhauled at Condor's Rio de Janeiro base. There is a continual interchange of personnel between Lloyd Aereo and Condor.

Lloyd Aereo now operates some 3000 miles of routes in Bolivia. Its importance lies in its being a primary link in one of the German transcontinental systems.

#### DEUTSCHE LUFTHANSA

From the beginning the Lufthansa-Condor combination contemplated a transoceanic air service between Europe and South America via the west coast of Africa. In February 1930 Condor inaugurated a weekly service between Rio de Janeiro and Natal. One month later this was extended experimentally to the Island of Fernando de Noronha, where the Condor plane delivered air mail for Europe to a Hamburg-American Line steamer. This in turn transported it to the Canary Islands, whence it was taken by a Lufthansa plane to Europe. This operation, which effected a

two-day saving over the all-sea route between Rio and Europe, was of course only a temporary expedient.

In May 1930 the dirigible *Graf Zeppelin* made its first landing at Rio, presaging the regular airship service established between Germany and Brazil in 1931. After three years of lighter-than-air service the Brazilian Government and the Luftschiffbau Zeppelin of Friedrichshafen entered (March 1934) into a contract calling for a minimum of twenty airship trips per year. Sindicato Condor worked closely with the Luftschiffbau Zeppelin up to the time service was suspended following the disaster to the *Hindenburg* at Lakehurst in May 1937. Condor remains general representative for South America of the Deutsche Zeppelin-Reederei, operating company of the Zeppelin ships. If the Nazis are successful in imposing their "new order" on Europe and Africa, airship operation across the South Atlantic will probably be resumed.

In February 1934 Lufthansa, with Condor's close collaboration, established a regular weekly air-mail service between Central Europe and South America via the west coast of Africa. This was the first all-air transoceanic airplane route in the world. It was flown with the aid of catapult depot-ships stationed part way out from each coast. This Lufthansa-Condor mail service soon proved faster than that provided by the *Graf Zeppelin*; beginning in 1935 the airship was therefore reserved for passenger traffic only, the mail being carried by the flying boats. The latter traversed the South Atlantic from coast to coast in fewer than twenty hours, bringing the air trip between Central Europe and Rio de Janeiro to less than three days. Up to the outbreak of war this line operated with remarkable regularity. It served as a proving ground for various types of heavy flying boats developed especially for Lufthansa, and also provided valuable training in long distance over-water flights for many German military pilots.

In 1934, with the inception of all-air service from Europe, Condor extended its lines into Uruguay and to Buenos Aires. At the same time Deutsche Lufthansa extended its own operations from Natal to Rio and Buenos Aires. This in effect made for a dual German air system along the coast with Lufthansa operating weekly express flights for the European mails and Condor a weekly local passenger and mail service. More and more German personnel arrived to serve as flight crews or as instructors.

In October 1935 Condor established the trans-Andean line between Buenos Aires and Santiago de Chile. It was Captain



Fritz Hammer — co-founder of Scadta in Colombia (oldest of all the German air lines), one of the founders of Condor Syndikat and later to be the organizer of Sedta in Ecuador — who secured the concession from the Chilean Government for this operation. The second pilot accompanying Hammer on his flight to Santiago for negotiations was Gustav Wachsmuth, who later became technical director of Sedta. These details indicate the close interrelationship between the various units of the German chain. Two years later, in 1937, service on the trans-Andean line became bi-weekly and operation was taken over by Lufthansa under a special authorization-decree of the Chilean Government. At almost the same time Condor doubled its hitherto weekly service on the long coastal route from Buenos Aires to Belém.

The four-year concession in the name of Sindicato Condor which Hammer had secured from the Chilean Government in 1935 was extended by decree in 1939 to run until December 24, 1942. This time, however, the decree designated Deutsche Lufthansa as the concessionaire. Lufthansa also obtained the right to operate in Brazil on a twice-weekly frequency but without the right to carry traffic within the borders of the country. Condor, as ostensibly a Brazilian enterprise, is of course privileged to engage in internal air commerce.

All of Lufthansa's operations in South America until the outbreak of the war, when they were temporarily suspended, have been regarded by well-informed quarters in Brazil and Argentina as more a military than a commercial activity. They were conducted primarily for the training of German military pilots on long distance flights and to further German penetration of Latin America, and not to make a profit.

After a short period of suspended service following the outbreak of hostilities in Europe, Condor took over all of Lufthansa's operations and flying equipment in South America. The establishment in December 1939 of service from Rome to Rio by the Italian airline Lati, under the management of Bruno Mussolini, provided an Axis substitute for the Lufthansa trans-Atlantic service. Some time ago Lufthansa announced that its through service between Berlin and South America would be renewed during the summer of 1940 with Dornier Do36 four-engined Diesel-powered airplanes making the ocean crossing non-stop. Though this service could not be reopened as scheduled, it may quite possibly be under way in the fairly near future.



## LUFTHANSA PERU

The most recent addition to the German airways network wears no camouflage. Deutsche Lufthansa A.G., Sucursal Peru (Peruvian Branch), is openly German, although registered as a Peruvian company. It was established in May 1938 by its parent concern. As yet it is a comparatively modest undertaking, operating only 1210 miles of routes with two Junkers Ju52 airplanes. But its potential importance is considerable, for it forms the westernmost link in the Nazi-controlled transcontinental airways system. It operates two weekly services between Lima and La Paz over separate routes, one of which connects at the Bolivian capital with Lloyd Aereo Boliviano's service to Corumbá. At that point, direct connection is made with Sindicato Condor's service to Rio, whence — until Lufthansa renews its trans-Atlantic operations — Lati's irregular service carries the mail to Rome. Lufthansa Peru's management is German, its flight personnel is German, the majority of its technical personnel and all its equipment are German.

The chief pilot of Lufthansa Peru, Capt. Berthod Alische, was recently in Iquitos, at one of the headwaters of the Amazon, to make arrangements for a service between that point and Lima. Should Lufthansa Peru inaugurate such a service its operations would then be within connecting distance of Sindicato Condor's "penetration line" in western Brazil. Some four years ago Condor made overtures to the Brazilian Government for a concession to extend its services westward to Tabatinga, 250 miles from Iquitos. At the same time the Peruvian Ambassador to Brazil announced that his Government would establish a corollary service from Lima to Ramón Castilla, just over the frontier from Tabatinga. Such a line would have no commercial advantages but would be a useful adjunct to Nazi penetration. The area it would cross lies on a direct line between Rio de Janeiro and the Panama Canal, astride the main tributaries of the Amazon River. Along such a diagonal route from sea to sea there are many points where secret bases might be established.

Since the outbreak of the war Lufthansa Peru has had difficulty in obtaining equipment and funds from the Fatherland: its flying personnel is on reduced pay and its program of expansion has been retarded. But this situation is expected by the Germans to correct itself before long. Before the war the company announced

that it would open a service between Lima and Guayaquil. (Well-informed sources have suggested that what Lufthansa most desires at present is to extend its services up the entire coast of Peru in order to check on the location of British warships.) This service would connect with Lufthansa's affiliate Sedta, which operates between Guayaquil and Quito. Quito is some four and a half hours flight from the Panama Canal by Junkers Ju52, or little more than three hours by a plane with the speed of, say, the Focke-Wulf FW200.

#### SEDTA

The Sociedad Ecuatoriana de Transportes Aéreos, known as Sedta, was organized in 1937 by a group of Germans and Ecuadoreans headed by the late Fritz Hammer, who, as already mentioned, was active in promoting German airlines in South America as early as 1920. He had vision, an individualistic temperament and the head of a wind-tossed hawk. He was killed in March 1938 when he flew a Sedta plane into a mountain.

In February 1935, Hammer negotiated a tentative contract with the Ecuadorean Government, though more than two years elapsed before it was actually signed. The contract called for regular operations between Guayaquil and Quito, with unspecified extensions every five years, in return for which certain subsidies were to be paid. In the final arrangements there was a tie-up with a general barter deal between the German and Ecuadorean Governments. Shortly after Hammer's death Messrs. Paul Moosmeyer, director of Lufthansa's head office at Rio de Janeiro, and Grotewold, Lufthansa representative in Argentina, descended upon Quito. They had just inaugurated the Lufthansa-Lloyd Aereo Boliviano-Condor service between Lima and Rio. In Quito they made certain arrangements with respect to Sedta, though their first plan to absorb that company in an extension of the Lufthansa service from Lima into Ecuador was not accepted by the Ecuadorean Government. Nevertheless, Lufthansa gained control of Sedta through an equipment agreement and by providing a subsidy from the Rio office reputed to be thirty thousand sucres (approximately \$2,100) per month.

Sedta has so far survived more than a normal share of ill luck. Its first plane, a light 4-passenger machine used by Hammer on a photographic mission, was damaged beyond repair before the final signing of the concession. Early in 1938 the company received



two single-engined Junkers W34's. A few days after the arrival of the second one, Hammer flew it into a mountainside near Quito, killing all on board. Following the company's realignment with Lufthansa, a Junkers Ju52 was placed on the scheduled service between Guayaquil and Quito. This plane was destroyed in December 1938 when it spun in at Quito airdrome, causing fatal injuries to co-pilot Musselberger and minor ones to the passengers. It was promptly replaced by another Ju52 from the Lufthansa pool in Brazil. In September 1939 the remaining W34 was washed out in landing at Cuenca, and was also replaced by a Ju52 from Brazil. These two tri-motored Junkers now constitute the company's fleet. Sedta operates approximately 900 route miles. Despite this distinctly spotty record the attitude of the Ecuadoreans towards Sedta remains favorable. Its elastic rate structure is not paying cash dividends, but it has built up local good will. Nearly fifty percent of Sedta's passengers are said to travel free, while barely ten percent pay the full tariff.

Sedta is a corporation organized under the laws of Ecuador. Its total Ecuadorean capital is said to be about \$12,000, and there is nothing to indicate that any part of this was ever paid in. Actual control rests with Deutsche Lufthansa through equipment credits or loans, other subsidies and the appointment of managing and technical personnel. The Minister of National Defense has recognized Sedta as a foreign entity despite its national disguise. Nevertheless, the company receives a subsidy from the Ecuadorean Government. The present managing director, appointed by Lufthansa after Hammer's death, is likewise a German, Gustav Adolf Wachsmuth, a graduate in aviation engineering from the Polytechnic School of Berlin, who spent ten years as a pilot with Sindicato Condor. Except for the traffic manager, all the company officials and operating personnel are Germans designated by Lufthansa. There are eight or ten pilots, co-pilots and radio operators of German nationality, plus a dozen or so other Germans in various capacities.

In accordance with the practice of all the German lines in South America, Sedta employs pilots sent to it from Germany for periods of instruction. One of its pilots flew for Lufthansa in China, Afghanistan and Arabia, and during the four months immediately preceding his transfer to Sedta he was pilot for Sindicato Condor on the Buenos Aires-Santiago line. Sedta's German personnel is hostile to the United States. Its members have at-



tacked Pan American-Grace Airways from the start — vocally, in the press, in resolutions before Congress and through local supporters. A well-informed source reports that a certain Schulte, employee in a bakery at Quito and reputed head of the Gestapo in Ecuador, pays substantial sums each month to Sedta. The German employees of Sedta live with German families, who are compensated in credits available in Germany. The pay of the German pilots, formerly 2000 sucres a month (about \$140), has been reduced by more than half since the outbreak of war; but the pilots feel that they are working for a "cause."

Presumably, the company's continued operation depends on its ability to obtain funds from Germany. Evidently it is still able to do this, though probably in restricted amounts. In any case, Germany is believed to have substantial sums available in Ecuador. Sedta's continued operation also depends on whether a United States-operated service satisfactory to the Ecuadoreans can be developed to take the place of the German company. Since such a service could not earn its way, it would need financial support from the American Government. This support would be repaid through increased hemisphere security.

In July 1939 Sedta made a "good-will" flight from Quito to Bogotá, announcing it as the inaugural trip of a weekly service to Colombia. The proposed service did not materialize owing to the refusal of the Colombian Government to grant the necessary permission. But the announcement itself was significant in view of Lufthansa's previous discussions with the Ecuadorean Government relative to a northward extension of Lufthansa Peru to connect with Sedta's thrice-weekly service between Guayaquil and Quito. Meanwhile, Sedta continues its endeavors to expand northward into Colombia.

Sedta recently attempted to secure a contract from the Ecuadorean Government to operate a service to the Galapagos Islands. Such a line could have no possible commercial justification; but it is more than a mere coincidence that the islands happen to lie in a highly strategic location off the Pacific entrance to the Panama Canal. The Government did not sign the contract. Sedta has also been negotiating for a concession to operate a seaplane line into the jungles of eastern Ecuador. The Ecuadorean Army would find such a line useful for provisioning its frontier outposts. If Sedta should obtain this concession, its operations would, as in the case of Lufthansa Peru, be brought within easy distance of the

Condor "penetration line" in western Brazil. This is believed to be Sedta's primary interest in this line, for it could scarcely be a paying proposition, even with a substantial subsidy. The Lufthansa strategy undoubtedly aims at creating a southeast-northwest belt line across the continent.

#### AVIANCA, FORMERLY SCADTA

The Sociedad Colombo-Alemana de Transportes Aéreos, called Scadta, was the first permanent air transport operation in the Western Hemisphere and one of the first in all the world, and was the forefather of the whole German airline network of South America. It was founded in 1919-20 by a group of ex-officers and pilots from the German and Austrian armies. Dr. Peter Paul von Bauer and Fritz Hammer, of whom we have already heard, were the leading spirits. Hammer was Scadta's technical director until the time he left to help in the formation of Sindicato Condor. Under the initiative and ability of its organizers, Scadta thrived. Within a few years its operations had spread all over the country, by land as well as by water.

In 1931 Dr. von Bauer, who remained at the head of Scadta until early in 1940, sold a considerable block of its stock to Pan American Airways under an arrangement whereby this stock remained in his name in a form of voting trust. Von Bauer continued as managing director and the German staff remained with him. Seven of the company's twelve officers were Germans. Twenty-one of its pilots were Germans, believed to be reserve officers on the payroll of the German Air Ministry. They were — perhaps for that reason — willing to accept lower wages than pilots of other nationalities. The fifteen German flight mechanics were also suspected of being trained co-pilots and reserve officers.

Meanwhile there arose, both in the United States and in Colombia, increasing concern over the fact that a German-dominated airline was operating within easy striking distance of the Panama Canal. At the outset efforts to "de-Germanize" Scadta met with little result. But in 1939 the Colombian Government succeeded in bringing about a merger between Scadta and Saco, a *bona fide* Colombian-flag company, and in "nationalizing" this new line — Aerovias Nacionales de Colombia, known as Avianca — by retaining the right to acquire a controlling interest in the enterprise at any time within ten years of its reorganization. Avianca now operates a total of 5,175 route-miles.



With this merger the situation became somewhat clearer. The new company was under Pan American's financial control. Nevertheless, von Bauer and his German associates remained, and difficulties were encountered in replacing the German operating personnel. United States or Colombian pilots could not take over from the Germans without first familiarizing themselves with the Scadta routes and it was feared that a program aimed at the gradual replacement of the German pilots would result in the immediate resignation of all of them, thereby crippling the whole organization. The thesis was therefore accepted that replacement of the German communications personnel would provide a sufficient check on the movement of aircraft to guard against a surprise attack on the Panama Canal. Nevertheless, pressure for the "de-Germanization" of the new company continued.

At the end of January 1940, von Bauer finally submitted his resignation. This was followed within a month or so by the resignations of Albert Tietjen, elected acting president when von Bauer resigned; Herman Kuehl, manager and vice president; Wilhelm Schnurbusch, technical director; and several others. (Schnurbusch was reappointed in an advisory capacity, for a period of two years.) But of the seventy-nine or eighty Germans who had been connected with the company's technical and managerial staff, there still remained a substantial number in the operating, maintenance and communications departments.

The blitzkriegs against Scandinavia, the Low Countries and France, with their disclosures of fifth column activities, finally gave the joint guardians of hemisphere defence serious alarm. On June 8, therefore, the Scadta-Saco merger was finally ratified by the stockholders, and immediately thereafter all of Scadta's German flight, radio and shop personnel still on the rolls were retired with substantial bonuses. But an approximately equal number of German office personnel, including the traffic manager and chiefs of postal and express services, still remained.

Immediately after the discharge of the pilots and technicians, the German Legation at Bogotá announced that no attempt would be made to repatriate citizens of the Reich, despite the fact that nearly all of them were military reserve officers. However, Associated Press despatches from Panama reported the departure during August of some twenty of these men with their families on a Japanese steamer bound for the Orient. Twenty more are said to have escaped on board the German freighter



*Helgoland* which slipped out of Puerto Colombia on October 29 without obtaining proper clearance from the Colombian authorities. Some of the dismissed personnel remaining in Colombia are reported to have settled in the sparsely populated *llanos* in the eastern part of the country in order to take up "farming," an occupation which seems scarcely suited to airplane pilots, mechanics and radiomen. Two former Scadta pilots, Hans Hoffman and Fritz Herzhauser, have been conducting an unscheduled air transport service in this region under the corporate name of Arco. These two men have been in an excellent position to survey landing fields in Colombia's unpatrolled eastern plains, and even to lay out and stock such fields. Although the Colombian Government revoked their concession last August, it is reported that they are seeking to expand their activities.

Other Germans, formerly with Scadta, still remain in Colombia engaged in various activities. One suspects that the last has not been heard of the goodly company of Scadta alumni.

#### AEROPOSTA ARGENTINA

Aeroposta Argentina is an Argentine company; its board of directors is one hundred percent Argentine and all its capital is Argentine. It is an outgrowth of the French Aeropostale company. Its administrators, most of whom are well known in Argentine politics, are not at all pro-Nazi or pro-Fascist. The President and owner of the company, Ernesto Pueyrredon, belongs to one of Argentina's oldest families. Yet Lufthansa-Condor is in a position to dominate Aeroposta's policies.

Aeroposta dates back to October 1929. Its services have been efficiently operated and its traffic has steadily improved. At the present time the company is said to be on a paying basis. In 1936 the Pueyrredon group took it over from the government, which had been operating the line since its abandonment by Aeropostale in 1931. The new management soon found itself in financial difficulties. That was where Lufthansa-Condor stepped into the picture with its outwardly attractive long-term, pay-as-you-earn equipment rehabilitation proposal. Under this scheme three trimotored Junkers Ju52's were delivered to the company against a minimum cash outlay. The contract, of course, mortgaged Aeroposta's assets and future earnings, which in the event of default would provide the Germans with an effective wedge for further infiltration. Furthermore, it provided that specifically designated

German pilots and mechanics should be employed for fixed periods, that German specialists were to train Aeroposta's Argentine personnel, and that Condor should direct and supervise the maintenance of the planes, including major overhaul in Condor's own shops, until final payment had been made in full. As a result of these terms Lufthansa-Condor has obtained a considerable degree of control over the line. Innocent-appearing equipment contracts of this sort have constituted one of the major weapons in Germany's penetration of South American skyways.

Aeroposta Argentina now operates approximately 1,600 miles of scheduled routes. It has for some time been seeking additional subsidized extensions, including an eventual junction in the northwest with the Lufthansa-affiliated Lloyd Aereo Boliviano. Junction is already made at Buenos Aires with the Lufthansa-Condor system. Aeroposta also connects at Buenos Aires with the *Compañía Aeronáutica Uruguaya S. A.*, known as *Causa*, which operates to Montevideo and other points in Uruguay. *Causa* is a small company whose principal financial backing comes from the Supervielle family, Uruguayan bankers and ranchers. It is considered to be a Uruguayan enterprise, though under some degree of German influence. Its pilots are, or have been, Germans; its flying equipment consists of two Junkers Ju 52 seaplanes; while the technical supervision of these aircraft, including major maintenance, is in the hands of Condor.

#### THE NAZI-FASCIST LINK WITH EUROPE

Fascist Italy has long had aerial aspirations in South America; but only in December 1939, after a lengthy period of preparation, did the *Ala Littoria* company finally inaugurate its widely publicized service from Rome to Rio. This line is operated by a heavily subsidized offshoot called *Linee Aeree Transcontinentali Italiane*, or more briefly *Lati*. Its managing director is Bruno Mussolini, the Duce's son.

The preparatory period gave certain indications as to the nature of the service which the Italians proposed to give. In Brazil the *Ala Littoria* staff, engaged ostensibly in preliminary studies and negotiation, comprised some thirty persons, most of whom were officers of the *Regia Aeronautica*. They made great efforts to curry Brazilian official favor, with some success. In Argentina similar efforts were less successful. Argentine opinion, since the Ethiopian, Spanish and Albanian episodes, has been decidedly



antagonistic to the Fascists, despite the existence of a large Italian element in the population. The Argentines were also alarmed by the fact that the airplanes used on Ala Littoria's survey flights were bombardment craft — one of them even carried machine-gun mountings and a coat of camouflage. Popular indignation was so aroused over the proposed use of military pilots that the Argentine authorities flatly refused to permit this phase of the program.

Ala Littoria also acted as sales agent in South America for Savoia Marchetti bombardment planes. It controlled a pseudo-Argentine air line company called La Corporación Sudamericana de Servicios Aéreos. That venture nearly came to an untimely end when the Department of Civil Aeronautics suspended its service because the company's Italian pilots had refused to turn the Sudamericana planes over to Argentine co-pilots at the end of the first six months of operation, as prescribed in the terms of the concession. Shortly thereafter Sudamericana lost its operating license because of its persistent refusal to submit its planes to airworthiness inspection and test. The license was reinstated, however, when the company agreed to the government's demands, and Sudamericana is again flying its Macchi planes on daily schedule between Montevideo and Buenos Aires.

Ala Littoria's authorization to operate its transoceanic service as far as Argentina has not been exercised and has now lapsed. Presumably a new permit will be sought in Lati's name. Lati's Rome-to-Rio service continues in operation, though somewhat irregularly. At present it is the only air service across the South Atlantic, Lufthansa having suspended at the beginning of the war and Air France at the end of June 1940.<sup>3</sup> The Lati route in Brazil is 1,800 miles long.

The Italian service has taken the place of Lufthansa for all Nazi-Fascist communication with South America. Air mail from South American cities to Central Europe "Via Condor-Lati" takes less time than from the same points to New York. Instructions, funds and propaganda material for Nazi agents in Latin America are transmitted in this manner from Berlin. The planes used, convertible bombers with a cruising speed of better than 220 miles per hour and a range of over 2,500 miles, are tri-motored Savoia Marchetti S83T's, known as "Green Mice." These planes go from Rome to Rio in three days via

<sup>3</sup>For a description and map of transatlantic air routes see Edward P. Warner's "Atlantic Airways," *FOREIGN AFFAIRS*, April 1938.



Seville, Rio de Oro (Spanish), the Cape Verde Islands (Portuguese) and Recife. The Atlantic crossing takes about nine hours.

#### CONCLUSION

This network of airlines controlled or dominated by the Germans and Italians now covers a good part of South America. The German components are integrated by the directive genius of Deutsche Lufthansa, and they are coordinated in matters of propaganda and public relations with the general program of the Wilhelmstrasse. Through its Fascist partner, the Germans control the only airway connection now operating between Europe, Africa and South America. As for the future, the Germans are planning to expand their airways in and to South America. Dr. von Bauer is understood to be preparing such plans to be put into effect after the war.

It need hardly be said that neither the present activities nor the future plans of the Axis-dominated airlines in South America are advantageous to their American competitors; nor are they compatible with our policy of hemispheric security. Several of the South American republics are becoming increasingly aware of this latter fact and of the threat to themselves inherent in the activities of the Nazi and Fascist air transport enterprises. Yet it is not sufficient merely to be aware of the situation; prompt and effective measures are required. That such measures are possible is evidenced by the recent progress in "de-Germanizing" Scadta. All the South American governments should cooperate in a policy of nationalizing whatever airlines under their flags which engage in activities that are actually or potentially subversive, and they should scotch the misuse of commercial permits granted to the Nazi and Fascist lines by cancelling them if necessary.

Some progress is being made toward these goals. In Ecuador the government has permitted Pan American-Grace to extend its routes so as to include certain points until recently served only by Lufthansa's affiliate Sedta. In both Brazil and Argentina, the governments are making concrete efforts to eliminate the employment of non-native-born pilots by Sindicato Condor and certain other lines operating under the Brazilian and Argentine flags. Pan American is stepping up its schedules to Latin American ports and increasing frequencies of service by placing new aircraft of greater speed and range in operation, day and night, over

routes more direct than those flown heretofore. But more remains to be done.

For example, a wisely planned and coordinated program is needed for the replacement of equipment on the national airlines of the Latin America countries. Many of the South American air carriers seriously require new aircraft, spare parts and other matériel which they can no longer obtain from Germany. The United States could well step into this breach. If aircraft, engines and accessories were to be supplied to the national airlines on terms no less favorable than those provided by the Lufthansa-Junkers equipment contracts, there would be little inducement for the lines to revert later to German equipment. We might go so far as to assist the national lines in liquidating these German contracts. In return for this, and in full cooperation with the governments concerned, the lines should be induced to divest themselves of all German control, or influence, and personnel.

To accomplish all this we might have to aid in providing trained flying and technical personnel for an interim period, under some arrangement whereby the lines would not be burdened with too great an increase in pay-roll expense over the cost of the present German staffs. We should make every effort to cooperate in training more Latin Americans to be competent transport pilots. They make excellent aviators when properly schooled, but there is at present an insufficiency of experienced men to staff the national lines. We can furthermore aid the airlines themselves by providing the local departments of civil aeronautics in some of the Latin American republics with ground equipment and installations on liberal terms, as well as technical collaboration where desired. The Export-Import Bank of Washington is now in a position to extend its facilities for such purposes.

In all of this the cooperation of the South American countries is, quite evidently, essential. There is reason to believe that this cooperation would be forthcoming, in most cases at least, if we presented them with a clear and properly coordinated program. Such a program will, of course, cost a considerable sum. It will need both the financial and technical backing of the United States Government. It will require the support of the War and Navy Departments and of the Council of National Defense in the matter of priorities on equipment and flight personnel. But there can be no question that it would pay high dividends in terms of national and hemispheric security.







FEDERAL RESERVE BANK  
OF NEW YORK

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OFFICE CORRESPONDENCE

Date March 5, 1943

To Files  
From L. W. Knake

Subject: Stabilization Fund Loan  
to Utvegshankl Islands,  
Reykjavik

At the suggestion of Mr. Cochran, Mr. Clinton O. Johnson, Manager, Foreign Department, Chemical Bank & Trust Company, brought in today Mr. Thor Thore, Commercial General of Iceland and Mr. Helgi Gudmundsson, General Manager, Utvegshankl Islands, to discuss with us, as fiscal agent of the United States, a loan as outlined above.

In this connection the three visitors explained:

In 1925 the Iceland Bank, now Utvegshankl Islands, arranged with the Danish Government for a loan of Danish kroner 5,000,000 repayable in 20 annual installments of Danish kroner 250,000 each. Of this amount there are today owed to the Danish Government about Danish kroner 2,300,000 plus about Danish kroner 1,080,000 (equivalent to about Icelandic kroner 1,340,000 placed to the credit of the Danish Government on the books of the Utvegshankl Islands). The total amount due today under the original loan, therefore, is about Danish kroner 3,380,000 plus interest from January 1, 1941.

Under the original arrangement of 1925, repayment had to be made in Danish kroner. Under a subsequent plan repayment was permissible either in Danish kroner or in Icelandic kroner. Under arrangements made in June 1940 the outstanding amount may be paid off in Danish 6 1/2 1942 dollar bonds (quoted in New York at around 43). The amount of bonds needed under this arrangement would be approximately \$650,000 par value, equivalent to about \$270,000 cash.

The Utvegshankl Islands owns sterling balances (about \$420,000 on January 31, 1941). These balances cannot, of course, be liquidated at the present time but the British Government at the time of their friendly occupation of Iceland agreed

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to make available to Iceland the latter's dollar needs to the extent that the dollar amounts obtained from Iceland's exports to the United States were not enough to meet the absolutely necessary requirements.

The reason for today's visit was the thought that the United States Stabilization Fund might be interested in advancing the \$270,000 amount, necessary to pay off the 1925 loan, under the guarantee of the Icelandic Government or possibly against sterling balances in London as collateral.

(There may be a chance of the British arranging for payment in sterling for some Icelandic imports from the United States in which case some of the dollar proceeds of Iceland's exports to this country might become available for the repayment of a loan by the Stabilization Fund but barring some such development any such loan would have to run presumably to the end of the war or longer, until the bank is able to repay it.)

According to both Messrs. Thors and Gudmundsson the Icelandic Government is not in a position today to use some of the dollar proceeds of Iceland's exports to the United States in repayment of any loan because the dollars obtained from exports are needed for payment of Iceland's essential imports from this country.

Early consideration of this plan is requested because Mr. Gudmundsson plans to leave for Iceland in about 10 days.

I promised to report this visit to Mr. Cochran and to let my visitors have Washington's reply in due course.



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE March 5, 1941

TO Secretary Morgenthau  
 FROM Mr. Cochran

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£28,000
Purchased from commercial concerns	£35,000

The Federal Reserve Bank of New York sold £10,000 in registered sterling to a non-reporting bank.

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

Sold to commercial concerns	-0-
Purchased from commercial concerns	£ 1,000

The Argentine free peso again declined, reaching a current low of .2295 at the close, as against .2365 a week ago.

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

Canadian dollar	14-7/8% discount
Swiss franc (commercial)	.2323
Swedish krona	.2383-1/2
Reichsmark	.4005
Lira	.0505
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	6-7/8% discount

In Shanghai, the yuan expressed in terms of our currency was unchanged at 5-9/16¢. Sterling was also unchanged at 3.94-1/2.

We sold \$998,000 in gold to the Central Bank of Uruguayan Republic, which was added to its earmarked account.

No new gold engagements were reported.

In London, the prices fixed for spot and forward silver were both unchanged, at 23-3/8d and 23-5/16d respectively. The U. S. equivalents were 42.44¢ and 42.33¢.



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

We made one purchase of silver amounting to 200,000 ounces under the Silver Purchase Act. This consisted of new production from foreign countries, for forward delivery.

The Bureau of Foreign and Domestic Commerce reported on March 4 a shipment of 222,600 ounces of refined silver bullion sent by the American Metal Co. Ltd., New York, to an unnamed consignee in London. It will be recalled that a similar shipment, amounting to about 800,000 ounces, was reported as having been sent on February 17.



CONFIDENTIAL



BRITISH EMBASSY,  
WASHINGTON, D.C.

PERSONAL AND  
SECRET

March 5th, 1941

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Halifax*

The Honourable,

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

Telegram received from London  
dated March 4th, 1941.

Naval.

1. Small force of bombers attacked Hipper class cruiser at Brest night of 3rd/4th - no results known yet.
2. Naval aircraft bombed North Harbour Massawa after dark on March 1st. Bombs hit small floating dock believed to contain U-boat. "Upright" reports she put one torpedo into unescorted ship south east of Sfax on February 23rd, ship burst into flames and believed sank, also night of February 24th/25th she hit with one torpedo out of four the largest of 3 enemy warships either Armando class cruiser or Navigatore class destroyer but fate of ship not observed.
3. A.P. trawler "Cobbers" bombed and sunk off Lowestoft on March 3rd: troop convoy of 16 ships totalling 314,599 G R tons has arrived at Suez.

4. Military - Bulgaria.

Reported 20 German divisions including 4 armoured and 3 motorized are moving South from Roumania. German troops crossed the Danube at 6 points and moving on three main routes towards Gorna Djumaya, Provdiv and Stara Zagora. Advance units appear to have reached a line Maritsa. Large numbers of German troops reported in Burgas and anti-aircraft units at Varna.

5. Libya.

Total Italian Libyan prisoners taken in Libya alone is 133,000.



6. ROYAL AIR FORCE.

Night of March 2nd/3rd, weather conditions at Brest were good, 83 tons of H.E. dropped, many bursts seen around dock where enemy cruiser reported.

7. Night of March 3rd/4th.

78 bombers sent to industrial targets at Cologne, 7 to cruiser at Brest and 10 to Channel ports. One Hampden and one Stirling missing. Fighter Command sent four aircraft on night offensive patrols over North West France. One enemy aircraft probably destroyed and another damaged. One of our aircraft missing.

8. ALBANIA.

On March 2nd, medium bombers escorted by fighters attacked Berat aerodrome. 2 enemy aircraft destroyed on the ground and others damaged.

9. GERMAN AIR FORCE.

March 3rd, patrols took place over Dover Straits some of which flew in over East Kent. Manston aerodrome dive bombed but material damage slight. Our fighters destroyed one Messerschmitt 109 and another enemy aircraft crashed on landing.

10. Night of March 3rd/4th. Enemy activity although not heavy was larger than of late. 160 aircraft plotted of which 80 probably mine laying. Cardiff main objective and scattered bombing occurred elsewhere.

11. Aircraft casualties from operations over and from the British Isles.

GERMAN:

<u>Destroyed</u>	<u>probable</u>	<u>damaged</u>
2	1	1

BRITISH:

2 Bombers missing.

12. HOME SECURITY.CARDIFF

More than 50 fires started by incendiary bombs. Considerable damage chiefly to business premises, done by H.E. Some dislocation of railway services.

SUNDERLAND.

An electric sub-station hit causing dislocation of supply of several factories.

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SPECIAL BULLETIN  
No. 31  
G-2/2657-231

MILITARY INTELLIGENCE DIVISION  
WAR DEPARTMENT  
Washington, March 5, 1941

NOTICE

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

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction see Letter TAG 350.05 M.I.D. (9-19-40) M-B-M.

THE BREAK-THROUGH ALONG THE MEUSESOURCE

Part 1 of this bulletin is a considerably reworked and edited translation of "Breaking Through Across the Meuse River." This article, written by Lieutenant-Colonel Georg Soldan, appeared in the Deutsche Wehr, authoritative German military journal, on December 6, 1940. Every effort has been made to divest the article of its propagandist flavor and to limit it to its factual aspects. Part 2 is a brief comment upon the Meuse operation as it was seen from the French point of view. This comment was prepared in the Military Intelligence Division.

CONTENTS

1. "BREAKING THROUGH ACROSS THE MEUSE RIVER"
  - a. The Situation and Preparatory Measures
  - b. The Operation
2. COMMENT FROM THE FRENCH POINT OF VIEW

\* \* \*

A map outlining the movement of the Von Kleist columns is attached.

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RESTRICTED1. "BREAKING THROUGH ACROSS THE MEUSE RIVER"a. The Situation and Preparatory Measures

Some years before the present war, a certain French general published a careful and elaborate study in which he embodied his thoughts regarding methods of warfare suited to the border between Germany and Luxembourg and to the southeastern tip of Belgium, which pushes out between France and Luxembourg. After careful analysis, he had reached the conclusion that this region, stretching out on both sides of Charleville and in front of the Meuse, was as nearly unsuited to movement of troops on a large scale as any region could be, and he based his conclusion upon difficulties of the terrain, especially in the Eifel region and in the Forest of Ardennes.

There is every reason for agreeing with the general's opinion, and, indeed, for adding that the natural obstacles to any operation carried on by large contingents of troops are considerable. Realizing this, members of the German Supreme Command decided to capitalize upon it in the attack of May 10. They felt that they could overcome the difficulties which would arise and that the French High Command, relying upon the difficulties of the terrain, was certain to be taken by surprise.

It is a fairly well known fact that, having first broken through along the Meuse, the German Army drove a wedge straight through the center of the enemy armies. This wedge, quickly widened, finally developed into a sort of corridor extending from the German border in a straight line across Luxembourg, Belgium, France, and all the way to the English Channel. Within a few days the Germans gained control of strategically important territory which had been the center of embittered struggle for many years during the World War and which they had been completely unable to take at that time. Arras, Albert, and Amiens were the key positions which had previously cut off the road to the Channel, but which now fell into German hands.

This corridor was made a base from which to carry on and complete a gradual encirclement and constantly tightening envelopment of the strong English, French, and Belgian Armies fighting in the North of France and in Southern Belgium. The encirclement constituted a battle so tremendous that history fails to record any but a remote parallel for it.

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Obviously the initial attack - the advance that broke through the enemy lines at the Meuse River - was the indispensable prerequisite of everything that was to follow later. To describe this attack as a break-through is to point out that it was an action carried out only with the greatest of difficulty. A break-through, as we had occasion to discover in the World War, is a type of military operation which inevitably calls for the highest degree of daring. It comprises a whole series of actions which must overlap one another smoothly - actions which include penetration, the actual breaking through, extension, and widening the gap to the right and left. At the same time there must be a forward attack proceeding without a moment's loss of freedom of movement and a continuous influx of new strength through the opening torn by the attack. Failure in only one of these contributory actions may jeopardize the success of the entire break-through. The World War and subsequent wars - especially the war in Spain - have made it clear that quickness of action and the factor of surprise are indispensable for a successful action of this type.

The principle of surprise was successfully applied on a number of occasions during the World War, but it was impossible to obtain real speed with the equipment at the disposal of a World War army. The war in Poland served to illustrate the effects resulting from higher speeds, but there was still a question as to whether these speeds would be equally effective where the enemy was in a position to fight back with similar equipment or where he was numerically the stronger. We could not fail to bear in mind that the French had the advantage of an established tradition in matters of training and strategy and that they might be expected to adapt themselves as successfully as their opponents to conditions resulting from recent modification of the methods of warfare.

Consequently the action of May 13, which led to the break-through along the Meuse, assumes a special interest. In that action, for the first time in history, motorized troops were used exclusively for executing a large-scale strategic movement. Motors were not slow to make their mark upon methods of waging war. They pointed out a new way for the commander-in-chief, just as railroads had done in earlier days. There remained only the question of which leader would be most successful in learning how to make use of them; which one would estimate correctly and appreciate properly the new opportunities offered by motors, and which would have daring enough to take full advantage of these opportunities.

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We may not discuss details of organization suitable for motorized troops or their proper use in combat, for we are still at war. We may say, however, that the words, "completely motorized" are to be taken literally, for everything and everybody belonging to units described by these words - whether infantry, artillery, pioneer, intelligence, supply, or other units - are moved by motor. It is a well known fact, moreover, that the distinguishing characteristics of certain motorized organizations are influenced to some extent by the fact that tanks constitute part of their equipment. The dimensions of the motorized organizations necessary for effecting the break-through along the Meuse were gigantic; about 45,000 motor vehicles took part in this action. If the vehicles of this motorized column were spread out in single file on the same road, they would extend from Coblenz on the Rhine to Konigsberg in East Prussia. It would be contrary to public policy to give more detailed information than this.

Nothing has occurred since last May that would tend to indicate a decrease in the use of motor vehicles. Lost cars were easily replaced from the thousands of vehicles - sometimes entire columns - that the enemy was compelled to leave behind, and in a number of instances it was possible for German soldiers to take them over in positions where the English or French had just lined them up in proper order for a march. Just as the infantryman, looking for something useful, goes through all articles of equipment abandoned by retreating enemy troops, the driver makes a practice of inspecting every abandoned motor vehicle, for no matter how badly a car is damaged, there is usually some part which may be used to advantage. Batteries, carburetors, tires - even spark plugs and tools are worth salvaging.

The enemy's motor equipment did not generally approach our own in quality and durability, and at times it was astonishing to discover what antiquated and inferior vehicles were used by the French Army. It is not impossible that owners of the better types of cars found ways to prevent their being requisitioned for military purposes; at least this is the inference to be drawn after examination of cars used or abandoned by refugees.

The German Army had ample time to ready itself for the break-through along the Meuse, and the six months immediately preceding operations were used for preparing troops to perform their various tasks to perfection. Preparatory training involved so great a degree of psychological tension for troops that the order to cross the border brought them a sense of relief. The

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High Command, meanwhile, had made a complete study of conditions to be anticipated in the theatre of action, and a glance at the map is sufficient to show the great difficulties attendant upon the solution of any problem of offense strategy. There are many river beds, some of them extending at right angles to the direction of offensive movement and others running through deep valleys and territory covered with dense forests. The roads have steep grades and many curves and narrow passages.

Such difficulties as these are of much greater importance for motorized organizations than for foot troops or horse-drawn vehicles, for if one motor vehicle becomes stalled, stuck, or delayed for other reasons, the result may easily be disastrous for the whole column. It takes only a short time for a poor road to become clogged with traffic, and the heavier a vehicle is, the more likely it is to become stuck. Under such circumstances there is no turning back - often there is not even a chance to turn out to one side - and once caught on a road, a group of motor vehicles is exposed almost without defense to the action of enemy air forces. The success of a general advance may be seriously jeopardized by individual mishaps, including those resulting from friction and maladjustment, in any command, but this is especially true in the case of motorized troops. Our opponents in this war have had more than one occasion to discover the disastrous results of individual mishaps.

The greatest skill in leadership is required for overcoming the difficulties of situations encountered in this war. Each movement must be carefully calculated, and orders anticipating every situation that could possibly arise must be given in advance.

When military strategists wish to take advantage of new technical developments, they must be willing to overcome accompanying handicaps by training every man, down to the last driver, to the point that he has full mastery of technical detail and the ability to combine calm and resourceful thinking with a high degree of initiative under fire or any other circumstances. The nature of their retreat and the condition in which they left the roads are evidence of the fact that the troops of our enemy were lacking in these qualities.

Although iron discipline during the march is of importance at all times for all troops in action, such discipline is nothing less than a matter of life and death for motorized columns. In

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many cases there are elements moving in opposite directions or in the same direction and passing one another on the road; for example, it is often impossible to avoid bringing up part of a column from the rear to a position farther forward, just as it is often impossible to avoid making changes of this sort in an infantry division on the march. Even very large motorized organizations must often make use of narrow highways where driving side by side, which requires particular skill to begin with, is made more difficult by dense clouds of dust that rise to obscure the view. The roads system of France is still far from being hard-surfaced throughout.

It was not possible to eliminate delays and friction altogether during operations in France. In many cases difficulties such as these arose from an attempt to get at the enemy quickly and from the fact that there was no precedent for use of a motorized column of such extraordinary proportions. By dint of skilled leadership, including energetic personal intervention when the occasion demanded it, members of the German command were able to prevent serious interference with the progress of their operations. Information regarding valuable new experience was immediately passed on to all parties concerned.

Now that it is all over, the men who pushed the motorized advance along the Meuse must be given a high measure of praise. There is every reason for surprise, indeed, that these men were able to progress over such difficult terrain under circumstances prevailing at the time. In doing so, they carried out operations as planned, and the battle was successfully completed at a time calculated in advance almost to the day and the hour.

Calculation involved consideration of all natural and artificial obstacles, including the elaborate defense works that must be overcome and taken. The German High Command had unlimited confidence in the penetrating power of the new motorized organizations. Members of these units were given complete information as to the nature of obstacles which would confront them on the Luxembourg and Belgian borders. They knew that they would encounter a first line of defense bristling with large pill boxes and obstacles of other kinds - a deep zone extending from Liege on the north to Longwy on the south - and a second line of defense farther to the west, especially in the neighborhood of Libramont and Neufchateau. They knew that every item of fortification had

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been carefully adapted to the terrain, but they had precise information as to the position of bridges and courses of water they would have to cross.

Realizing that the enemy would probably be able to destroy normal facilities for crossing water courses, officers in charge of the German motorized drive had to estimate correctly the type and amount of material that would be required for bridging, and, further, they had to be certain that this material would be ready for use by the most advanced contingents while the attack was in progress. Provisions were made for the possibility that a number of roads might be blown up by the enemy. A close study of ways of overcoming obstacles offered by the Forest of Ardennes, which stretches out in front of the Meuse, indicated clearly that the mountains of this area, with their rifted contours, would offer much difficulty, especially if they were well defended. The command did not reckon without the knowledge that the enemy had specially trained a body of troops, the Chasseurs d'Ardennes, for duty in this area.

Of course a careful and detailed study was made of the problem of crossing the Meuse itself. It was well known that this river constituted a continuation of the Margot Line proper, and that the French had created special obstacles by constructing various types of defensive works along its banks. The stretch of river north of Metziers seemed best suited for a crossing. Bridgeheads had been constructed by the French near Metziers and Sedan - that is to say, extensive defense works had been pushed forward from the east bank of the river at these points - while elsewhere the fortifications, including two strongly developed lines of pillboxes, were located on the west bank.

The fact that the Ardennes Canal extended southward from the Meuse suggested crossing at both sides of Metziers for the purpose of avoiding crossing both the river and the canal. The location of the canal, however, would have caused the attack to swerve towards the south, whereas the general direction of the movement was to be towards the west. It seemed fairly obvious, then, that the better plan would be to cross in the neighborhood of Donchery and Bezeilles, especially since the northward curve of the Meuse River between those points would offer a number of advantages.

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Considerations such as these were of tremendous importance, but the final decision in each instance was made on the basis of conditions as they developed while operations actually were in progress. Where motorized columns are used, strategy cannot be developed one move at a time during operations, and there are even fewer certainties than in other types of warfare. Once a column starts rolling, there is slight chance of checking its speed and momentum.

In the case of the Meuse, there was formidable opposition to be reckoned with, for the strong French forces were provided with motor equipment for the purpose of defending the Meuse Sector. The question was whether they would push forward in an offensive beyond the Meuse and throw themselves from the bridgeheads across the path of the advancing German troops, or whether they would retain the defensive and depend primarily on the river itself as an obstacle. The German command had to be prepared for either eventuality.

If French staff officers were following the teachings of military history, they might have expected an enemy army to force its way across the river even in the face of perfectly conditioned defensive contingents, but only after it had completed extensive preparatory operations - especially the bringing up of strong artillery. If, on the other hand, they were proceeding on the signs of the times, they might have realized that the use of an obstacle such as the Meuse could easily be dangerous and that safety required them to advance, fighting aggressively for the line of the river.

The motor vehicle, whose ultimate value is perhaps still subject to a degree of doubt, was not the only new instrument of warfare to be taken into consideration. The first half year of the present war left no possible question as to overwhelming importance of the aircraft weapon, and if there has been a change in methods of warfare, the development and use of aircraft have been the greatest factors in producing it. Aerial arms, aside from the fact that they form a new and vitally important branch of weapons, have imparted full striking force to troops upon the ground. This truth applies above all to the motorized organization, for when it is used in cooperation with aircraft, motor joins motor, and speedy ground movement is covered by a rapidly moving curtain of the strongest conceivable artillery help. The air arm is capable of destroying at a

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moment's notice anything that might tend to obstruct forces advancing on the ground.

Cooperation between air forces and motorized units sent against the French along the Meuse illustrated the new and decisive solution to a problem - a solution upon which many military successes will depend hereafter. This solution, like all the others, had been reached in advance by the German High Command.

b. The Operation

The break-through of the motorized columns under the command of General von Kleist, with Colonel Zeitler as Chief of the Staff, was in a sense the first stage of the break-through of an entire army group under the command of Generaloberst von Rundstedt, with General von Sodenstern as Chief of Staff. This initial movement penetrated straight through enemy positions and to the Channel coast. The last phases of the movement completed encirclement of enemy armies in control of southern Belgium and northern France. Inasmuch as the actions of the motorized columns took place far ahead of infantry positions, they were superficially comparable to operations carried on in 1914 by the cavalry.

There is a tendency nowadays to regard motorized columns as a type of modern cavalry. Although the cavalry units used by Frederick the Great are somewhat comparable to motorized units in their possession of striking power, those used during the early part of the World War are not comparable in either strength or manner of employment. In any event, the motorized column of our day possesses a fighting quality of its own - a quality of strength which enables it to fight and win battles in complete detachment from all other ground troops. In this respect it rises far above the level of cavalry of earlier days. Its effectiveness derives from the fact that it is designed to comprehend all types of weapons within its own organization; that its mobility and speed add greatly to the effect of these weapons, and that it makes use of the tank, a weapon which, considered alone, perhaps comes nearer than any other to justifying the expression, "modern cavalry." The tank's astonishing striking power, however, is due very largely to intimate cooperation with aircraft weapons.

All in all, then, the motorized column constitutes a strictly new type of organization, one that belongs distinctly

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to our era. In its power to create a type of leadership all its own, however, it has a characteristic in common with the cavalry. One could hardly conceive of successes such as those of Frederick the Great without thinking of great cavalry leaders such as Zieten and Seydlitz. Similarly, recent success of motorized columns, especially those with tank organizations, would be inconceivable without men of keen perception in positions of leadership - men who know how to obtain by quick action all the advantages inherent in the nature of their weapons.

The fact that our new motor services, like our air force, have been blessed with excellent leadership may account in the last analysis for the great successes they have attained.

The spirit shown by the motorized column which participated in the Meuse break-through is exemplified in its execution of an order of the day issued by General von Kleist immediately before the beginning of operations:

"This side the Meuse River there can be no rest or halt for a man of this column. The organization must advance day and night without stopping, without looking right or left, and without yielding for a moment its calm control. The only way for us to carry out our orders is to take full advantage of the enemy's surprise and the disorder of his positions for the purpose of putting some of our detachments across the Meuse quickly. Our losses will be smaller if we do not allow the enemy time to get his bearings and make plans for defense."

The forward plunge demanded of the column was welcomed by General Guderian, commander in charge of the first wave of attack, who has the temperament of a Zieten. Called upon to lead a combination of unprecedented strength, including motorized troops and tank organizations, he was without question the officer best suited for this command. Long before the war he had taken an important part in the formation of tank organizations, and during the campaign in Poland he had received the Ritterkreuz zum Eisernen Kreuz for his great leadership in tank combat. He had played an important part in making preparations for the advance upon the Meuse. Fighting by his side was Lieutenant General Reinhardt, who had also received the Ritterkreuz for leadership of motorized units in Poland.

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At 5:30 A.M. on May 10 the von Kleist column stood at the Luxembourg border, poised for the advance, which was to be effected in a series of waves. Some idea of the depth of the formation is obtained from the fact that men of the last wave were still on German soil when the foremost wave had successfully forced its way across the Meuse River.

Specially created reconnaissance detachments crossed the border without resistance at 5:35 to dispose of concrete obstacles which had been placed on the road. These obstacles were bridged by platforms which had been designed for the purpose, since demolition by explosion would have injured the roads and crossings. Within two hours everything was ready for the advance of the first wave.

The column crossed Luxembourg quickly, and it did not hesitate before the outer Belgian defense zone. The Belgians had not foreseen such rapid and determined progress. "Looking neither to the right nor to the left," the German troops took advantage of the Belgian Army's surprise, and soon every trace of resistance had been beaten down. Our air forces provided effective artillery support wherever it was needed.

In spite of quick and steady progress, it proved impossible to attain the goal set for the day. Original plans called for penetrating the second zone of defense along the line Libramont-Neufchateau-Virton, where difficulties were expected to be greater than at the first line of defense. These plans, however, had to be modified because of minor breakdowns and unavoidable friction, and when evening arrived, the most advanced sections of the first wave had advanced only a little beyond the Belgian frontier at Hollange and Mertelange, and, further south, to a point west of Arlon in the neighborhood of Hachy.

That evening it seemed almost as though the advantages inherent in the factor of surprise would be lost for the remainder of the advance. According to air patrol reports, a strong enemy tank detachment had been observed in front of the left flank at Carignan, on the near side of the Meuse River, and similar detachments had begun advancing from Longwy and Montmedy. Since a left flank counterattack upon General Guderian's column at this point, if favored by the nature of the terrain, might cause

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delay or other difficulty, the column was ordered to take effective counter measures, including an attack upon enemy tanks if they should advance. The next morning, however, it was discovered that the entire report had been mistaken.

The advance proceeded undisturbed, then, towards positions on the Libramont line. Everything is in doubt while an action is in progress, and undertakings which at first seem particularly difficult are often found very easy when the actual attempt is made to carry them through. We found this particularly true when, on the second day of the advance, it became necessary to open the defile at Neufchateau. General von Kleist's original orders to surround this defile could not be carried out because of the difficulties of the forest terrain, but as it happened there was no need for the encirclement. A tank unit making a quick attack straight ahead was able to take possession of the defile without great difficulty.

It was easier than officers had anticipated to drive through the Libramont position from one end to another, and German troops were soon approaching the Semois Sector. Characterized by deep cuts in the ground, dense forests, and strong fortifications, this sector constituted a disagreeable obstacle. And, above all, the enemy's resistance had become more and more determined. The avalanche of German motor cars was opposed now not only by the Belgian Chasseurs d'Ardennes, but also by contingents of the French Army. It was learned later that units of mounted Spahis and two motorized French cavalry divisions had taken part in the resistance at this point.

On the German side there were, at this time of all times, certain internal difficulties to overcome. Considerable portions of the foremost wave had lost valuable time as a result of road blockings, but during these critical moments assistance from aircraft was generously provided. Dive bombers flung themselves upon the enemy and opened the way for countless motor vehicles making their way through the forested region of hills and mountains. Carefully trained drivers made an excellent showing, although this was their first really serious tryout. Before nightfall of May 11 one of the tank divisions had pushed ahead as far as Bouillon, and by noon the following day General Guderian had taken, in addition, many of the defiles which lay ahead. Behind him other detachments were pushing forward on a broad front through the Ardennes. Groups of the Chasseurs d'Ardennes, as well as Spahis and white French troops, were

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caught making isolated attempts at resistance and trying to escape from the mountains.

By the evening of May 12, a number of German motorcycle sharpshooters had advanced to the southern edge of the mountain range, from which they could look down upon the valley of the Meuse. Above them in the forest tired German soldiers were taking a short rest. Parts of the less advanced waves had progressed as far as the region of Libramont, while others were closing in on the line of defense at Hollange. The motorized column, however, still extended all the way back to Germany, and at precisely that time one of its divisions was being lined up at Neuwied, north of Coblenz.

French fliers made an attempt upon the life of General Guderian at his headquarters, and the leader was compelled by a rain of bombs to move to another position. This, too, was a new kind of difficulty - one which had not existed before the days of motorization. The battle zone now included the headquarters of some of the highest of the commands in the field.

At staff headquarters for the column, General von Kleist and his Chief of Staff reviewed with great satisfaction the results of the advance as reported the evening of May 12. The promptness of the conquest of the Semois Sector made up for time lost on the first day of operations, and now the banks of the Meuse lay within reach. The moment had arrived for performing the major task - the task to which all preceding operations were an introduction.

If the attempt were made on May 13, the command would have to forego the advantage of using equipment and troops that would later become available from the second wave of advance, and it would not have an opportunity to make the type of preparations that had always been considered indispensable for such an operation. It would not even be able to bring heavy artillery forward over the difficult terrain quickly enough for use. In spite of the handicaps attendant upon immediate attack, however, it was realized that hesitation and delay would result in diminishing the factor of surprise - a factor of great consequence in the situation. The decision was not easy to make, but successes achieved thus far strengthened confidence, and the attack was ordered for May 13.

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During the morning General Guderian moved to points on the Meuse at Donchery and east of Sedan, and at noon our aircraft started a systematic bombardment of the enemy's defensive works in accordance with a plan made with General Sperrle, the commanding officer of the flying forces. Hundreds of airplanes attacked the enemy ceaselessly for a period of four hours, and under the protection of this bombardment, the advancing detachments made their way close to the banks of the river, carrying with them whatever equipment they would need for the crossing. The artillery, meanwhile, worked its way towards the front.

The daring leap across the stream began at 4 P.M. when the first pneumatic floats and ferries pushed off from the bank. The Commander-in-Chief of the whole army group, Generaloberst von Rundstedt, watched in person his men's attempt to reach the west bank of the river.

There is no such thing as completely annihilating an enemy position either by artillery fire or by the most effective bombing attack, especially if the enemy are able - as they were in this instance - to take cover in numerous protective works. It was not long, then, before our batteries, making an effort to pick out targets as they crossed the stream, came under machine gun fire from the enemy's pillboxes. These critical moments were of relatively short durations, but they seemed an age to the men making the crossing.

General Guderian's attempt at crossing was successful at Glaire et Vilette, although increasingly strong artillery fire, some of which was from guns of heavy calibre, made the operation difficult. Crossings were also made farther southeast at Sedan and north of Bazelles, but on the other side of Bazelles successful operations were prevented by effective fire against the flank of the detachments making the attempt. Troops who expected to go over at Donchery could not do so; they went across later at Glaire et Vilette and captured Donchery by approaching along the bank from the east.

Lieutenant General Reinhardt had at the same time forced his way over the river at Montherme, although great difficulties offered by the wooded terrain made it impossible to bring up more than a feeble force. The crossing was successful, nevertheless. Advancing troops were also able to get control of the west bank at a point north of Charleville, moving forward in a direction that offered advantages for active operations.

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Taken all in all, the army's daring enterprise of May 13 had been successful. The speed and determination with which the German Army seized upon its advantages and the intensely depressing effect of strong air attacks combined to disable the enemy to the point that he could not profit from the difficulties encountered by the Germans in crossing the river. The troops succeeded in creating bridgeheads at many points and in increasing their strength from hour to hour.

It was clearly understood that the outcome of the effort would not be finally decided until the following day, but the French would now have to face the task of throwing the German forces back over the river. Since they would probably bring up fresh troops for that purpose, the von Kleist column must gain ground straight ahead, but only after it had established tactically the successes it had already gained and developed them to a point where it would be possible to exploit them strategically. In other words, they must assure freedom of movement for troops coming up behind them and push bridgeheads well ahead of the banks of the river. Accomplishment of these ends was certain to lead to actual combat during the course of the next day.

On May 14 General Guderian and his troops advanced southward to a region east of the Ardennes Canal for the purpose of making his crossing places secure by getting control of the high ground at Stonne. As he had expected, he met with a counter attack supported by strong enemy tank forces, but he quickly turned the encounter in favor of German troops. This occasion made the superiority of our tank equipment strikingly obvious; the French attack was beaten back completely and 3000 prisoners were taken. The Omicourt and Malmy passages across the Ardennes Canal fell into German hands before the French had had an opportunity to destroy them. On the same day French troops were forced across the canal towards the west and the right wing of our troops reached Flize. Thus a beginning had already been made towards enveloping Charleville from the south. This operation was executed perfectly by General Guderian, and it served incidentally to offer protection for work on a bridge across the river at Donchery. The pioneers were able to complete work on the bridge before midnight.

Less spectacularly successful was the outcome of the effort of forces advancing southward on the east of the canal towards Stonne. They did not succeed in throwing back and destroying the enemy until May 15.

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The difficult nature of the forest terrain was still a source of trouble to troops under Lieutenant General Reinhardt, who had forced his way across the Meuse at Montherme, and an attempt to widen the bridgehead at that point was unsuccessful. Strong enemy resistance prevented a crossing at Nouzon. At last Lieutenant General Reinhardt determined to push ahead with tanks from Montherme in the direction of Arreux, and again the superiority of the German tank weapon was strikingly demonstrated. The French 61st Division was beaten to the point of annihilation, and with full speed, the German tanks threw the French back and reached the neighborhood of Liart, about 60 kilometers west of Charleville, in an uninterrupted advance.

During the next two days a bitter and exciting encounter, in which tank was pitted against tank, occurred in the territory in front of the Meuse, and during its course the superiority of German technical and tactical leadership became evident. A line running approximately through Vervins, Rethel, and Stone was reached on May 16. Thus a tremendous bridgehead was created, and the von Kleist column had successfully executed its orders. The opening had been made, and it now remained only to drive the wedge further.

Prompt conquest of distances and striking power sufficient to annihilate the enemy were characteristic of the advance from the German border through the Belgian fortified zones and the Forest of Ardennes, across the Meuse River, and up to the point where a section of the Maginot Line was encountered and battered to pieces. In their entirety, these operations took scarcely a week's time but demonstrated fully, although for the first time, the superior combat power of the motorized column as developed by the German Army. They comprised the first large-scale combat by motorized organizations supported by tanks, and for this fact alone they deserve a special place in the history of warfare.

Regarded as a phase of the general operations, the Meuse break-through was the decisive action of the campaign against France. An incomparably quick seizure of territory was carried out with energy sufficient to overcome all important obstacles, including the extensive fortifications of the Belgian and the French borders. There are few military actions comparable to this advance in daring. It constituted the beginning of the von Kleist column's victorious march to the Channel coast, the opening for the wedge which

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von Rundstedt's army group drove through the French armies, and the origin of the great tentacle which extended towards the south and brought on the Battle of Flanders.

During the action the group of armies built up a new front against Southern France, protecting its left flank while it constantly brought forward detachments which had been left in the rear. The new front rested against the Maginot Line and then followed the Aisne and the Somme all the way to the coast of the Channel. From it German troops, advancing in June on a broad line extending from the sea to the Argonne, carried forward their final annihilating blow against the armies of France. This blow was aimed towards points on both sides of Paris, but it also struck in the rear of the Maginot line and sealed finally the fate of the French nation.

2. COMMENT FROM THE FRENCH POINT OF VIEW

The German attack across the Meuse struck the Maginot Line extension just short of the pivot of the French-British movement into Belgium. The main French forces in the path of this attack, which was made against the left of the French Second Army and the right of the French Ninth Army, had not advanced from their prepared defenses, although cavalry had been sent forward.

Details as to the strength of the French in the region of Sedan are not available. The Ninth Army, however, had seven infantry divisions, including a fortress division, to cover a front which was 75 kilometers wide and which would be extended to 90 kilometers when the army's left wing had pivoted to Namur. The army's right, near Mezieres, was not to move forward from its fortified line, and it seemed reasonable to assume that this position would be held relatively weakly. The Second Army had five infantry divisions and some fortress troops to hold a front of about 70 kilometers.

Judging from its distribution of forces, the French High Command did not suspect the direction of the German effort before May 10, but by May 11 they knew where the blow would fall. The French reaction did not become effective in time, however, and the Germans achieved strategic surprise through the rapidity of their maneuver.

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At 6:30 A.M. on May 10, General Gamelin telephoned General Georges to say that Belgium had requested Allied aid. Orders were given for action in accordance with a prearranged plan, and cavalry units immediately moved into Belgium to cover the installation of the main French-British forces in the position: Dyle-Namur-Mexieres. The occupation of this position was not to be completed before May 13.

The 1st and 4th Light Cavalry Divisions of the Ninth Army advanced across the Meuse in the general direction of Dinant and Lerchette with the mission of delaying the German advance. The 2d and 5th Light Cavalry Divisions of the Second Army advanced in the general direction of Carignan and Bastogne with a similar mission. Cavalry of the Third Army, on the right of the Second, moved into Luxembourg. French light cavalry divisions were mixed - partly horsed and partly mechanized. The number of combat cars, however, was relatively small.

The cavalry of the Second Army was violently attacked by German armored formations on May 11 and thrown back on the Semoy. Information of this and other actions caused the French GHQ to order that four divisions which had been in reserve move forward toward Sedan on this day. Their arrival was scheduled for the period between May 14 and May 17. On May 13, GHQ ordered six more divisions to the Sedan hinge.

The French G-2 states that the German attack on May 13 near Montherme was easily contained but that the Germans crossed in force in the region of Sedan and debouched from Flize and Nouzon in the direction of Liart, attacking in rear all the organizations of the Ninth Army occupying the first position.

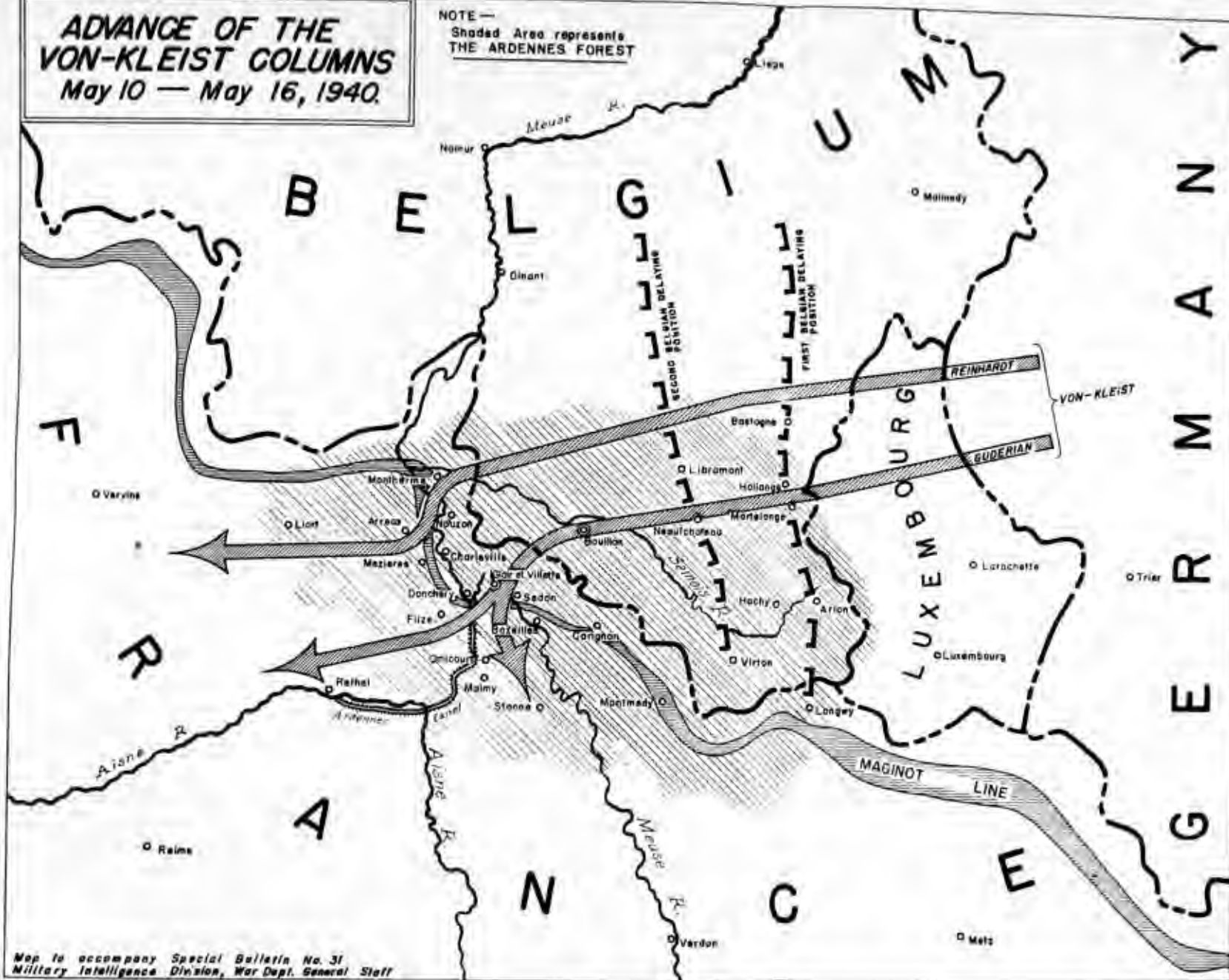
A huge gap had been opened and a large part of the Ninth Army had been routed by the evening of May 15. It is interesting to note, however, that the initial break in the French defenses appears to have been made against the Second Army and not against General Corep's troops.

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**ADVANCE OF THE  
VON-KLEIST COLUMNS  
May 10 — May 16, 1940.**

NOTE —  
Shaded Area represents  
THE ARDENNES FOREST



Map to accompany Special Bulletin No. 31  
Military Intelligence Division, War Dept. General Staff

Drawn by Staff Sgt. H. M. Caldwell — Draftsman — M. J. D. U. S. War Dept.

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G-2/2657-220  
No. 331

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

SITUATION REPORTI. Western Theater of War.

Air: German. All offensive operations at night. Moderate sized attacks were made on Cardiff, the London area and the south of England.

British. Apparently no important offensive activity.

II. Balkan Theater of War.

Bulgaria: The march of German troops into Bulgaria is proceeding on schedule according to the German High Command.

Albania: Ground. The Greeks report successful local operations.

Air. Italian air attacks, probably on small scale, ranged from the combat zone to Crete.

III. Mediterranean and African Theaters of War.

Ground: Libya. Another minor engagement is reported between small German and British mechanized units.

Italian Somaliland, Eritrea, Abyssinia (Ethiopia). Continued progress reported by the British.

Air: Germans continued attacks along the Libyan coast. During the 5th there was a sharp engagement between R.A.F. bombers, presumably escorted by fighters, and an Italian naval unit, with air force support, off the southwest coast of Albania. Each side claims to have inflicted aircraft losses.

Note: This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted

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Enclosure of Code Radiogram  
Received at the War Department  
at 9:30, March 5, 1941.

London, filed 15:00, March 5, 1941.

1. On Tuesday, March 4, planes of the British Coastal Command carried out raids on the harbor facilities at Bolder during which two German planes were shot down. There were no British bombers over the Continent on this day but British fighter planes carried out two sweeps over the Channel. Three German planes were damaged during these sweeps. During the preceding night ten British heavy bombers attacked the harbor facilities at Boulogne, seven others carried out an attack on the KIPPEN class German cruiser at Brest and the manufacturing section of Calais was the target for a force of 72 British heavy bombers. In addition, lone British bombers attacked airfields and harbor facilities at Calais and at points in northwest Germany. Observation of results was difficult due to clouds but it is known that some fires were started. During the same night British fighter planes carried out an offensive patrol over northern France. During these night operations two British bombers were lost and German aircraft losses were one confirmed and one probable.

2. During the night of March 4-5 a stream of lone German planes took part in a 3-hour raid on Cardiff. There was a fairly large number of casualties and considerable damage was inflicted on the city. A small number of German bombers inflicted some damage to private property during a raid on East London. In addition mines were planted in the Estuary of the Thames by a total of 37 German planes. During the preceding day three German planes were plotted over West Cornwall but only slight damage was caused.



Other German planes were engaged in reconnaissance over British waters and patrols were maintained over the Dover Straits. During the raid on Cardiff on the night of March 3-4 a total of 160 German planes were used. Railroad facilities were damaged and more than 50 fires were started at private commercial properties.

3. In Middle Eastern theaters planes of the Royal Air Force supported the operations of land forces.

4. Activities of the Royal Navy in the Mediterranean consisted of the torpedoing of an Italian cargo boat and an *ARMANDO* class Italian cruiser off the coast of Tunis at Sfax by a British warship and the bombing of the Massawa, Eritrea, harbor by Naval aircraft during which a hit was scored on an Italian submarine.

5. On March 2 four German bombers attacked the city of Larissa, Greece. Five Italian bombers attacked the same city on the following day. Larissa is one of the cities affected by the recent earthquakes and it was unable to protect itself in any way during these attacks. British fighters shot down every one of the five Italian planes taking part in the second attack on this city.

6. A new industrial production policy is now going into effect in England. In the future only one British manufacturing plant will be engaged in the production of each of 50 individual non-essential commodities. Labor thus released by the shutting down of the other plants manufacturing non-war goods will be employed in the production of essential war commodities.

7. The port of Tsuno, North Borneo, has been closed by the British to foreign vessels. The War Office believes that the Japanese have plans for taking over this harbor. A large portion of the population of Tsuno is made up of Japanese.

8. Heavy German anti-aircraft units are now at Varna, Bulgaria, and there is a large concentration of German troops at Burgas. Both of these Bulgarian cities are ports on the Black Sea. It is stated by the British War Office that a total of 20 German divisions are moving from Rumania to the southern Bulgarian towns of Stara Zagora, Plovdiv, and Gorna Djanya. Of these 20 divisions three are motorized and four are armored. German troops are being moved from Hungary to Rumania to replace those transferred from Rumania to Bulgaria. It is thought that the movement of the main bodies of German units from the Rumanian-Bulgarian border to the Greek-Bulgarian border will take at least five days.

**SECRET****Distribution:**

Secretary of War  
Asst. Secretary of War  
Chief of Staff  
State Department  
Secretary of Treasury  
War Plans Division  
Office of Naval Intelligence  
Air Corps  
G-3

+

**CONFIDENTIAL**

March 6, 1941  
9:20 a.m.

RE DEFENSE SAVINGS BONDS

Present: Mr. Graves  
Mr. White  
Mr. Bell  
Mr. Kuhn

Kuhn: Mowrer finally came out with that stuff on what the British have given us.

H.M.Jr: Who gave it to him?

Kuhn: We talked about it weeks ago and we put him on to McCloy.

H.M.Jr: Call up Kintner and Alsop and tell them I am very pleased with their article. Have you read it?

Kuhn: It is a beautiful story.

H.M.Jr: Have you read it?

Bell: I glanced through it. I don't read them religiously.

H.M.Jr: Well, this is a Treasury story.

Kuhn: They are not always as good as this, Dan.

H.M.Jr: Through them I am telling the President what he



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should do with the four-man board.

Mr. Graves?

Graves: Mr. Bell had a conference in his office last night with all of us in there. I think he perhaps should tell you exactly what happened.

H.M.Jr: Mr. Bell.

Bell: Well, we discussed these various types of bonds that you approved yesterday and what is the earliest date that we could get them in the hands of the agents that are going to sell them, and we came to the conclusion that May 1 was the earliest we should try for and even that will rush many parts of it. The big job, I think, is getting the stamp books ready. Is that right, Harold?

Graves: Yes.

Bell: And that is quite a job. The bonds, we are certain, can be in the hands of the banks. Also there is a small descriptive booklet that ought to be prepared and that possibly can be completed and in the hands of the post offices, so far as the type one bond, regular savings bond, is concerned, and we think we possibly can get them in the hands of the banks on the larger type bond. There is some doubt about that, but it isn't absolutely necessary that they be there. The poster, if we need a poster in the banks, there is some doubt about getting that by May 1. That is quite a job. But that is not absolutely essential to be there on May 1. It might be there May 10 or 15. I think we can hit May 1 with 90 per cent of the program.

Graves: Hit May 1 with our bonds, our stamps and our stamp books, and probably with delivery.

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H.M.Jr: I reluctantly accept May 1.

Graves: We simply could not make an earlier date. We couldn't safely fix an earlier date.

Bell: No, I don't think we could. We tried for May 15, but there was so much that had to over May 15, we didn't like to do it.

Graves: You mean April 15.

Bell: Yes.

H.M.Jr: Well, I reluctantly accept May 1.

Kuhn: Well, that was the date we found we had to make on account of the Bureau of Engraving and so on, didn't we? It was physical considerations of printing and so on.

Graves: That is right.

H.M.Jr: I have never taken a look at the Bureau of Engraving. I don't think they have got a modern manufacturing process over there.

Graves: I think you will be surprised.

Bell: So do I. They have got every - they have met every burden you have put on them.

H.M.Jr: Got any new machinery over there?

Graves: Yes, sir.

Bell: And I think I know what they are up against sometimes. I had the job of putting out checks throughout the country to pay the first labor job that was done under the civilian--

H.M.Jr: WPA?

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Bell: CCC or CVA.

H.M.Jr: CWA.

Bell: And we only had seven days in which to do it, and they did it, printed the checks and put them on an airplane and sent them throughout the country. I think they have met every burden, and it really isn't so much the Bureau here as it is getting the place and the stamp book is an outside job.

Graves: That is right, that is an outside job which is being designed in the Bureau of Engraving and Printing.

H.M.Jr: I sent you a memo, and I want you to use that fellow up in New York.

Graves: I will tell you about the man in New York. In the first place, he is in Boston, not New York.

H.M.Jr: That is a detail.

Graves: You are talking about Mr. Dwiggin?

H.M.Jr: Yes.

Graves: He is a paralytic, confined to his bed. Mr. Hall has two men with him right at this minute on stamps.

H.M.Jr: Has he?

Graves: Yes. The Postmaster General on Dr. MacLeish's suggestion has requested that we do consult with him at all times, and they are consulting with him on one of the new airmail stamps. I talked to Mr. Hall since I got your note, and he will be delighted to go up to see Dwiggin about a dollar bill and a five dollar bill.



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H.M.Jr: Why does Hall have to do it?

Graves: I suggested that he do it, Mr. Morgenthau. I think he is the right man to do it.

H.M.Jr: Couldn't you do it this way, simply give this man a dollar bill and a five dollar bill and ask him what corrections he would make from the standpoint of design?

Graves: Yes, but I think Mr. Hall should best make that contact with him.

H.M.Jr: Well, when will you bring me an answer on him?

Graves: Well--

H.M.Jr: When can Hall go up?

Graves: He said he could go up within the next couple of weeks. That is, I don't think he should leave here when we have got these things--

H.M.Jr: One day? My God, with that whole big Bureau there must be more - isn't there an Assistant Director?

Graves: Oh, yes.

H.M.Jr: Who is the Assistant Director?

Graves: Mr. Long.

H.M.Jr: Is he any good?

Graves: Very good.

H.M.Jr: Why can't he go up?

Graves: He could go up. It seems to me it would be more appropriate that the head of the Bureau should go up.

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Bell: What are you doing, changing the design of the one?

Graves: Just an experiment to see what this fellow would suggest for a design on the five dollar and one dollar bills.

H.M.Jr: Yes, every time I see MacLeish he asks me. He went to Frank Walker. He got somewhere with Frank Walker on the stamps, but I can't get anywhere with my own crowd.

Graves: We can do this more quickly than that if you care to have us. Mr. Hall's chief engraver and chief designer are with this man now, and Mr. Hall can phone them and say, "Add to your suggestion the possibility of changing the design of a one dollar bill and a five dollar bill."

H.M.Jr: Sold. Now you are talking. Who is up there with him?

Graves: Mr. Hall's chief engraver and his designer.

H.M.Jr: That is the fellow. And I would like to meet those two boys myself sometime.

Graves: The chief engraver and designer.

H.M.Jr: Yes. I would like to meet them when they come back and tell me why it can't be done.

Bell: It can be done, but you have just gone through a process of education through the banks on the types you have got out and--

H.M.Jr: Have you seen that book?

Bell: No.

H.M.Jr: Would you let Mr. Bell read that book?

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- Bell: What book is that?
- Kuhn: Dwiggin's book.
- Graves: We can get it.
- H.M.Jr: Let Mr. Bell read that book. In this book they have got this lovely etching. "When the revolution comes in 1951, the first person they will take out and shoot is the Director of the Bureau of Engraving." They have got this picture of the revolution shotting him because he has committed so many crimes against art.
- Bell: That is a cause of the revolution, I suppose.
- H.M.Jr: Oh, no. You take a look at that book and when these two fellows come down, Harold, see, I would like to meet them with Hall so I can hear them tell me why they can't do it, why they say they won't be able to do the one and five dollar designs.
- Graves: Well, I know the answer, and I can tell you right now.
- H.M.Jr: What is it?
- Graves: It is dangerous.
- H.M.Jr: Now, look, Harold, the thing that he suggests - I don't know the terms, but the things that he suggests on the one dollar - there is nothing dangerous to make that curve symmetric.
- Graves: Oh, that is true.
- H.M.Jr: That curve and those leaves. He took the five dollar, and he shows that over centuries they have developed gradually what is the correct symmetry of that particular curve. Now, he shows you which



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is the correct one from the standpoint of artistic symmetry and the one which is the least artistic, and we have the one which is the least artistic. He doesn't change the leaves. But it is just the question of that design. Now, there is no reason why that - I don't know - it is elliptic, but there is a certain technical term which he used. Do you know the names?

Kuhn:

No.

H.M.Jr:

It is just that thing there. Take this one, for instance. He has five other different ones, all of which are more beautiful than this one. He uses the same thing, but he uses a different kind of a one, a different onethere, and this thing is done in a way - as I say, he shows over centuries how they gradually arrived at which is the most beautiful curve. There is no reason why you can't have that.

Graves:

What I had in mind was the specimen in the end he included in his book.

H.M.Jr:

Granted, but all I am saying is to take this thing here, this word "one," and take modern, beautiful type for the "one dollar" instead of - and then you can say, "All of these various curves - " it is just the same thing on the back there, some watercolors by - whatever this man's name is, and there is just as much difference between that and what the Department of Agriculture paid for what they call a \$25,000 picture of the cheese cloth, these girls flowing around with cheese cloth around them. Well, we get the same kind of thing in our bureaus from a beautiful artist for one twenty-five of the price, but it is beautiful. Now, we have never done anything with our money, and I would just like to see what this fellow can do from the standpoint - the man is a type designer, isn't he?

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Kuhn: Yes.

H.M.Jr: Bell, that is all.

Bell: The design is hard to--

H.M.Jr: It is just a question of what is a beautiful, artistic ellipse - that is what it is, isn't it? - and what isn't, and he shows which is and which isn't, what is a well-designed number one and what isn't. Every other country, practically, has done it.

Kuhn: I will send you the book, Dan.

H.M.Jr: Have a try at it, will you?

Graves: Yes.

H.M.Jr: And when they come back from up there, let them take the one and the five and just let them go over it, you see. Under the law we can change those any time we want to, can't we?

Bell: Yes.

Graves: I think so.

H.M.Jr: But just let them - the chief designer and the chief etcher are up there now?

Graves: Chief engraver.

H.M.Jr: Due to Frank Walker.

Graves: That is right.


H.M.Jr: O.K. Well, it is May 1. I saw MacLeish the night before last and he said he had been after Frank Walker, but he said he never would get down to the Fourth Assistant Postmaster General; and if it is done, I would like to get the credit for it.

March 8, 1941

Harold Graves  
Secretary Morgenthau

Please talk to me about whether or not you are using that New York man who is an expert on designing stamps and money. I would like to see what he could do on either a dollar bill or a five dollar bill. Let me know please.





TREASURY DEPARTMENT  
WASHINGTON

March 6, 1941.

MEMORANDUM FOR THE SECRETARY:

In accordance with your memorandum of this date, we are in contact with Mr. Dwiggin and are asking him to give us designs for both the dollar and five dollar bills.

We will have a report about March 10.

GRAVES.

COPY

Dear Mr. Hall:

I enjoyed the call of Mr. Benzing and Mr. Roach very much, indeed, particularly Mr. Benzing's return visit when you sent him back to Boston.

Of course I jumped at the chance to study into the "musts" of the certificates and see what I could do with them. I started the project at once, and shall have some material to show you in a week or so.

Sincerely,

(Signed) W. A. DWIGGINS

Hingham, Mass.  
March 12, 1941.

March 6, 1941  
9:30 a.m.

GROUP MEETING

Present: Mrs. Klotz  
Mr. Bell  
Mr. Graves  
Mr. White  
Mr. Schwarz  
Mr. Thompson  
Mr. Wiley  
Mr. Kuhn  
Mr. Cochran  
Mr. Foley  
Mr. Young  
Mr. Pehle  
Mr. Odegard  
Mr. Gaston

H.M.Jr: John, I wish that you would take whatever time is necessary to explain to the group what we did yesterday in connection with these people who were here, what we are looking forward to doing in connection with them, The Public something or other, and the Carnegie Foundation. I think that is important. I wish you would explain it to them.

Sullivan: Yesterday morning, the Secretary and Mr. Bell met with Dr. Gulick, who is the executive head of the Institute of Public Administration and there were also present Mr. Root and Mr. Burgess of the Carnegie Corporation, and Mr. Bruere of the Institute of Public Administration, and they together, those



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three together with Roswell Magill are a steering committee representing the Carnegie Corporation and the Institute of Public Administration, the guide to work that the Institute of Public Administration is to do in conducting the study, starting in with the study of overlapping taxes and then going on to encompass such other studies as may appear to be desirable as that particular work progresses. The Carnegie Corporation has about \$375,000 that is available for this work, and appears to be, according to Mr. Root, very anxious to do this. They will reimburse or make that money available to the Institute of Public Administration for such work as they and we feel is desirable to be done.

Dr. Gulick is coming here on the 18th to start in on an outline, a preliminary survey of just what should be done in this problem, and from that point on we will go ahead with recruiting a staff and so on and so forth.

There has been a good deal of work done on this particular problem by Mr. Blough's staff. It has been done piecemeal and in between other more pressing jobs, and there has never been a real continuous drive to do this job. Part of Dr. Gulick's first work is also going to be to make a survey of the kind of studies that are being conducted by other institutions and other groups along this same line to try to fit all of the pieces into the picture and prevent duplication, somewhat in the hope that other foundations can be interested in doing the kind of work that we think will be helpful in accomplishing the general purpose.

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It was originally intended that after this got off to a pretty good start, we would approach Congress with a suggestion of the appointment of a Federal Commission and that the Commission might then want to take over the work; but that phase of the problem was not discussed yesterday morning and I think that a decision as to that can well be postponed until we see what success we have with this, and also see how the attitude on the Hill is.

I told the Secretary yesterday morning that in the discussions and the debates on the Public Debt Act and on the general relief, there were constant references on the floor and in the committee to the Secretary's suggestion about a study of this kind; and the thing on the Hill, I think, has progressed by leaps and bounds.

Incidentally, I don't know whether I told you this or not, but at least three times in the debate on the Public Debt Act, reference was made to your suggestion that the appropriating and taxing committees get together; and that seemed to invoke a good deal of very favorable comment, particularly in the House.

Bell: I see Treadway has introduced a bill.

Sullivan: Yes.

H.M.Jr: Well, just one other thing. I have hopes that this thing will grow and will get into both taxes and fiscal matters, and after all, I don't know any group who are - well, while they are not New Dealers, they are all of a liberal trend of mind, and I think they can be very, very helpful to us. We need that

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kind of backing very, very badly.

Well, I can't get anything from the Bureau of the Budget, and I can't get anything from the White House and I can't get anything from Congress, so we are just going to have to do our own thinking, and I wanted to let you know about it; because I think it is a very important move.

Sullivan: All of the studies that --

H.M.Jr: Philip, if you want to read this memorandum and then put it back on my desk. Also let Foley read it. (March 5, 1941, from Secretary Morgenthau to President relating to Secretary's responsibilities regarding foreign purchases under Lend-Lease Act.)

Sullivan: All of the studies that have been made over the past five years I am having put into my book, which I will have for you. Those will be available for Dr. White or anybody else who wants to look them over.

H.M.Jr: I will have to stop sharp at ten today.

Herbert?

Gaston: I haven't anything of importance. Doughton called me up yesterday to get a job for a man in Secret Service, and he said he wanted to come down and talk to me about it. The man came down and talked to Elmer Irey. I discovered he is a man who has already been turned down by the Intelligence Unit on the grounds that his financial transactions weren't what they ought to be.

H.M.Jr: I see your reputation as a job giver is spreading.

Gaston: Yes.



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H.M.Jr: Good. Anything else?

Gaston: Nothing else.

H.M.Jr: Philip, before that letter comes to me to Harry Hopkins on Russian machine tools, will you let Herbert Gaston see it?

Young: Yes, sir.

H.M.Jr: Do you suppose I could have that by eleven?

Young: Do you want me here at ten, too?

H.M.Jr: No, I thought I would see him alone.

Young: That will be better.

H.M.Jr: Ed?

Foley: Here is the memorandum on what occurred in connection with the freezing order over at the State Department. (March 4)

H.M.Jr: Good.

Foley: Here is a letter. (From Secretary Hull, March 3)

H.M.Jr: Oh, oh, have you got it photostated?

Foley: Yes.

H.M.Jr: How did you get it photostated?

Foley: I had it made before I came in the other night.

H.M.Jr: You did? Interesting.

When did Canton fall, Harry? Was it in the fall of '38?

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White: Fall of '38, yes.

H.M.Jr: That is close enough. Anything else, Ed?

Sullivan: You will recall that Mr. Doughton spoke to me about speaking to you about a place on the Processing Tax Board of Review. The Act provides for nine members, and there are two vacancies, but you don't need to worry; and I am telling you this in case anybody else speaks to you about it.

The Appropriations Committee in appropriating went into the question of how many men they needed, and they appropriated for a seven-man board so you can't appoint anybody else without going through them with a deficiency appropriation; and I told Mr. Doughton and that satisfies him.

Mr. Helvering is having a blood transfusion this morning.

H.M.Jr: Will you let me know how he is?

Sullivan: Yes, I am following it very closely; and I don't think it is as bad as it sounds. He is pretty low mentally. He feels that he has been away a lot, and he is insistent on --

H.M.Jr: Could I see him?

Sullivan: I don't think I would today. I will find out when you can. He is back in his hotel.

H.M.Jr: Find out, will you, and I will go.

Sullivan: I told him a week ago that you were insistent upon his going to Florida to rest up, and that cheered him up no end.

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- H.M.Jr: Let me know the first time I can see him.
- Sullivan: I will. He is insisting on having Mooney come up and bring mail up, and he is saying a lot of stuff; and I think I am going to ask them to --
- H.M.Jr: Stop it.
- Sullivan: On that question about the deduction of the expenses of diplomats --
- H.M.Jr: I dictate these things on these records, and then when they flop back at me so soon, I just can't get accustomed to it. It is a marvelous system.
- Sullivan: They are deductible.
- H.M.Jr: I know that. Take a look at a couple of their returns.
- Sullivan: Any ones in particular?
- H.M.Jr: No, it is perfectly proper, but just look at what they are doing.
- Sullivan: I will tell you where we are going to have more fun is taking a look at some of these dollar-a-year men, because on the same theory they may have some deductions.
- H.M.Jr: No, but there is some ruling which was given that a diplomat can deduct in lump sum his expenses without even accounting for them.
- Sullivan: Well, in '21, Grew tried to deduct his entertainment expenses and that was ruled out because there was no provision in the appropriation for entertainment; and then in 1931 the law was changed so they now can deduct their entertainment.



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- H.M.Jr: Yes, but from '31 until Magill gave a ruling in '37, they didn't do it. They only started to do it in '37.
- Sullivan: There was a ruling in '31 that allowed them to.
- H.M.Jr: They never did it, you will see, because a particular diplomat took it up with me, and fought the thing through, and Magill then gave him a ruling which permitted it. I have got two people here that must know about it. Was it '37, the ruling?
- Wiley: I think it was '37 or '38.
- Klotz: Thirty-seven.
- H.M.Jr: But --
- Wiley: A good many of those deductions are really --
- H.M.Jr: Well, I wouldn't - I don't see why they should have it any more than any other executive office. (facetiously)
- Wiley: Well, for example, they gave you a motor car, but they didn't give me a motor car; but I had one and used it for official business, and I deducted on that a small amount.
- H.M.Jr: I will give up the motor car if I can deduct expenses.
- Wiley: The Government should provide a motor car.
- H.M.Jr: I would give a diplomat all the money that he needs to carry out his job in a proper manner, see, but I don't believe in doing

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it the back door method. I am perfectly willing to say so before the committee. An automobile, a sum for entertaining so he can do the thing, and so that real men can hold these jobs and hold them in an appropriate manner. It doesn't have to be wealthy people. But when wealthy people go in there and then deduct very large sums from their income taxes and that way - well, it pays to be a diplomat. I mean, in this thing, all I want is no special privilege class. That is what I am looking for, and I will recommend publicly that all diplomats should have an adequate sum for expenses and entertainment; but not to do it this way, because it makes it all the more impossible for a man to live on his salary and entertain; because a man with an income of \$100,000 goes in there and deducts \$25,000 for his expenses and escapes the higher brackets; but the man who has a salary of \$17,500 has nothing else. It is impossible for him. It is a most unusual situation. On that basis, isn't that a perfectly fair approach?

Wiley: I think it is - the system of reimbursing American diplomats is most undemocratic.

H.M.Jr: I am perfectly willing when I make the thing to make a statement that I am in favor of the diplomats - so that any real man can hold this job and be adequately compensated for his entertaining expenses; but not make it so that a rich man goes in there and takes a lump sum - he doesn't even have to account for it.

He just deducts a lump sum and says, "I spent \$50,000 for my expenses and nobody

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questions him.

Did you know it was a lump sum?

Wiley: No.

H.M.Jr: Yes, he can just say, "That is my expenses."

Sullivan: That is our fault, sir. We can insist on that.

H.M.Jr: Well, he just says a lump sum. "I spent \$50,000 to run my embassy;" and it is deducted.

He doesn't even have to break it down, which I think - it puts these fellows entirely in a class by themselves, and freezes this thing so that it makes it more attractive for a rich man.

He can go there and say, "I spent \$50,000."

It is taken off the top bracket, and that is that; and it makes it that much more impossible for you men to come up from the career service; because these rich men aren't going to kick if they can go in and deduct a lump sum as their expenses.

It becomes a very attractive job. Did you know that they don't have to break it down?

Wiley: I didn't know that.



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- H.M.Jr: Yes.
- Wiley: I know they said in the British services there was a very rich - the same thing happened in the British services. A very rich honorary attache in Berlin who was exempt from taxes at home and in Germany figured out that he - by that he was getting more than the Ambassador was getting.
- White: Maybe that is why they are having such success in their foreign policy.
- H.M.Jr: But John Wiley, there you are. It is that kind of thing which I ran into. I think it is most undemocratic.
- Wiley: I quite agree with you.
- H.M.Jr: And I am perfectly willing if Sullivan agrees with me if we present it at the same time, say that we believe that this should be corrected and that it would make it possible for them to get an adequate allowance for their expenses. Does that sound all right to you?
- Cochran: Yes, I think that is splendid because the task of a man succeeding one of these wealthy men in keeping up a post is just impossible.
- H.M.Jr: It is a most undemocratic thing, and I would like to hit it and talk to these two men about it, and I am more than pleased to get their opinions; but the way it is now, it is very attractive.
- Gaston: You could get up a table showing what it costs the United States, the Ambassador, a, b, c, d, e, and so on. You might find 25 or 30 to show that it actually costs the United States more than if these men were paid substantial salaries.

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- H.M.Jr: The thing that bowled me over is that I saw they can put it in a lump ~~sum~~ and don't have to account for it.
- Sullivan: We have got ourselves to blame for that.
- H.M.Jr: Well, anyway, it is important to a few people, but we talk about symbols, I don't know of a more undemocratic symbol than this one.
- Schwarz: In commenting on state and local exemptions, which we are going to be asked to do pretty soon, maybe in a press conference, as a major inequity--
- H.M.Jr: No, I think when I appear before the Ways and Means on the tax bill.
- Schwarz: I thought this might be another inequity.
- H.M.Jr: Oh, I wouldn't want to single them out. I would rather do it when I appear before Ways and Means.
- All right, John?
- Sullivan: Yes.
- Cochran: I will give you a memo today on the make up of that 75 million dollars that Pinsent mentioned yesterday.
- H.M.Jr: Yes.
- Cochran: I have that. Rather interesting. Another shipment of silver to London from this market makes up 800 thousand ounces they have brought I gather in the last two months.
- H.M.Jr: Well, if I don't have to work on the Lend-Lease bill over Saturday and Sunday, I want Cochran and White on notice and Bell, if you don't mind.

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If I could get a couple of hours, I would like to take the Canadian memorandum plus the one that they gave me yesterday and sit down and talk about this whole thing, you see. I haven't soaked it through my pores. I would like you there. Sometime when it is convenient at the house.

Cochran: And they are going to try to get that other statement to us today.

H.M.Jr: If they have it today, maybe the four of us can sit down on Saturday or Sunday.

Cochran: Yes.

H.M.Jr: You (Wiley) got my message?

Wiley: Yes.

Young: I have two million dollars of British contracts, which brings the total for the week up to about - well under the top.

H.M.Jr: O.K. What did you do with that letter I gave you?

Young: It is right here.

H.M.Jr: Let Foley read it and then give it back.

Young: It is a good letter.

Pehle: Nothing.

Schwarz: Have you read the Kintner and Alsop column yet?

H.M.Jr: Your sources of information are excellent.

Schwarz: I have got a couple of other stories I think you would like to read.



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H.M.Jr: Did you read it.

Klotz: Yes, I did.

H.M.Jr: I am so pleased.

Schwarz: I have a copy here if anybody wants to see it.

H.M.Jr: Anything else?

Schwarz: That is all.

H.M.Jr: Harry?

White: We are having another meeting probably the last meeting with the SEC at 11 o'clock today, and it doesn't look very optimistic to find a way out, but we will know more about it.

H.M.Jr: That could come up at the same time as this other meeting.

White: It could, very well. If that is coming up at the other meeting, then I think Mr. Foley ought to be there because most of the trouble is in his shop.

H.M.Jr: Well, we will hold it after 11 o'clock Saturday or Sunday. I mean, it won't be a normal time if Foley is going to be in it.

Bell: He has to go to church on Sunday.

Foley: Thanks. (Laughter)

Schwarz: Since this is press conference morning, I might mention--

Foley: He could go to church at six.

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Bell: Yes, he could, but he doesn't, I am sure.

Foley: Neither do you.

Bell: No, I don't either.

Schwarz: There have been a lot of inquiries about new excess profits tax forms which are waiting on the signature to the amendments. You and John probably know better than I do.

H.M.Jr: Well, if you (Sullivan) would stay a minute after, I want to tell you something about it.

Sullivan: Yes, sir.

Schwarz: We have a story ready for whenever the President signs it.

H.M.Jr: Well, will you talk with Sullivan about it?

Schwarz: I have talked with people in his shop.

Sullivan: I have seen it, and it is all right.

Schwarz: I thought you might be asked about it.

H.M.Jr: I won't say anything.

All right, Harry?

White: Quite, yes, sir.

H.M.Jr: Harold?

We talked over this morning, and I reluctantly gave in that we would start this national defense bond campaign the first of May.

White: I don't know whether I mentioned it. I think I

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did. If so, I will merely mention it again to make sure that you know that both Mr. Viner and myself feel that the campaign ought to be postponed.

H.M. Jr: Where does Herbert Feis stand? (Laughter)

White: I imagine on the other side. There is a simple way we have of finding out where each of us stand.

H.M. Jr: But you are Viner's mouthpiece?

White: No, I don't think he would have me for his mouthpiece. This is one of the times I agree with him.

H.M. Jr: Postpone it after the first of May?

White: Yes, postponed until the need was more urgent, was the criterion, without setting any specific date.

H.M. Jr: Why?

White: Well, we both feel it is a measure which you ought to keep in reserve until such time as the sums which are to be raised are larger and the emergency is more acute, that it is an important device for stimulating financing, and that things are going along all right as they are, whereas if you use that program now and if it is done in a big way, of course that pre-supposes it is done in a very big and spectacular way, then you don't leave yourself with another reserve.

H.M. Jr: Would you, Professor Odegard, take on White and Viner's representative at the same time and have a little talk with him and give him something other than the money background on it?



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Odegarde: Yes.

H.M.Jr: Will you do that? Take him on.

Odegarde: I have talked to Mr. Viner about it.

H.M.Jr: Well, talk with Mr. White and just take him on. You know, see if you can sell him. He is a nice fellow.

White: Don't work too hard. It won't make any difference.

H.M.Jr: You and Carter Glass. No matter what they say, it doesn't make any difference.

Schwarz: Open mind.

H.M.Jr: All right, Harold?

Graves: Yes.

H.M.Jr: Dan?

Bell: Here are the three types of bonds.

H.M.Jr: This is what I wanted this morning.

Bell: We had it this morning.

H.M.Jr: But you didn't give it to me.

Bell: We went right out of the other meeting into this one. The first one is the present savings bond, in red, and the other columns are the modifications. The second one is the same kind of a bond, only extended for 12 years.

H.M.Jr: But you don't show the interest on this.

Bell: It shows the yield, the two forty rate. And the

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third type is the income you would get in six months from the bond.

- H.M.Jr: You get the income every six months? How much?
- Bell: One dollar twenty cents.
- H.M.Jr: That doesn't show.
- Bell: It is a two dollar forty cent bond.
- H.M.Jr: It doesn't show you get a dollar and twenty cents.
- Bell: If they redeem it, they get less.
- H.M.Jr: Couldn't you just put up on this page, one dollar and a quarter and six months.
- Bell: Yes, you could. You see, both of those bonds are on a basis of two forty yield.
- H.M.Jr: It should have been on there. It pays a dollar twenty?
- Bell: Yes.
- H.M.Jr: Every six months?
- Bell: Yes. The last figures, you see, in the yield column, is two forty, right at the end.
- H.M.Jr: It doesn't say anything about a dollar twenty coupon.
- Bell: No, but they are on a six months basis. It is a two dollar forty cent yield to maturity, isn't it.
- H.M.Jr: Yes. But you get a dollar twenty every six months?

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- Bell: Yes, sir. And then we draw back part of that in case it is redeemed any time before maturity.
- H.M.Jr: And then the second one, you start at 75. What is the difference between that and the present baby bond?
- Bell: Well, it runs for 12 years, and it is on a basis of two forty instead of two ninety-one.
- H.M.Jr: Twelve years?
- Bell: Yes, sir. The two new bonds are both on the basis of 12 years.
- H.M.Jr: It doesn't say here how much the limiting factors are.
- Bell: No, it doesn't say that. All you wanted was four columns. That makes it simple.
- H.M.Jr: Too simple. Five thousand and--
- Bell: And 50 thousand for the two combined or either one.
- H.M.Jr: All right. Thank you all.



March 6, 1941  
10:50 a.m.

H.M.Jr: Hello.

Cong. John  
McCormack: Hello, Henry.

H.M.Jr: How are you?

McC: Fine. How are you?

H.M.Jr: Fine. I just wanted to call you up and tell you I thought you did a perfectly swell job on those four amendments on the agricultural bill.

McC: Well, thanks, Henry. I thought that there was a lot of valuable information there and it made an impression on me, and I knew your state of mind, and I want you to know that I thoroughly appreciate the exigencies that you are aware of.

H.M.Jr: You mean at that talk we had the other day.

McC: And I don't know whether you read my few remarks but some of those amendments would have been adopted.

H.M.Jr: Well, I think they all would have been if it hadn't been for you.

McC: Somebody had to step in there and I stepped in at the last minute but I was going to do it anyway. You notice where I used the - we had to whip in the Republicans and I had to use that balancing the budget

H.M.Jr: And they loved it.

McC: (Laughs). The funny thing is all we were concerned with was results so I felt a little strange when I had to get applause from the left.

H.M.Jr: Yeah. Well, let me ask you a question. Is it too much to hope for that on this bill that you might get a 10% straight cut?

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McC: Yeah. That's too much.

H.M.Jr: Too much.

McC: Yeah.

H.M.Jr: I see. All you can do is to hold the line.

McC: Exactly.

H.M.Jr: But at least it shows that if you put up a little fight you can hold the line.

McC: Well, that's the thing to do. You've got to hold that. When it comes out of committee that's about all you can do.

H.M.Jr: But, John, this is the first time that anybody has made the attempt, and you were 100% successful.

McC: Well, thanks. It's awfully nice of you to call up and I appreciate it.

H.M.Jr: It's the only ray of sunshine I've had here in weeks.

McC: Well, that little conference the other day was the thing that brought it to my conscious mind, so that it wasn't time wasted.

H.M.Jr: Wonderful.

McC: Now, you understood - I think on the basic thing, I think what I said there - I know what you're running up against on the other thing. You see I know now and you notice they're ahead of it but, hell, I believe in telling the truth as I see it and I wanted to give you a little idea, and the thing to do is get that tax bill. You can raise a billion, 500 million the way it is now if you go ahead, and, listen, I wouldn't wait too long.

H.M.Jr: No.

McC: The idea is that every once in a while you're going to pull off a little blitzkreig and the thing to do now - you can go ahead on that and you can raise 1 billion 500 million. Those boys are all ripe to go and the country is set.

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H.M.Jr: Good.

McC: To me that's the most important thing today, and I'd do it, I wouldn't delay. As soon as you can get this thing going after March 15th, or even if you can start even little executive meetings with the tax committee before that, if you can work it with Bob and Jere. I'd do it so that the groundwork would be laid.

H.M.Jr: Well, that's a tip.

McC: Now, that's my suggestion, and I know the game up here, you know. Everyone has their own district and the tendency is to delay and time passes and you know when you get them in a good frame of mind - they're all set now for a tax bill - I'd go ahead and do it.

H.M.Jr: Well, that's a good tip.

McC: All right, Henry.

H.M.Jr: Thank you.



March 6, 1941  
11:00 a.m.

H.M.Jr: Hello.

Operator: Mr. Hopkins.

H.M.Jr: Harry, good morning.

Harry Hopkins: Good morning, Henry.

H.M.Jr: I have a very important letter that I'd like to send you by hand via one Philip Young.

H: Right now.

H.M.Jr: Right now.

H: Right this minute.

H.M.Jr: Can he come right over?

H: Right over.

H.M.Jr: He'll be there in  $3\frac{1}{2}$  minutes.

H: All right, Henry.

H.M.Jr: It's terribly important.

H: Good.

H.M.Jr: Thank you.

March 6, 1941  
11:27 a.m.

H.M.Jr: Hello.

Operator: Mr. MacLeish.

Archibald  
MacLeish: Hello.

H.M.Jr: Henry talking. How are you?

MacL: Fine, thank you.

H.M.Jr: I thought you'd be amused and interested to know that our chief engraver and chief designer is up in Boston with that man who wrote that book.

MacL: Yeah, Dwiggins.

H.M.Jr: Did you know that?

MacL: No. (Laughs).

H.M.Jr: And they're up there, both on the stand, and I'm going to have a \$5 bill.

MacL: I'll be darned. Yes, that's most interesting.

H.M.Jr: I thought you'd like to know.

MacL: Are they up there today, Henry.

H.M.Jr: They're up there now.

MacL: (Laughs). Fine. Thanks for telling me.

H.M.Jr: O.K.

March 6, 1941  
3:09 p.m.

H.M.Jr: Hello, Mac.

Wm. H. McReynolds: Yes. Rudolph told me the Boss signed that memorandum that I sent over finally.

H.M.Jr: Yeah. Who told you?

McR: Rudolph.

H.M.Jr: He wouldn't do it - he sent me your stuff and said, "Speak to me," and I went over there and he said, "Do you want to do it." I says, "Yes, if you'll sign it." So he said, "O.K."

McR: Well, I knew he sent it to you and I told Rudolph when I sent it over there that I wanted to know everything that happened to this, so I knew. I knew when he sent it over to you. I knew, of course, that he would talk to you about it, as he should, before he signed it. But as long as I played on top of the table all the way along, I couldn't be embarrassed, you see.

H.M.Jr: Well, you mean embarrassed with him or with me?

McR: Either one of you.

H.M.Jr: No, it's all right. He said, "Do you want to do it?" and I said, "Yes, I'm willing to." He signed it.

McR: Well, that's good because we're in a hell of a jam.

H.M.Jr: Well, it just came in this second and Norman Thompson has got it so you can contact him. Do you know Norman?

McR: I've heard of him. Yeah, I remember.

H.M.Jr: Well, and Herbert Gaston and Elmer Ireys are rearing to go.



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MCR: O.K. Well, we can make a go of it. They're in a hell of a jam on this stuff and they're trying to play politics on some of these things, which is terrible.

H.M.Jr: Politics on what, Mac?

McR: On some of the appointments - that is, the fellows who are pushing the Boss from the other side.

H.M.Jr: We'll give them the works.

McR: I know you will.

H.M.Jr: All right.

McR: Thank you very much, sir.

H.M.Jr: All right.

3/6/41

Deficiency requested "Expenses of Loans, 1941" \$3,000,000  
Allowed by the House Committee on Appropriations \$1,500,000

The Committee's report makes the following comment:

"In making the reduction of \$1,500,000 in the requested amount, the Committee has acted more or less arbitrarily. The Department has not formulated a definite program, but as there is need for expediting the preparation and initiation of the work, the \$1,500,000 has been included for the remainder of the present fiscal year. The amount allowed will need to provide, in addition to the expenses of sales promotion, for the printing and production of the securities as well as the handling and accounting in connection with their issuance. It will be necessary for the Treasury officials at a later date in the Session to seek funds for the fiscal year 1942 for this purpose. By that time there will have been opportunity to place the campaign on a level basis with more definite knowledge of the needs. The Committee, in making the reduction referred to, feels that the features of the program should be carefully, soundly, and gradually developed and that with the sum allowed adequate preparation, inauguration, and development of the program can be undertaken."

*John*

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE March 6, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 4:00 yesterday afternoon the Secretary received Sir Frederick Phillips, at the latter's request. Phillips was accompanied by Messrs. Pinsent and Playfair. Mr. White and Mr. Cochran together with the stenotypist, were present.

Following this meeting Mr. Pinsent talked with Mr. Cochran. Mr. Pinsent had in his brief case a copy of a cablegram which had been received yesterday from London giving the latest information in regard to the distribution of British gold. It was explained that the \$75,000,000 shipment of gold which is due in New York today from Ottawa is made up as follows:

British-owned gold at Ottawa	\$22,800,000
Bank of France gold earmarked with the Bank of England and held at Ottawa, against which were switched the fol- lowing British holdings at	
Sidney	40,500,000
Bombay	2,800,000
Singapore	1,500,000
Buenos Aires	<u>7,700,000</u>
Total	\$75,300,000

The above transaction involves, therefore, the switching of a new lot of \$52,000,000 of gold from the French deposit at Ottawa against British gold held in various parts of the world. The total of French gold from Ottawa which has been switched to date against gold held in South Africa and elsewhere by the British is \$172,000,000. This leaves \$108,000,000, out of the total earmarked deposit of \$280,000,000, which can still be switched.

Pinsent continued his explanation to me of the change in policy at London of which they were notified this week. That is, heretofore, London had shown an inclination to switch against French gold at Ottawa only British gold held in South Africa. The decision has now been taken to utilize in this switch process British gold held at scattered places, such as those above indicated. The British Treasury officials in Washington are preparing today for early delivery to us a letter showing the British cash and gold position as of March 1, 1941. This will show the gold which remains in British possession, although it may not give the exact geographic location thereof. I noted, however, from the cablegram which was shown to me that this gold is widely scattered, some being at Cyprus, some at Paris and London, quite a bit remaining in Australia, and some in transit from Jerusalem to Durban.



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In explanation of the \$69,000,000 figure which was given for February 25 as the British dollars and immediately available gold, the British have explained that up to that date it had not been known to the British Treasury officials here that gold other than that in South Africa would be used in switching. The British Treasury people were thus using in their calculations gold "readily available", while our figures had been based upon total British gold holdings, wherever they might be. The new British statement is expected to show the exact situation.

Mr. Pinsent also gave me a little further information, in strict confidence, to supplement the statement made aside to the Secretary by Sir Frederick Phillips that an arrangement had been signed at London between the British and Belgian Finance Minister Gutt, in regard to the use of \$100,000,000 of Belgian gold in Canada.

It is my understanding that the British have obtained an option to borrow considerably more Belgian gold than this first lot of \$100,000,000. The gold is to be repaid at a certain time after the cessation of hostilities, or earlier if the British may desire. Pinsent insisted that the British did not want to be owing gold to Belgium when the war is over. According to our figures the Belgians have \$351,000,000 of gold in Ottawa.

I asked Pinsent if Sir Frederick Phillips had meant to intimate to us the other day that our assistance in transporting more gold to the United States was sought. Pinsent did not believe that Sir Frederick had meant to suggest this, but said he would confirm his understanding. I pointed out that the gold now held in South Africa has practically all been switched to the account of the Bank of France, against French gold in Ottawa, and that the latter has now been moved to New York and sold. Pinsent said that if the gold at Capetown could be moved to Ottawa, this would be used in reversing the switch, and the whole process could start over again. I remarked that it would be very unlikely that an American war vessel could be used in transporting gold from South Africa or another British possession to Canada. We must take title to any gold which is transported in an American war vessel. We would not want to participate in any transaction that did not result in the identical gold which we brought from a foreign port to New York being sold to us. There would, however, be the possibility of the British switching the Belgian gold in Ottawa to French account, rather than shipping it down to us, and then move a corresponding amount of gold which would be freed from French earmark in South Africa to us in New York for sale.

\* \* \* \* \*

Mr. Pinsent called me at 11:30 this morning. He referred to our conversation of last evening and stated that he had now checked with Sir Frederick Phillips and had learned that the latter had not intended to raise with us at this time the question of transportation of more British gold to this continent by American naval vessel.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Dakar, French West Africa

DATE: March 6, 1941, 3 p.m.

NO.: 95

RECEIVED: March 15,  
12:45 p.m.

The following is for the Treasury:

On each commercial plane which leaves here for France there is placed 50 kilograms and upwards of gold belonging to the Central Bank of Poland and/or the Central Bank of Belgium. Gold belonging to the Bank of France is still at Kayes.

WASSON.

EA:LNW

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Vichy

DATE: March 6, 1941, 9 p.m.

NO.: 276

FOR THE TREASURY FROM MATTHEWS.

I had a talk with Couve de Murville, who was in Vichy for a few days. He told me that the French are still employing successfully their "slow down" tactics in turning over to the Germans the gold of the Belgians. Reference: telegram of January 2, 10 p.m., no. 9 from the Embassy. Couve believes that only 15 tons has been delivered to them so far. However, it is my inclination that this is a rather low estimate. The efforts of Theunis to enter a lien against French gold which is in the United States interested him. He described this move as an "additional safeguard".

Note: It is the desire of the Bank of France to send Jean Sancery to New York to participate in the forthcoming suit (Sancery is the head of the legal department in the Bank of France).

END SECTION ONE.

LEAHY.

EA:LEW



## SECTIONS TWO, THREE AND FOUR.

According to Guindey of the Ministry of Finance, a law which appeared in the JOURNAL OFFICIAL for yesterday will have some hampering effect on German attempts to buy into French industry through clandestine purchases of bearer securities. The supposed purpose of this law is to reduce the possibilities for evasion of taxes and to safeguard shareholders against loss in the event the securities are stolen. The measure provides:

1. That unless stocks in French or foreign companies are registered, they cannot be delivered. In the case of foreign securities, a special type of registration certificate is issued.

2. Bearer securities that have not been registered in the prescribed manner will be held on deposit for the account of the purchaser in a brokerage house or a government-approved bank.

The Finance Minister will set the date on which the law is to become effective. Infractions of its provisions entail heavy penalties.

On the Bourse at Lyon for several months there has been in progress an inflationary rise in the prices of variable revenue securities. As a curb on this trend, it is provided in another law which was published yesterday that French limited liability and joint stock companies will not be permitted to declare dividends or pay bonuses and fees to directors in excess of the greatest annual amount put out for

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for such purposes for the 1937-1939 period. A rate of 8 percent is fixed for the maximum dividend which may be paid by companies established since that date.

Several days before the text of this measure was published a communique was issued about it. There was almost immediate reaction on the Lyon stock exchange. Many of the leaders lost much of what they had gained during the past month.

It is Cariguel's belief that the introduction of this law implies that in a short time Bouthillier may remove the existing ban to trading on the Bourse at Paris in industrial stocks and others with variable revenue. He asserted that the Finance Minister has up to the present not been willing to do this because the market for government issues might be adversely affected by a speculative movement in securities of this kind.

END OF MESSAGE.

LEAHY.

EA:LWW

Treasury Department  
Division of Monetary Research

202 ✓

Date March 17, 1941.

To: Secretary Morgenthau

From: Mr. White

We estimate the world gold production for 1941 to be more than 44 million ounces (about \$1.5 billion). This is an increase of 4.7 percent over estimated output of 1940.

Every major producing area is expected to increase its output in 1941. The total production of the British Empire is estimated at 25 million ounces (\$875 million), an increase over 1940 of almost 5 percent.

American output will be nearly 5 million ounces, the highest ever recorded in this country.

MR. WHITE  
Branch 2058 - 210



## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE March 6, 1941

TO Mr. White  
FROM John W. Gunter

Subject: Preliminary Estimate of World Gold Production in 1941

It is estimated that world gold production in 1941 will be 44,250,000 ounces, valued at nearly \$1,550 million. Estimated production for 1941 represents an increase of 4.7 percent above the 42,270,000 ounces estimated to have been produced in 1940.

The trend of gold production has been upward since 1922 and while the rate of increase will probably decline, production may be expected to continue upward for the next few years.

The biggest increase in gold production in 1941 is expected to be in the Union of South Africa. In 1940, South African production was at a record high, and it is likely that in 1941 the production will be even greater. The estimated gold output of South Africa in 1941 is 14,675,000 ounces, valued at \$514 million, an increase of 700,000 ounces over the estimated output of 1940. A much larger increase is technically possible by adopting the practice of not treating low-grade ores. This would be contrary to the present policy of the government of the Union of South Africa of prolonging the productive life of the gold fields. In all, the British Empire is expected to produce slightly more than 25 million ounces in 1941, valued at \$875 million.

The other large producers will probably also show increases in 1941. Included in this group are the United States, Canada, Japan, Australia, Mexico, and the Philippines. Production in the United States is reported by the Bureau of the Mint to have been 4,802,412 ounces in 1940. Our estimate for 1941 is 4,950,000 ounces, valued at nearly \$175 million, an increase of 3 percent.

Any estimate of gold production for the U.S.S.R. must be conjectural. With this qualification, it is estimated that gold production in the U.S.S.R. in 1941 will be 6,000,000 ounces, an increase of 500,000 ounces over the estimated 1940 output. This estimate for the U.S.S.R. is based on the supposition that reported production difficulties have been at least partially overcome.

Estimates of world production excluding the U.S.S.R. are much more reliable than estimates of total world production. The estimate of gold production outside the U.S.S.R. in 1941 is 38,250,000 ounces as compared with an estimated production of 36,770,000 ounces in 1940.

The accompanying table summarizes the estimates of gold production by countries.

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Division of Monetary  
Research

Table III  
Estimated Gold Production by Countries  
1940 and 1941

Country	1940		1941	
	No. of ounces	% Increase	No. of Ounces	% Increase
<b>North America</b>				
United States	4,802,412 *	3.9	4,950,000	3.0
Canada	5,275,000	3.5	5,433,000	5.0
Mexico	1,162,000	10.0	1,220,000	5.0
Newfoundland	20,000	0	20,000	0
Central America and West Indies	<u>150,000</u>	<u>0</u>	<u>150,000</u>	<u>0</u>
	11,409,000	4.2	11,773,000	3.2
<b>South America</b>				
Brazil	257,000	10.0	270,000	5.0
Chile	332,000	2.1	335,000	0.9
Colombia	600,000	8.9	630,000	5
Peru	295,000	8.3	320,000	8.5
Venezuela	150,000	2.3	155,000	3.3
All Others	<u>209,000</u>	<u>1.2</u>	<u>215,000</u>	<u>2.9</u>
	1,843,000	6.2	1,925,000	4.4
<b>Europe</b>				
All but U. S. S. R.	550,000	0	550,000	0
U.S.S.R.	<u>5,500,000</u>	<u>10.0</u>	<u>6,000,000</u>	<u>9.1</u>
	6,050,000	8.9	6,550,000	8.3
<b>Asia</b>				
India, British	312,000	-1.5	308,000	-1.3
Japan **	2,140,000	3.5	2,215,000	3.5
Philippine Islands	1,111,697 *	6.8	1,167,000	5.0
Others	<u>293,000</u>	<u>1.0</u>	<u>295,000</u>	<u>0.7</u>
	3,857,000	3.8	3,985,000	3.3

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Division of Monetary  
Research

Table III (Cont'd.)

Country	1940		1941	
	No. of ounces	% Increase	No. of ounces	% Increase
<b>Africa</b>				
Belgian Congo	500,000	1.1	505,000	1.0
French West Indies	130,000	0	130,000	0
Gold Coast	885,000	13.1	980,000	10.7
Southern Rhodesia	830,000	4.4	850,000	2.4
Tanganyika	160,000	22.7	175,000	9.4
Union of South Africa	13,975,000	9.0	14,675,000	5.0
Others	338,000	3.5	342,000	1.5
	<u>16,818,000</u>	<u>8.6</u>	<u>17,657,000</u>	<u>5.0</u>
<b>Oceania</b>				
Australia	1,695,000	3.0	1,746,000	3.0
Fiji	120,000	9.1	130,000	8.3
New Guinea	252,000	2.3	256,000	1.6
New Zealand	185,000	3.4	190,000	2.7
Papua	37,000	0	37,000	0
	<u>2,289,000</u>	<u>3.2</u>	<u>2,359,000</u>	<u>3.1</u>
Grand Total	42,266,000	6.6	44,249,000	4.7
World Total, outside U.S.S.R.	36,766,000	6.1	38,249,000	4.0

\* Actual

\*\* Including Chosen, Taiwan, and Manchuria



206

● 3/10/41

Dr. White informed today that the Secretary must certainly did not give instructions to Mr. Gifford that J.P.Morgan & Co. need not give the regular reports of sales of securities made through them.

nmc

207

Treasury Department  
Division of Monetary Research

Date March 6, 1941.

To: Secretary Morgenthau

Possibly you gave instructions to Gifford that J.P. Morgan and Co. need not give the regular reports of sales of securities made through them.

All dealers are supposed to report their sales of foreign securities on our regular capital reporting forms.

*Handwritten:*  
Wing  
L 1 - 16-3

MR. WHITE  
Branch 2058 - Room 214½



## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE March 6, 1941

TO Mr. White  
FROM V. F. Coe  
Subject: J. P. Morgan not reporting security sales.

Mr. Rozelle of the New York Federal Reserve Bank rang me at 10 o'clock this morning to say that J. P. Morgan and Company was not reporting certain security sales which Gifford is carrying out. As you know, the Federal Reserve Bank is supposed to get reports from bankers, brokers, dealers, etc. on all security sales and the net changes we regularly publish in the Treasury Bulletin. Mr. Rozelle said that recently there had been a number of "after hour" sales which had aroused considerable comment in Wall Street. The other day, for instance, more than \$11 million of U. S. steel shares were sold on British account through Morgans after the market had closed.

The Federal has checked into these "after hour" transactions and have found that in each case Morgan is involved. On inquiry Morgans have stated that they are not reporting these sales. From the definite way in which the Morgan firm spoke the Federal inferred that either Gifford or perhaps the Treasury had said that sales of this kind should not be reported.

I told Mr. Rozelle that I knew of no such transactions but would make inquiries in the Treasury.

By now most people in Wall Street know that the British are placing securities directly as well as disposing of them through banks and dealers, and accordingly it is known that our figures of security sales going through dealers do not give a correct picture of the quantity being liquidated by the British. Accordingly, since Wall Street cannot now determine the volume of securities being liquidated by the British there is no point in omitting from our figures these "after hour" sales. If the Morgan stand is backed up by the Treasury and our figures of net security sales are to be made worse than they now are, we might well consider dropping them entirely.



ORIGINAL CONFIDENTIAL

~~CONFIDENTIAL~~

March 5, 1941.

To: Mr. Hopkins  
From: Mr. Towne

BRITISH MAGNESIUM

In May 1940 and subsequently the British signed contracts with Dow Chemical Company to supply them a total of 8400 tons of magnesium. 4800 tons were to come out of plant partly financed by them. Deliveries, at the rate of 100 tons a month, were to start in September 1940 if capacity was available, but in any event in January 1941.

By March 1st the British had paid Dow \$1,815,600 (including \$1,300,000 of capital assistance) and had received 18 tons of magnesium, delivered in the last few days of February. This was after considerable conversations between the British Air Commission and the Production Division of the Office of Production Management.

On February 26th the President's Liaison Committee filed with the Priorities Division of the Office of Production Management the above facts, duly documented, and on March 4th Mr. Stettinius wired Dow to release 600 tons of magnesium at once to the British and 300 tons per month through August. This news was cabled to Lord Beaverbrook in London.

Dr. Dow has now protested this order violently to Mr. Knudsen, claiming that its enforcement would seriously dislocate the domestic magnesium and aircraft industries. To back up this protest Dow representatives are conferring with the Office of Production Management tomorrow. In the meantime facts are being gathered for this discussion by the Priorities and Production Divisions.

Regarding their need for this magnesium the British have stated that:

"Their need for magnesium is urgent as increased production in England will not become effective in the early months of 1941, and that any suggestion of reducing deliveries would be viewed with alarm. They have also informed us that 100% of the magnesium to be received from the U.S.A. will be used for aeronautical purposes, 50% being used for incendiary bombs, 18% for powder and the balance for aircraft manufacture. A short time ago they had to economize in the production of incendiary bombs to save magnesium and have stated that it is imperative they should not be asked to economize again."

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CONFIDENTIAL

March 8, 1941

To: Mr. Hopkins  
From: Mr. Young

Re: Liaison Committee Reports on  
Foreign Purchasing.

In accordance with our last conversation, I am enclosing herewith a copy of one of the British Empire statements prepared by the Treasury Department Division of Research and Statistics on the basis of data secured from the British Purchasing Commission.

I also attach for your information a list of the statements now being prepared on a periodic basis concerning the British Empire and Netherlands purchasing operations in the United States.

(Initialed) P.Y.

PY:bj

(Enclosure mentioned in first paragraph:  
British Empire Commodity Statements ||  
as of February 22, 1940)

**Regular Reports prepared by the Division of  
Research and Statistics in Connection with Activities  
of Foreign Purchasing Missions.**

1. British Empire Aircraft Statements (weekly)
2. British Empire Commodity Statements (weekly)
3. British Empire Capital Statements (weekly)
4. Applications for placement of orders by British Purchasing Commission (daily)
5. Value of British applications for placement of orders cleared by U. S. Treasury (weekly)
6. Disposition and status of airframes inspected by British Empire in U. S. (weekly)
7. Disposition and status of airplane engines inspected by British Empire in U. S. (weekly)
8. Forecast of future payments on existing commitments of the British purchasing missions (monthly)
9. British Empire iron and steel statements (monthly)
10. British Empire production statements for various commodities (in process)
11. Netherlands Purchasing Commission Commodity statements (weekly)
12. Lindsteves, Inc., Commodity Statements (weekly)



**Reports received by Treasury Department  
from Foreign Purchasing Missions**

**British Empire Purchasing Missions**

1. Statements A, B, C, and D (weekly)
2. British Iron & Steel Corporation report (weekly)
3. British Iron & Steel Corporation report (monthly)
4. Forecast of payments by British purchasing missions (monthly)
5. Machine tool report - forecast of deliveries (monthly)
6. Statement of capital and extraordinary charges (weekly)
7. Statements showing scheduled deliveries for various industry groups (monthly)

**Industries, Inc.**

1. Statements A and D (weekly)

**Netherlands Purchasing Commission**

1. Statements A and D (weekly)

CONFIDENTIAL

March 7, 1941

To: Mr. Hopkins  
From: Mr. Young

Re: Trucks and Tractors for Greece

Attached is a memorandum prepared by Mr. Williams of my staff with respect to the Greek trucks and tractors correspondence which you forwarded to me a few days ago. This preliminary survey indicates that the Greek Minister gave Sumner Welles a memorandum ten days ago which included these items and which presumably was the cause for Mr. Welles contacting the Navy Department.

Evidently none of these items are available in the secondhand market or from the reservoir of goods immobilized by frozen funds. Delivery of new trucks and tractors can probably begin ninety days from the date of an order with little interference to the defense program. There are no questions of export control or priorities.

It will be noted in the attached that the Greek Minister stated to Sumner Welles that Greek cash, gold reserves, and sterling credits have been spent thus implying that the items under discussion should probably be considered on a lend-lease basis.

You will also note that Mr. Allen of the State Department advised the Greeks that this matter had been put in the hands of the Liaison Committee. This statement is not correct as the Committee has heard nothing directly from the State Department concerning this matter.

FY:bj

cc to Secretary Morgenthau ✓  
and Mr. Cox

TO: Mr. Young  
 FROM: Mr. Williams

March 5, 1941.

**TRUCKS AND TRACTORS FOR GREECE.**

**GREEK AUTHORIZATION:**

The Greek Minister in Washington handed Sumner Welles a memorandum written ten days ago which covered, inter alia, 2800 1-1/2 ton trucks, 1500 3 ton trucks, and 1000 "tractors for sowing". This memorandum precipitated an inquiry by Mr. Sumner Welles as to what the Navy Department knew of the matter and thence the exchange of letters which we had. The Greek Minister has not since spoken to anyone in the State Department about this matter.

**AVAILABILITY:**

**Secondhand:**

It is considered doubtful that any quantity of satisfactory units could be acquired in the secondhand market. The Army is understood to have examined this field some time ago.

**Blocked Funds:**

Only two small lots of 1-1/2 tons are available from this source. These have been spoken for by other Governments.

**Raw:**

Deliveries on 1-1/2 ton trucks could probably be started in around 90 days from the date of the order. Depending on the order's importance (and hence the degree of interference with U.S. orders which would be permitted), the rate of delivery might run 500 a week. Thus, completion of 2800 1-1/2 ton trucks might take four or five months from date of confirmation.

Three ton trucks could be delivered, again subject to interference, at around 65-70 a week starting 16 weeks after order. Thus, completion of this lot of 1500 units might take 8-9 months from date of the order.

We have not yet been able to get information as to production of tractors.

There would apparently be little holdup of any production of any of the above items from the standpoint of lack of component parts except possibly in the obtaining of axles and transmissions.



- 2 -

PRICES:

It is difficult to get any idea of what value these items might be, as there is no indication of type of body, length of wheel base, or engine horsepower desired. However, the following unit prices, which reflect actual quotations made to our Procurement Division, may serve as a guide.

2800 - 1-1/2 ton trucks at \$1,000	\$ 2,800,000
1500 - 3 ton trucks at \$1800	2,700,000
1000 - medium Diesel tractors at \$2500	<u>2,500,000</u>
Total	\$ 7,700,000

REPORT ABILITY:

There is no expert control on ordinary commercial trucks and tractors as assembled units.

GENERAL:

The following information obtained from Mr. Allen of the State Department this afternoon, may be of some interest.

1. In his memorandum to Mr. Sumner Welles, the Greek Minister stated that the Greeks have spent all their cash, gold reserves, and sterling credits for "50 airplanes, 1600 automobiles and 200 tractors". Thus, apparently, the Greek Minister was intimating that his Government was in no position to pay for these trucks and tractors now under discussion.
2. Mr. Allen stated that their reply to the Greek memorandum read roughly as follows: "Your various requests have been referred to the proper authorities of the Government for action in connection with the Lend-Lease Bill". Mr. Allen stated that in view of this the State Department had put the matter in the hands of the President's Liaison Committee.

CONFIDENTIAL(To Keep You Posted)

March 8, 1941

To: Mr. Hopkins

From: Mr. Young

Re: Priorities on Foreign Machine  
Tool Orders

On January 31st the Priorities Division of the Office of Production Management sent a letter to all machine tool manufacturers asking them to cease making shipments of machine tools beginning thirty days from that date, except to those customers who have by that time or thereafter secured official priority ratings. The net effect of this directive is to, not only stop delivery of machine tools to foreign purchasers who have not secured priority ratings, by March 1st, but also to stop production of such machine tools in the factories.

In cooperation with the Priorities Division, the Liaison Committee notified nineteen foreign countries asking that lists of machine tools on order be submitted so that priority ratings could be secured. Many of these lists of foreign orders for machine tools were forwarded to the Priorities Division before March 1st.

The Priorities Division states that it will not accord any priority ratings to any foreign purchaser of machine tools except Great Britain. The Liaison Committee has discussed this situation with Mr. Blackwell Smith of the Priorities Division and with Assistant Secretary of State Berle.

It is my hope that some arrangement may be effected whereby the status quo may be maintained for at least another thirty days which will give foreign purchasers sufficient time to present their cases and for the State Department to examine the whole situation from the angle of foreign policy.

FY:bj

(Initialed) P.Y.

CONFIDENTIAL(To Keep You Posted)

March 3, 1941

To: Mr. Hopkins

From: Mr. Young

Re: Greek Trucks and Tractors

I have received the correspondence which you forwarded concerning tractors and trucks for the Greeks.

A survey of this situation is being made by Mr. Gordon Williams of my staff who has been specializing on purchasing operations by Greece and other countries of the middle East. The points being covered are availability of new and second hand equipment, priorities, export control, price, etc.

I expect to have a report on this matter late today or tomorrow unless you consider it to be more urgent.

(Initialed) P.Y.

PY:bj



CONFIDENTIAL(To Keep You Posted)

March 3, 1941

To: Mr. Hopkins

From: Mr. Young

Re: Russian Orders

Secretary Morgenthau has advised me that my summary memorandum on the Russian situation was taken up on Saturday morning last. This matter is one which requires some basic policy decisions and a definite coordination on the part of the State Department, Export Control, the Liaison Committee, and the Priorities Division of the Office of Production Management.

I have heard indirectly that General Maxwell, Administrator of Export Control, has called a meeting this afternoon to discuss export licenses for Russian machine tools. Because of the delicacy of this situation, I called Assistant Secretary of State Berle putting him on notice that such a meeting was being held because in certain past instances General Maxwell has directed foreign policy in this connection.

For your information, I plan to have a representative at General Maxwell's meeting.

(Initialed) P.Y.

FY:bj:ew

March 7, 1941

Re: Russian Orders and Defense Requirements.

Russian orders in the United States amount to about \$53,000,000 distributed among more than 250 firms. Requests are pending with the President's Liaison Committee for clearance on proposed additional orders totaling about \$32,000,000. Thus, existing and immediately prospective Russian orders approximate \$85,000,000.

Of the \$53,000,000 of orders outstanding, about 60 per cent are already subject to export control and half of these are also subject to priorities regulations. Export licenses for about \$14,000,000 of orders have been denied or revoked in the interest of national defense. Less than 30 per cent of this amount has actually been requisitioned for the defense program. The balance amounting to about \$10,000,000 is frozen on order books, in the factories, and on the docks.

Export licenses are still in effect for another \$10,000,000 of orders, but delivery of a substantial portion of these orders is prevented by existing priorities policy. No machine tools may be delivered unless Russia's need endorsed by the Department of State is established to the satisfaction of the Division of Priorities.

The impact on Russian orders of the United States defense program as presently administered has embittered Russia and confused domestic manufacturers. This situation must be clarified if friendly relations with Russia are to be maintained and the support of domestic manufacturers assured. Decisions on the following points can, therefore, no longer be delayed:

- (1) Is it desired to maintain friendly relations with Russia?
- (2) Are existing Russian orders to be released except where a specific need is established for the Defense Program?
- (3) Are no existing Russian orders to be released, even though not specifically required for the Defense Program, except where Russia's need is established with the endorsement of the Department of State?
- (4) Are new orders to be considered on the same basis as existing orders?
- (5) Delegation of the President's Liaison Committee, the Lend-Lease Administration, or some other single coordinating authority to implement these policies.

FT:bj

Letter of approval of  
Mr. Philip Young



A 2019

RECEIVED

MAR 7 1941

Division of  
Research and Statistics

March 6, 1941

Dear Mr. Ballantyne:

Receipt is acknowledged of your letter of March 5th, enclosing application for the placement of orders for various items in the following amounts:

	<u>Total Value of Order</u>
Aircraft Products	\$1,187,065.00 ✓
Iron and Steel	<u>\$4,541,597.00</u> ✓
Total	\$5,728,662.00

The Treasury Department has no objection to the execution of these contracts.

Sincerely yours,

(Signed) Philip Young

Philip Young  
Assistant to the Secretary

Mr. Charles F. Ballantyne,  
Associate Secretary,  
The British Supply Council  
in North America,  
Willard Hotel,  
Washington, D. C.

bj

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Memo for the Secretary:

Mr. Cox thought you might want to take with you to the White House to get the President's reaction.

Mr. Cox may be reached at the Capitol, Branch 7.

H.M. Chauncey

March 6, 1941

MEMORANDUM FOR THE SECRETARY.

PHONED IN FROM CAPITOL BY MR. COX.

The following is an amendment which the Committee is considering, if necessary, to offer as an alternative to the Ellender amendment.

"Nothing in this Act shall be construed to change existing law relating to the use of the land and naval forces of the United States, except in so far as it relates to the manufacture, procurement and repair of defense articles, the communication of defense information and the other non-combatant purposes specifically enumerated in this Act."



*Photostat to Mr. Helvering 2/7/41*



TREASURY DEPARTMENT  
WASHINGTON

March 6, 1941

OFFICE OF  
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO  
COMMISSIONER OF INTERNAL REVENUE  
AND REFER TO

Memorandum for the Secretary:

During the week beginning March 10th, the Division Heads and Counsel of the various Field Divisions of the Technical Staff are meeting in Washington to discuss the operations under the decentralized procedure. It is intended that a part of the sessions will be joint conferences of Staff Heads and Staff Counsel, with officials of this office and of the Chief Counsel's office. I had expected and was looking forward to presiding over these joint conferences. I now find it impossible to do so.

It would be appreciated if you could assign Mr. Harold N. Graves to preside over these joint conferences, to consider any recommendations there made by either the Chief Counsel or the Technical Staff, and then advise me. This assignment would require about two days, probably March 13 and 14, 1941.

I make this request because, under the circumstances, I believe Mr. Graves to be the best equipped and most logical man in the Department to consider matters affecting the decentralization procedure, in the establishment of which he performed such an important part.

*OK. [Signature]*

*[Signature]*  
Commissioner.

DES

GRAY

BERLIN

Dated March 6, 1941

Rec'd 11:26 p.m.

Secretary of State,  
Washington.

841, March 6, 3 p.m.

My 410, February 6, Noon.

FOR TREASURY FROM HEATH.

According to the Reichsbank statement for February 28, total investment holdings (commercial and treasury bills securities and collateral loans) increased during the last week of February by 1482 million marks to 15693 million marks compared with a rise during the corresponding period in January of 984 million marks and in November of 1233 million marks. Investment holdings were thus at their highest point with the exception of December 31 when they stood at 15846 million marks and were approximately 1 billion marks greater than the January 31 figure. On February 28 investment holdings (in million marks) stood as follows: commercial and treasury bills 15284; eligible securities 24; collateral loans 34; miscellaneous securities 351. Miscellaneous assets showed a substantial reduction of 359 million marks during the last week of February to 1059 million marks the lowest figure since July 1939 indicating a large

-2- 841, March 6, 3 p.m. from Berlin.

a large reduction in the utilization of the Reichs operating credit at the Reichsbank. Even taking this reduction into consideration however the end of the month tightening of the Reichsbank's position with 1123 million marks increase in investments and miscellaneous assets was above normal.

Note circulation on February 28 stood at 13976 million marks compared with 13694 million marks on January 31 and was thus the highest of the war with the exception of December 31 when it stood at 14033 million marks. Whereas, sight deposits showed only a 30 million mark increase during the last week to 1935 million marks compared with 1126 million marks on January 31 to concentrate highest figure reached since December 31 although well under the figure on that date of 2561 million marks.

MORRIS

RR



CORRECTED PAGE TWO

-2- JR 841, March 6, 3 p.m., from Berlin.

a large reduction in the utilization of the Reichs operating credit at the Reichsbank. Even taking this reduction into consideration however the end of the month tightening of the Reichsbank's position with 1123 million marks increase in investments and miscellaneous assets was above normal.

Note circulation on February 28 stood at 13976 million marks compared with 13694 million marks on January 31 and was thus the highest of the war with the exception of December 31 when it stood at 14033 million marks. Whereas sight deposits showed only a 30 million mark increase during the last week of February to 1935 million marks compared with 1126 million marks on January 31, this is the highest figure reached since December 31 although well under the figure on that date of 2561 million marks.

MORRIS

RR

*M. C. Cochran*

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 6, 1941.

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£33,000
Purchased from commercial concerns	£25,000

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

Sold to commercial concerns	£ 6,000
Purchased from commercial concerns	£ 8,000

The Argentine free peso, which declined yesterday to a current low of .2295, recovered today to close at .2305.

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

Canadian dollar	15% discount
Swiss franc (commercial)	.2323
Swedish krona	.2384
Reichsmark	.4005
Lira	.0505
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	6-7/8% discount

In Shanghai, the U. S. equivalent of the yuan was 5-1/2¢, off 1/16¢. Sterling was 1-1/2¢ lower at 3.93.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$2,678,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

The State Department forwarded a cable to us stating that Lazard Bros., London, shipped \$511,000 in gold from London to Lazard Freres, New York, for sale to the New York Assay Office.

A New York bank which occasionally receives quotations for gold and silver from Bombay reported that today's gold price in that center was equivalent to \$35.20. The bank stated that gold in Bombay had moved up to as high as the equivalent of \$35.47 on February 28.

- 2 -

In London, spot and forward silver were again fixed at 23-3/8d and 23-5/16d respectively. The U. S. equivalents were 42.44¢ and 42.33¢.

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

We made one purchase of silver amounting to 100,000 ounces under the Silver Purchase Act. This consisted of new production from foreign countries, for forward delivery.



CONFIDENTIAL



Copy to Mr. Dean Acheson 3/8/41

Copy to Mr. Daniel Bell 3/10/41

March 6, 1941

Dear Harry:

At the last meeting of the new Advisory Committee with the President on March 1st, I presented a memorandum and exhibits outlining the Russian purchasing situation. You will recall that I emphasized the need for a policy which would serve as a guide for the administration of export control, priorities, and production clearances. You will also recall that the President said that this matter was within the purview of the Committee.

This situation, especially in view of the latest developments in the middle East, is becoming more serious every day and immediate action must be taken.

I have not heard anything from you or from the other members of the Advisory Committee since March 1st. Will you secure the President's authority to call a meeting of the Advisory Committee this Friday to settle the following:

- (1) A policy with respect to present and future Russian orders which will serve as a basis for the administration of export control, priorities, and production clearances.
- (2) The assignment of priority ratings consistent with the policy established for both present and future orders.
- (3) The issuance of export licenses consistent with the policy established for both present and future orders.
- (4) The coordination of production clearances with the assignment of priority ratings and the administration of export control.

- 2 -

General Maxwell, the Administrator of Export Control, and Mr. E. R. Stettinius, Jr., Director of Priorities of the Office of Production Management, should be invited to attend this meeting, and I should like to bring Philip Young, member of the Liaison Committee, with me to present the case.

Yours sincerely,

Mr. Harry Hopkins,  
The White House.

JH.



C O P Y

March 6, 1941

Dear Harry:

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- 2 -

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Yours sincerely,

Mr. Harry Hopkins,

The White House.

DEPARTMENT OF STATE  
WASHINGTON

in reply refer to  
A 840.51 Frozen  
credits/1334

March 6, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses two copies of a paraphrase of telegram no. 22 dated February 25, 1941 from the American Consulate, Hanoi, regarding credits in the United States of the Bank of Indochina.

Enclosure:

No. 22 from Hanoi,  
February 25, 1941. (2)



## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate, Hanoi

DATE: February 25, 1941, 10 a.m.

NO. : 22.

Your 2 of February 11 (8 p.m.) and Consulate's despatch no. 179 of February 17 with regard to credits of the Bank of Indochina in the U.S.

Yesterday afternoon in a conversation the Inspector General of Indochina complained that the refusal of the United States Treasury to issue licenses was causing injury to local industries as well as tending to force Indochina into the "yen bloc". With regard to the former the Inspector General laid emphasis on the recent refusal of the U.S. Treasury to issue licenses for the payment of purchases of petroleum products and tobacco from the Dutch East Indies and for the payment of cotton purchases from the United States amounting to US\$1,000,000. Regarding the cotton purchases he stated that the factory might be forced to shut down if the licenses continue to be refused, thus causing inability to secure cotton. If the factory is forced to close, hundreds of natives will be thrown into unemployment and there would be a danger of social unrest in the country.

This telegram has been sent to Cavite to be repeated to Shanghai, Peiping, Hong Kong, Chungking and the Department.

REED

EA:MSG

ehicopy

GRAT

March 6, 1941

7 p.m.

## AMERICAN CONSUL

HANOI

4.

Your 31, dated March 4, 1941.

You are authorized to advise the Government General of Indo-China that the Treasury Department is issuing license under Executive Order 8389, as amended, without expiration date to the French American Banking Corporation, New York, permitting the establishment and maintenance of a "special account" in the name of Banque de l'Indochine, Saigon, to which account may be credited the proceeds of the sale of 8,000 tons of rubber contracted for December 2, 1940, together with the proceeds of any future sales of rubber or other merchandise from French Indo-China to the Government of the United States or an agency thereof. Such license will permit the making of all payments, transfers and withdrawals from such "special account" upon the instructions of the Saigon office of the Banque de l'Indochine, or in case of need the representative in New York of such bank, and will further authorize the transfer, assignment, forwarding or other disposition of documents in connection with merchandise purchased in the Western Hemisphere or the Netherlands East Indies for export to French Indo-China when such merchandise is paid for from such "special account".

It is believed that this license, which has been discussed with the New York representative of the Bank of Indo-China, implements in practical form the contract provision and will be satisfactory to the authorities. Please make every endeavor to assure the shipment of rubber completing the contract on ship now loading.

HULL (FL)

EA:FL:VCL eh

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE March 6, 1941

TO Secretary Morgenthau

FROM Mr. Pehle

You may be interested in the attached letter from Professor Chamberlain. It may be summarized as follows:

1. There are two major obstacles in the way of refugees who possess American visas and who wish to emigrate from France; (a) the difficulty of securing exit permits from the French authorities and transit permits through Spain and Portugal, and (b) the securing of steamship transportation from Lisbon. American visas are being issued to all persons who can supply adequate evidence of support and who are not totalitarian in sympathy, and who further can obtain exit visas from France and steamer passage. It is suspected that the German government is behind the French reluctance to grant exit permits.

2. It is rumored that Gestapo agents are active in Spain and in one case at least Gestapo agents ordered the Portuguese frontier authorities to admit a group of refugees and added (in effect) "we will take Portugal in three weeks".

3. The French have offered a vessel to take emigrants to Martinique; on the return trip they desire to take a cargo back to France.

4. There has been some acceleration of emigration of Rabbis and theological students from Lithuania recently. The Joint Distribution Committee is discouraged, however, and its representative plans to leave Lithuania soon.

With respect to the transportation of Rumanian refugees to Palestine, an application for the release of \$30,000 from Rumanian funds was referred to the State Department at its request.



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COLUMBIA UNIVERSITY  
IN THE CITY OF NEW YORK

March 1, 1941

Mr. J. W. Pehle  
Assistant to the Secretary  
Treasury Department  
Washington, D. C.

Dear Mr. Pehle:

Thank you for your letter of February 27 and the enclosed memorandum. In respect to M. Lacour-Gayet's statement about his interest in individual cases and wanting to know whether our government would agree to the release of frozen funds to pay for the expenses of refugees coming to this country from France, I have only to say that I am quite surprised. There are two things now in the way of refugees who have American visas getting to this country. One is the difficulty of getting exit permits from France and permits to pass through Spain or Portugal. The second is the difficulty of getting steamship transportation from Lisbon, now the only open port. Mr. Warren of the Visa Division of the State Department says that American visas are issued to all persons who can supply the required affidavits of support and an affidavit or statement showing that they are the kind of person who would be in sympathy with the government and conditions in this country. I understand that the Department of States is ready to be very lenient in respect to these affidavits and statements, but they are unwilling to issue visas to persons who cannot show that they have a chance of getting out of France and of getting steamer passage. The reason for this is that there is only a limited number of quota visas available to German or Poles or Czechs, and the Department does not want to issue a number of visas to persons who have not a good chance of using them and so reduce the number which can be made available to people who can use them. A few people are drifting out of France with American visas. If the French government is really so anxious to help, I do not see why there is such difficulty as is reported from France in getting the permits of the French government to leave the country. We think that the German government is behind the whole picture.

Let me tell you a story told recently by a person who came from Portugal. It was to the effect that a group of refugees appeared at the Portuguese frontier without Portuguese visas or without valid visas to any country overseas. (As you will realize, Portugal does not allow anyone in who has not a visa to some overseas country, and I think, now steamer passage.) Anyhow, this group was not acceptable

Mr. J. W. Pehle

March 1, 1941

and the Portuguese refused them admission. Thereupon Gestapo agents turned up and ordered the Portuguese to admit these people. When the Portuguese demurred, the Gestapo men said "Why are you making so much trouble; we will have your country anyway in about three weeks." The Portuguese are said to have answered, "Then come back in three weeks when you have our country." I have other border stories showing the interference of the Gestapo with the situation in Spain.

I am also informed--and this you probably know--that a French ship--one of the Fabre Line--is offered as a means of transportation of emigrants with American visas, either to this country or to some South American country. She is to go to Martinique, and the passengers are to be brought to this country in American vessels from Martinique. The hitch I understand is that they want to take a cargo back to France and of course must have British permission for both trips.

Efforts are being made to get another American ship to go to Lisbon, and if M. Lacour-Gayet is really sincere, it might help.

I will look into the question of the transfer to Lithuania filed by the Union of Orthodox Rabbis. The American Jewish Joint Distribution Committee has very little hope that much more can be done in Lithuania, and I understand that their representative, whom Mr. Wiley knows, is to leave the country. You know how hard it is to get anything accurate about the situation in Russia, but I know that there has been some acceleration of emigration recently, and there are hopes that a considerable number of the Rabbis and theological students can get away.

I was asked the other day about the request of a Zionist organization to allow \$30,000 of the Rumanian frozen funds to be sent to Switzerland to the order of the Zionist organization, to pay for the transportation of a large number of Rumanian Jews to Palestine. I was assured that this was bona fide. I have tried to get some information on the subject, but no one here has any reliable information. We all know how bad the situation is, and I should be inclined to take a chance with that much money, but to require evidence that the emigrants had permits to go to Palestine. The Rumanian situation is utterly distressing, but on the other hand we know of many cases in which refugees without Palestine permits were put on board ship to go to that country, and considerable feeling developed among the Arabs. However, the Rumanian situation is so bad that unless the State Department has some objection, I would be inclined to take a chance, but not to give any more unless you could get evidence that this money was used for this purpose, and that it did not result in embarrassment to the English in Palestine. It is a hard decision to make, but in this refugee matter I have not seen any but hard decisions.

Very sincerely yours,  
(signed) J.P. Chamberlain



3/6/41

Proposed New Income-Type Bond for Larger Investors

(Paying a current return at the rate of  
2.40 percent per annum)

Number of semi-annual periods held	Redemption value	Yield during period held
Issue price	\$100.00	-
1	98.80	.00%
2	97.80	.20
3	97.00	.40
4	96.20	.51
5	95.50	.61
6	95.00	.75
7	94.60	.88
8	94.30	1.00
9	94.10	1.12
10	94.10	1.25
11	94.20	1.38
12	94.30	1.49
13	94.40	1.58
14	94.50	1.66
15	94.70	1.74
16	94.90	1.80
17	95.20	1.88
18	95.60	1.95
19	96.10	2.03
20	96.70	2.10
21	97.40	2.18
22	98.10	2.25
23	99.00	2.32
24	100.00	2.40

Treasury Department, Division of Research and Statistics.

Yields are nominal annual rates compounded semiannually.



\$5,000.00

Comparison of Present United States Savings Bonds  
with Proposed New Bonds for the Small Investor

Number of semi-annual periods held	Redemption value		Yield during period held	
	Present bonds	Proposed bonds	Present bonds	Proposed bonds
Issue price	\$75.00	\$75.00	-	-
1	75.00	75.00	.00%	.00%
2	76.00	75.50	1.33	.67
3	77.00	76.00	1.76	.88
4	78.00	76.50	1.97	.99
5	79.00	77.00	2.09	1.06
6	80.00	78.00	2.16	1.31
7	81.00	79.00	2.21	1.49
8	82.00	80.00	2.24	1.62
9	83.00	81.00	2.26	1.72
10	84.00	82.00	2.28	1.79
11	85.00	83.00	2.29	1.85
12	86.00	84.00	2.29	1.90
13	87.00	86.00	2.30	2.12
14	88.00	88.00	2.30	2.30
15	90.00	90.00	2.45	2.45
16	92.00	92.00	2.57	2.57
17	94.00	94.00	2.67	2.67
18	96.00	96.00	2.76	2.76
19	98.00	98.00	2.84	2.84
20	100.00	100.00	2.90	2.90

Treasury Department, Division of Research and Statistics.

Yields are nominal annual rates compounded semi-annually.

\$50,000.00

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Proposed New Appreciation-Type Bond for  
Larger Investors

Number of semi-annual periods held	Redemption value	Yield during period held
Issue price	\$ 75.00	-
1	75.00	.00%
2	75.20	.27
3	75.40	.35
4	75.80	.53
5	76.20	.64
6	76.70	.75
7	77.30	.86
8	78.10	1.02
9	78.90	1.13
10	79.80	1.24
11	80.90	1.38
12	82.00	1.49
13	83.10	1.58
14	84.20	1.66
15	85.40	1.74
16	86.60	1.81
17	87.90	1.88
18	89.30	1.95
19	90.80	2.02
20	92.40	2.10
21	94.10	2.17
22	95.90	2.25
23	97.80	2.32
24	100.00	2.41

Treasury Department, Division of Research and Statistics.

Yields are nominal annual rates compounded semiannually.

RESTRICTED

G-2/2657-220  
No. 332

M.I.D., W.D.  
March 6, 1941  
12:00 H.

SITUATION REPORTI. Western Theater of War.

Air: German. No important attacks executed.

British. A daylight raid over northern France appears to have been intercepted. No night operations reported.

II. Balkan Theater of War.

Bulgaria: German troop movements continue.

Albania: Ground. No change.

Sea. Italian naval units bombarded Greek positions along the Albanian coast.

Air. Minor activity.

III. Mediterranean and African Theaters of War.

Ground: Abyssinia (Ethiopia). British forces have occupied the Italian fort of Burye in Gojjam province seventy-five miles south of Lake Tana.

Libya, Eritrea, Italian Somaliland. No change.

Air: Axis. Malta was heavily bombed again. Germans are maintaining air superiority as far east as Bengasi.

British. No operations reported.

Note: This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

RESTRICTED



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 7, 1941

TO Secretary Morgenthau

FROM H. D. White

Subject: How shall England use her available gold during the coming year?

Stripped of minor modifications and complexities, the problem shapes up as follows:

1. Canada expects to get some aid under the Lend-Lease Bill irrespective of whether or not England meets her commitments to Canada.

2. However, the more England pays Canada, the less financial assistance will Canada need from us, and conversely the more will England need from us. Therefore, the essential question seems to be whether we would prefer to extend several hundred million dollars additional aid to England during the coming year or extend more aid directly to Canada under the Lend-Lease Bill.

3. If you were to advise Phillips that we would prefer England to use all her available gold to meet United States commitments, the question of financial assistance to Canada would come to us sooner and would involve larger sums than would be the case if England were to decide to meet more of the Canadian commitments with gold (or dollars).

The arguments in favor of suggesting to Phillips that they meet as many of their United States commitments as possible are as follows:

1. Canada is a better financial risk than England under present circumstances. We are more likely to get paid back eventually on our Lend-Lease arrangements with Canada than under additional arrangements with England. Canada is a better risk because: (a) Canada doesn't owe us anything now, whereas England owes us several billion dollars on the old debt; (b) the proximity of Canada and the intimate relationship between Canada and the United States make repayment in coming decades easier.

2. Lend-Lease arrangements with Canada is apt to be popular with American people because Canadian and American defenses are so closely related.

3. If we ask Britain not to sell her gold to Canada we shall be less troubled with criticisms like that which John T. Flynn has recently been making. He has been complaining that England has been using its assets to pay to dominions while borrowing from us.

4. The less England pays Canada the more financial aid is Canada likely to extend to Great Britain without commensurate financial aid from us.

5. The Lend-Lease Bill may not be broad enough to take care of most British needs, therefore, it may be desirable to leave Britain with as much cash as possible to pay for what she cannot get under the Lend-Lease Bill. Consequently, it is desirable that Britain pay Canada as little as possible.

6. U. S. popularity in Canada may gain if the United States makes Lend-Lease arrangements with Canada.

7. The less England pays Canada the more foreign exchange assets will Canada have to use up to pay United States. Therefore, the more American investments will Canadians have to sell back to the United States.

The arguments on the other side include:

1. If Canada owes us money she may eventually regard us with less friendly eyes, though if the war continues some indebtedness is inevitable.

2. If we extend Lend-Lease arrangements to Canada now, we'll soon have other dominions up, and it may be easier to deal with United Kingdom alone than with several units.

3. There are some people who feel that Canada is not doing her share, and would therefore not favor extension of Lend-Lease to Canada as yet.

4. Taking a stand either way does mean getting involved in Empire relations.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE March 7, 1941

TO Secretary Morgenthau  
FROM Mr. Cochran

Yesterday afternoon I mentioned to you that Consul Horace Smith has been spending two weeks with us in the Treasury before returning to Shanghai, where we hope he may be able to be of service to us in financial and monetary reporting. Mr. Smith departs this weekend for China. He would appreciate very much the opportunity of being presented to you before he goes. Could I bring him in for just a moment some time today?



Secy met this gentleman  
and Cochran in 280  
at 1220, 3/8/41

J. M. F.



TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE March 7, 1941.

TO Secretary Morgenthau  
FROM Mr. Gaston

Mr. Thompson has referred to me a copy of the memorandum addressed to you by the President under date of February 28, requesting that the Treasury Department undertake the investigation of the persons proposed for employment in the several Defense Agencies.

I have made a survey of the situation with Mr. Thompson and Mr. Irely, and we are agreed that this work should be combined with similar work which is now being performed by the investigating agents for the Department and its several bureaus. A rough estimate of the volume of work of this character which we might reasonably expect to be called upon to perform during a period of one year indicates a total of approximately 9,000 cases, of which number about 4,000 would be investigations for the Defense organizations. To perform this volume of work would necessitate the assignment of 100 agents and 25 clerical employees at an aggregate cost of \$350,000. Inasmuch as approximately 45% of the work would be for the National Defense organizations, we would expect to make arrangements with Mr. McReynolds to reimburse our appropriations for each year to the extent of \$157,500. The remainder of the cost would, of course, be absorbed by the various appropriations out of which the employees assigned to this work are now paid and represents the approximate cost of this work to the Treasury Department at the present time.

To enable us to carry out this program we have prepared the attached order for your signature directing the assignment of the necessary number of agents for the work of the various agencies concerned.



March 7, 1941

Commissioner of Internal Revenue,  
 Commissioner of Customs,  
 Commissioner of Narcotics,  
 Chief, Secret Service Division.

In accordance with an order of the President, this Department is undertaking the investigation of all persons proposed for employment in the several Defense organizations.

To enable us to carry on this work and at the same time to perform the work of a similar nature for the Treasury Department and its several bureaus, an organization will be created to work under the direction of Mr. Ivey to consist of investigators of the several enforcement agencies of the Department. It is directed that the following number of agents be selected with the approval of Mr. Ivey and directed to report to him for detail to this work:

Bureau of Internal Revenue	
Alcohol Tax Unit	50 Agents
Intelligence Unit	25 Agents
Bureau of Narcotics	10 Agents
Bureau of Customs	5 Agents
Secret Service Division	10 Agents

(Signed) H. MORGENTHAU JR.

Secretary of the Treasury.

EL:ams

copy received 3/10

March 7, 1941

Phillip Young  
Secretary Morgenthau

Please talk to me about the possibility of sending  
Hull, Stimson and Knox a copy of the letter that I sent  
to Hopkins yesterday about priorities, etc.

*(Copies sent 3/7/41)*



(COPY)

March 6, 1941

Dear Harry:

At the last meeting of the New Advisory Committee with the President on March 1st, I presented a memorandum and exhibits outlining the Russian purchasing situation. You will recall that I emphasized the need for a policy which would serve as a guide for the administration of export control, priorities, and production clearances. You will also recall that the President said that this matter was within the purview of the Committee.

This situation, especially in view of the latest developments in the middle East, is becoming more serious every day and immediate action must be taken.

I have not heard anything from you or from the other members of the Advisory Committee since March 1st. Will you secure the President's authority to call a meeting of the Advisory Committee this Friday to settle the following:

- (1) A policy with respect to present and future Russian orders which will serve as a basis for the administration of export control, priorities, and production clearances.
- (2) The assignment of priority ratings consistent with the policy established for both present and future orders.
- (3) The issuance of export licenses consistent with the policy established for both present and future orders.
- (4) The coordination of production clearances with the assignment of priority ratings and the administration of export control.

-2-

General Maxwell, the Administrator of Export Control, and Mr. E. R. Stettinius, Jr., Director of Priorities of the Office of Production Management, should be invited to attend this meeting, and I should like to bring Philip Young, member of the Liaison Committee, with me to present the case.

Yours sincerely,

(Signed) Henry.

Mr. Harry Hopkins,  
The White House.

March 7, 1941

My dear Cordell:

I am sending you herewith a copy of my letter to Harry Hopkins. I hope that you will see your way clear to giving this problem your sympathetic support.

Yours sincerely,

*Henry*

Honorable Cordell Hull,  
Secretary of State.

By ~~Message~~ 10-15



March 7, 1941

My dear Cordell:

I am sending you herewith a copy of my letter to Harry Hopkins. I hope that you will see your way clear to giving this problem your sympathetic support.

Yours sincerely,

*Henry*

Honorable Cordell Hull,  
Secretary of State.

By Messenger

March 7, 1941

My dear Cordell:

I am sending you herewith a copy of my letter to Harry Hopkins. I hope that you will see your way clear to giving this problem your sympathetic support.

Yours sincerely,

Henry

Honorable Cordell Hull,  
Secretary of State.

By ~~Handwritten~~

March 7, 1941

My dear Harry:

I am sending you herewith a copy of my letter to Harry Hopkins. I hope that you will see your way clear to giving this problem your sympathetic support.

Yours sincerely,

Henry

Honorable Harry L. Stimson,  
Secretary of War.

BY ~~W. H. H. H.~~ / 10 15



March 7, 1941

My dear Harry:

I am sending you herewith a copy of my letter to Harry Hopkins. I hope that you will see your way clear to giving this problem your sympathetic support.

Yours sincerely,

Henry

Honorable Harry L. Stimson,  
Secretary of War.

By ~~Handwritten~~

March 7, 1941

My dear Harry:

I am sending you herewith a copy of my letter to Harry Hopkins. I hope that you will see your way clear to giving this problem your sympathetic support.

Yours sincerely,

Henry

Honorable Harry L. Stimson,  
Secretary of War.

By ~~Handwritten~~

March 7, 1941

My dear Frank:

I am sending you herewith a copy of my letter to Harry Hopkins. I hope that you will see your way clear to giving this problem your sympathetic support.

Yours sincerely,

*Henry*

Honorable Frank Knox,  
Secretary of the Navy.

~~By [unclear]~~ 10/15



March 7, 1941

My dear Frank:

I am sending you herewith a copy of my letter to Harry Hopkins. I hope that you will see your way clear to giving this problem your sympathetic support.

Yours sincerely,

Henry

Honorable Frank Knox,  
Secretary of the Navy.

By ~~Handwritten~~

March 7, 1941

My dear Frank:

I am sending you herewith a copy of my letter to Harry Hopkins. I hope that you will see your way clear to giving this problem your sympathetic support.

Yours sincerely,

Henry

Honorable Frank Knox,  
Secretary of the Navy.

By ~~Handwritten~~

March 7, 1941

I spoke to Claude Wickard at 7:30 a.m., pushing him on food for England. Wickard saw the President this a.m. and at Cabinet the plan was approved.

This is my Boy Scout deed for today.





DEPARTMENT OF AGRICULTURE  
WASHINGTON

March 7, 1941

Hon. Henry Morgenthau, Jr.,  
Secretary of the Treasury:

Dear Secretary Morgenthau:

I am seeing the President this morning at 11:30, and will discuss with him the matter covered in the attached copy of my letter to him, which is attached.

I will see you at Cabinet meeting and will discuss further with you then the matter about which we talked this morning and will give you the results of my conversation with the President this morning.

Sincerely yours,

*Claude*  
Secretary

UNITED STATES DEPARTMENT OF AGRICULTURE  
OFFICE OF THE SECRETARY  
WASHINGTON

The President  
The White House

Dear Mr. President:

We have been receiving recently through the State Department an increasing number of cables concerning the needs of the British in foods and fibers. We have also been talking about these needs with Mr. Arthur B. Purvis, Chairman of the British Supply Council, and his representatives. It is apparent that England needs immediately cheese, lard, dried eggs, tinned pork and vitamins. We are working with the British on these needs as we have been doing on their other needs since the war started.

Purchases of these products can be made immediately through the Federal Surplus Commodities Corporation with funds available to the Commodity Credit Corporation. Resale to the British or other agencies will keep the Commodity Credit Corporation from losing any money on such transactions. These commodities could be turned over to the British on either or both of the following arrangements:

1. Purchased now with available dollar exchange;
2. Purchased from funds under Lend-Lease Bill, when available.

It is desirable to begin such purchases immediately in order to:

- (1) Have these products available when the British need them most;
- (2) Take advantage of peak production periods for eggs, milk and pork products;
- (3) Spread the purchases over longer periods of time with a minimum disturbance of domestic markets.

After accumulation of such supplies, if for any reason the British could not take all of the supplies so purchased, it will be possible

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to divert such supplies through the school lunch program, direct relief and the Red Cross.

In the last year, the Department purchased and distributed 117 million dollars worth of food and the undertaking here proposed would be in no sense a new venture. As a matter of fact, such purchases for inventory are a regular part of the Department's activities. Purchases in excess of what can be used for school lunches and other relief purposes would not be made until funds are actually available under the Lend-Lease Bill.

It will be necessary, in order to take adequate care of all British needs (as well as domestic requirements) to increase production of a few commodities such as dairy and pork products, and to divert to drying or canning processes more of the various commodities which come to market. Desirable production and processing increases can be accomplished with a minimum of effort and disturbance to domestic markets by increasing Government inventories now. The Department has all fundamental data on supplies; processing facilities; storage facilities; food concentrates; vitamins, and productive capacities.

In order to go ahead, the Department needs first the approval of the President of this procedure and second, the President's signature on a docket enabling us to purchase, through the Dairy Products Marketing Association, cheese, evaporated milk and powdered milk not already authorized to be purchased by that agency. They now have authority to purchase only butter with loan funds from the Commodity Credit Corporation. The use of the Dairy Products Marketing Association in conjunction with our other purchase programs will make for greater stability of prices in domestic markets and a more ample supply of dairy products for both the British and ourselves. That is the objective of the Department for all foods during the present emergency.

Respectfully yours,

Secretary



March 7, 1941  
11:16 a.m.

H.M.Jr: Hello.

Operator: Secretary Jones.

H.M.Jr: Hello, Jesse.

Jesse Jones: Yeah.

H.M.Jr: Good morning. They say you called me.

J: Yes, then I talked with Dan about whether or not we're going to do any financing.

H.M.Jr: He reported that, and he told you how we felt?

J: Yes, I don't think he had a definite conclusion, he just talked around .....

H.M.Jr: No, we haven't got anything. He and I have been talking about it. We don't want to do anything next week and particularly in the note market, it isn't too good, and the way my mind was running, I thought I'd just bring it up at Cabinet so the President could be thinking about it - that if it stays the way it is that the next thing we'd do would be our June refinancing, refunding, and then along in April when the note market will have settled down, we'll do you. Now that's the way I've - but nothing is settled; we're just talking outloud.

J: I see. All right. We, of course, must cooperate and conform our requirements to your situation and then you will mention it I suppose at Cabinet?

H.M.Jr: I was going to bring it up at Cabinet.

J: Well, that's all right. Now, what I had in mind, as I explained to him, was whether or not we would offer these Arkansas bonds and I didn't want them to interfere with your program.

H.M.Jr: No, that's all right and .....

- 2 -

J: So it's open next week, isn't it. On your basis it would be open next week.

H.M.Jr: Next week?

J: Yeah.

H.M.Jr: Now just a minute. Let me ask Dan; he's sitting here. (Talks aside). He says if we're going to do anything it'll be around the 17th or 18th of March, so that leaves next week open.

J: Yeah, so that if we wanted to - you see, these bonds are callable on the first of April and .....

H.M.Jr: You mean you'd re-offer some of yours - is that what you're thinking of.

J: Yeah, that's what we were doing. We're thinking about making them available particularly to present holders who would like to reinvest.

H.M.Jr: Well, next week is open.

J: Yes, so we could do that.

H.M.Jr: Yeah.

J: O.K.

H.M.Jr: Now, if you've got a minute, I'd like to bring up another subject.

J: All right.

H.M.Jr: Are you O.K. on the Arkansas?

J: Yeah.

H.M.Jr: Oh, I don't know, a week or so ago the President said that you had spoke to him about getting some kind of authority to lend to England after this bill is passed.

J: Yeah.

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H.M.Jr: Well, before you have that jelled would you talk that over with me?

J: Sure. I told him I would.

H.M.Jr: Well, he didn't say that.

J: Yes, I told him that I would do that.

H.M.Jr: Well, would you, because .....

J: I didn't want to go up there for any legislation at all until they get the Lend-Lease Bill out of the way anyhow.

H.M.Jr: Well, how about having a little lunch on Tuesday. How are you fixed Tuesday?

J: Tuesday would be fine.

H.M.Jr: Then we'll talk about it.

J: That's fish day, isn't it?

H.M.Jr: That's fish day.

J: O.K.

H.M.Jr: Thank you.



March 7, 1941  
11:35 a.m.

H.M.Jr: Hello. How are you?

Henry L.  
Stimson: Yes.

H.M.Jr: Hello. Henry talking.

S: We've had some difficulty getting on the phone.

H.M.Jr: Well, I had an idea I was going to call on you this morning at your home. That's where I started.

S: Well, I'm sorry. I was just out with my dog for a moment.

H.M.Jr: Well, you're a lucky man. Oh, there were a flock of things I wanted to talk to you about on this aid to Britain, and I was so discouraged, and I just wanted to get together.

S: Well, I'm very much troubled.

H.M.Jr: Then I missed you after you left your house.

S: Well, that's too bad. I called you back as soon as I got in but you had just left, they said.

H.M.Jr: Well, I'll call you up again over the week-end and let's see if we can't have a little talk.

S: Well, I find waiting for me your letter to Harry Hopkins, a copy of it, and your letter to me sending it here. That's all I know about it; I just read that as I just came in. Has anything been done about it? I don't know myself enough about those Russian things to have any opinion yet. I don't know anything about it.

H.M.Jr: Well, you see, those things - they're in your Department or in Navy. Here's this Russian thing - it's been kicking around .....

S: Just tell me what it is. Is it an order from Russia for something from this country?

- 2 -

- H.M.Jr: Yes, things that we can spare.
- S: Which we can spare.
- H.M.Jr: We are able to spare them, and they are unable to get them. They've given us all the information and it's something that Sumner Welles has been moving heaven and earth to get, but with all these different Departments having their oar in it, nothing happens, and if we could get this one straightened out as an example, then there are about - oh, I don't know - dozens of others which would just flow quickly.
- S: Well, I'm not so sure of that. What I mean is, we've made so many committees and so many commissions that I don't think the water will flow steadily except when two members of the Cabinet get together and do something, or two, or three, or four. Not more than that.
- H.M.Jr: Well, I don't know any other way to operate and I just hope that - I'm pressing Harry to press the President to get the four of us together. You see?
- S: Yes.
- H.M.Jr: And I told Harry that, for instance, if we do something here, you do something there to help England, it should be reported to the four of us. He told me this morning that somebody in your Department was able to do something on the ferrying of planes .....
- S: Well, we're at work on it, yes.
- H.M.Jr: I mean, when anything is an accomplished fact, I think that the group of four should be informed through Harry. I don't know whether you agree or not.
- S: Well, I agree if someone else will do it. What I mean is - Harry is all right. I can't do it because I'm running from one office to another until my tongue is hanging out.
- H.M.Jr: No, I'm suggesting that Harry do it.

- 3 -

- S: I'm perfectly willing. But I can tell you about what we've done there. We're getting a register of pilots with a view to establishing that ferry of planes. We've made big progress in starting the schools - civilian schools. We had the people down here day before yesterday - every man who has a school in this country - and there is a block there from Canada; Canada is jealous of it, but the thing took a big jump. I put Lovett on it and he and Marshall between them have made a big jump there and are more hopeful in regard to that question of moving those big planes and furnishing pilots than we have been for a long time.
- H.M.Jr: Good. Well, what I was trying to do this morning was .....
- S: But I don't mean to say that any - it has got to a point where the first plane will probably start within a week and the others very quickly afterwards, and they'll be ferried back and forth. But that's all I can say.
- H.M.Jr: Well, all I was trying to do was to get some chance to sit down and just talk with you because nothing is happening, talking in a big way. You know what I mean?
- S: Yes.
- H.M.Jr: Well, I just .....
- S: What I've done was to take the fourteen points of Harry's and put it through my Department, but of course only eleven of them belonged in my Department, But to go through that and as to certain things on the materiel, I got a complete answer within a couple of days, and I handed that to Harry - as to the materiel. As to the personnel that I was just speaking of, which is mainly pilots, what I've told you has been done and it's been very hopeful.
- H.M.Jr: Well, you see - to get back to that memorandum on this Russian thing - it doesn't need more than a high school education, so I can understand it, that having - the Russians having



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tried to get something now for months, and these requests are reasonable, and with the Near East thing the way it is, a slight gesture at this time might be very helpful.

- S: Yes, I see. Well, that's something that has got to be settled between the State Department and somebody else. I mean, I'm really coming to the limit of my time.
- H.M.Jr: Well, I'm going to make myself a nuisance just as long as I'm here when these important things are around and nobody will say, yes or no.
- S: Well, I'm making a nuisance of myself about everything that I know about, but on new things that I don't know about, I'll leave it to you, except that I'll back you.
- H.M.Jr: Well, you're going to - I sent a copy - well, that's all that I want.
- S: Yes, well, all right.
- H.M.Jr: Thank you.
- S: All right.

March 7, 1941  
11:45 a.m.

H.M.Jr: Yes, Oscar.

Oscar  
Cox: Harry Hopkins called me a few minutes ago and asked me if I would get up a memorandum report on H.R. 1776 for use at this meeting this afternoon. I thought I'd tell you that so we could give you a copy first and you'd be acquainted with it before the meeting.

H.M.Jr: That'd be very useful. I leave here about five minutes of two.

C: All right. Well, I'll have it in your hands well before that.

H.M.Jr: Thank you, Oscar.

C: All right.

TO:

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Secretary Morgenthau

Here is a set of  
the documents gotten up  
this morning for H.H.

OSC

11/7/41

MR. COX



3/7/41

REPORT ON H.R. 1776

1. Annexed is a memorandum and a summary of it which shows the ways in which defense articles on hand and on order can be disposed of under H.R. 1776 in its present form. This memorandum has the approval of the Judge Advocate Generals of the Army and Navy, Counsel for the Director of the Budget and Messrs. McCloy, Lockwood and Cox.
  
2. New expansion of productive capacity and new procurement can be carried out to the extent that funds are presently available to the Army, Navy, and the R.F.C. for these purposes, or are made available for the purposes of H.R. 1776 by future appropriations.

PROBLEMS ON H.R. 1776  
FOR COMMITTEE CONSIDERATION

1. The way in which the \$1,300,000,000 limit is to be utilized:
  - a) Is it desired to use up the whole limit by disposing of defense articles on hand?

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If so, are merchant ships, long range bombers, guns, etc., to be disposed of and in what quantities?

- b) What valuation procedure and methods is the Committee going to use for defense articles on hand which are to be disposed of under the bill? Should not this procedure be worked out as soon as possible?

H.R. 1776, as it now stands, empowers the President to let the head of the department or agency concerned fix the value or to let the Board determine the policy and the valuation may be made by the departments or agencies concerned or by the Secretary of the Committee.

- c) Is it desired to conserve part of the \$1,500,000,000 in order to use it for defense articles on order out of appropriations made before H.R. 1776 is passed?

- 3 -

Thus, for example, the Committee may wish to recommend that the new Consolidated heavy four-engined bombers, coming off the line now, be charged to the \$1,300,000,000 limit rather than to dispose of and charge old Flying Fortresses to this limit.

2. In view of the Byrd amendment as it now stands, should the Committee recommend that War, Navy, Agriculture, the Maritime Commission, etc., request in appropriations now pending or soon to be made that they ask for affirmative authority to dispose of defense articles to Britain and other foreign countries?

This problem is present now and will not necessarily be completely eliminated by the appropriations made to carry out H.R. 1776.

3. Should the Committee have prepared suggestions for handling the Byrd amendment when it goes to the conferees of the Senate and House?

One way to lessen the Byrd amendment's impairing effect would be to add a few words authorizing disposition



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of Army and Navy stocks above the \$1,300,000,000 limit by reimbursement out of H.R. 1776 appropriations. This would, at least, remove any doubt which the Byrd amendment casts on the deferment procedure now being used.

4. What steps should the Committee recommend be taken to obtain appropriations to carry out H.R. 1776?

In addition to augmented War and Navy Department requests, the lump sum request for merchant ships, agricultural commodities, etc., should probably be in the making as soon as possible.

OSC:aja  
337/41

Calendar No. 51

77<sup>TH</sup> CONGRESS  
1<sup>ST</sup> SESSION**H. R. 1776**

[Report No. 45]

IN THE SENATE OF THE UNITED STATES

FEBRUARY 10, 1941

Read twice and referred to the Committee on Foreign Relations

FEBRUARY 13, 1941

Reported by Mr. GEORGE, with amendments

[Omit the part struck through and insert the part printed in italics]

MARCH 6 (legislative day, FEBRUARY 13), 1941

Ordered to be printed showing amendments agreed to

[Amendments agreed to are shown in brackets and line type, and new matter agreed to in boldface type]

**AN ACT**

Further to promote the defense of the United States, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
 2 *tives of the United States of America in Congress assembled,*  
 3 That this Act may be cited as "An Act to Promote the  
 4 Defense of the United States".

5 SEC. 2. As used in this Act—

6 (a) The term "defense article" means—

7 (1) Any weapon, munition, aircraft, vessel, or  
 8 boat;

9 (2) Any machinery, facility, tool, material, or

1 supply necessary for the manufacture, production, produc-  
2 tion, repair, servicing, or operation of any article  
3 described in this subsection;

4 (3) Any component material or part of or equip-  
5 ment for any article described in this subsection;

6 (4) Any other commodity or article for defense.  
7 Such term "defense article" includes any article described  
8 in this subsection: Manufactured or procured pursuant to  
9 section 3, or to which the United States or any foreign  
10 government has or hereafter acquires title, possession, or  
11 control.

12 (b) The term "defense information" means any plan,  
13 specification, design, prototype, or information pertaining to  
14 any defense article.

15 SEC. 3. (a) Notwithstanding the provisions of any  
16 other law, the President may, from time to time, when he  
17 deems it in the interest of national defense, [*to the extent*  
18 *to which funds are made available or contracts are from*  
19 *time to time authorized by Congress,*] authorize the Secre-  
20 tary of War, the Secretary of the Navy, or the head  
21 of any other department or agency of the Government—

22 (1) To manufacture in arsenals, factories, and ship-  
23 yards under their jurisdiction, or otherwise procure, **to**  
24 **the extent to which funds are made available therefor,**  
25 **or contracts are authorized from time to time by**



1 the Congress, or both, any defense article for the gov-  
2 ernment of any country whose defense the President  
3 deems vital to the defense of the United States.

4 (2) To sell, transfer, exchange, lease, lend, or other-  
5 wise dispose of, to any such government any defense  
6 article, but no defense article not manufactured or pro-  
7 cured under paragraph (1) shall in any way be dis-  
8 posed of under this paragraph, except after consultation  
9 with the Chief of Staff of the Army or the Chief of Naval  
10 Operations of the Navy, or both. The value of defense  
11 articles disposed of in any way under authority of this  
12 paragraph, and procured from funds heretofore appro-  
13 priated, shall not exceed \$1,300,000,000. The value  
14 of such defense articles shall be determined by the  
15 head of the department or agency concerned or such  
16 other department, agency or officer as shall be desig-  
17 nated in the manner provided in the rules and regula-  
18 tions issued hereunder. Defense articles procured  
19 from funds hereafter appropriated to any department  
20 or agency of the Government, other than from funds  
21 authorized to be appropriated under this Act, shall  
22 not be disposed of in any way under authority of  
23 this paragraph except to the extent hereafter author-  
24 ized by the Congress in the acts appropriating such  
25 funds or otherwise.

1 (3) To test, inspect, prove, repair, outfit, recondi-  
2 tion, or otherwise to place in good working order to the  
3 extent to which funds are made available therefor,  
4 or contracts are authorized from time to time by the  
5 Congress, or both any defense article for any such  
6 government.

7 (4) To communicate to any such government any  
8 defense information, pertaining to any defense article  
9 furnished to such government under paragraph (2) of  
10 this subsection.

11 (5) To release for export any defense article dis-  
12 posed of in any way under this subsection to any  
13 such government.

14 (b) The terms and conditions upon which any such  
15 foreign government receives any aid authorized under sub-  
16 section (a) shall be those which the President deems  
17 satisfactory, and the benefit to the United States may be  
18 payment or repayment in kind or property, or any other  
19 direct or indirect benefit which the President deems  
20 satisfactory.

21 ~~(c)~~ Neither the President nor the head of any depart-  
22 ment or agency shall, after June 30, 1943, exercise any  
23 of the powers conferred by or pursuant to subsection (a),  
24 nor shall such powers be exercised if terminated by a con-  
25 current resolution by both Houses of the Congress, except

1 that until July 1, 1946, such powers may be exercised to  
2 the extent necessary to carry out a contract or agreement  
3 with such a government made before July 1, 1943.]

4 [(c) After June 30, 1943, or after the passage of a con-  
5 current resolution by the two Houses before June 30, 1943,  
6 which declares that the powers conferred by or pursuant to  
7 subsection (a) are no longer necessary to promote the defense  
8 of the United States, neither the President nor the head of any  
9 department or agency shall exercise any of the powers con-  
10 ferred by or pursuant to subsection (a); except that until  
11 July 1, 1946, any of such powers may be exercised to the  
12 extent necessary to carry out a contract or agreement with  
13 such a foreign government made before July 1, 1943, or  
14 before the passage of such concurrent resolution, whichever is  
15 the earlier.]

16 (d) Nothing in this Act shall be construed to author-  
17 ize or to permit the authorization of convoying vessels by  
18 naval vessels of the United States.

19 (e) Nothing in this Act shall be construed to authorize  
20 or to permit the authorization of the entry of any American  
21 vessel into a combat area in violation of section 3 of the  
22 Neutrality Act of 1939.

23 SEC. 4. All contracts or agreements made for the dis-  
24 position of any defense article or defense information pur-  
25 suant to section 3 shall contain a clause by which the foreign



1 government undertakes that it will not, without the consent  
2 of the President, transfer title to or possession of such defense  
3 article or defense information by gift, sale, or otherwise,  
4 or permit its use by anyone not an officer, employee, or  
5 agent of such foreign government.

6       SEC. 5. (a) The Secretary of War, the Secretary of the  
7 Navy, or the head of any other department or agency of  
8 the Government involved shall, when any such defense arti-  
9 cle or defense information is exported, immediately inform  
10 the department or agency designated by the President to  
11 administer section 6 of the Act of July 2, 1940 (54 Stat.  
12 714), of the quantities, character, value, terms of disposi-  
13 tion, and destination of the article and information so  
14 exported.

15       (b) The President from time to time, but not less fre-  
16 quently than once every ninety days, shall transmit to the  
17 Congress a report of operations under this Act except such  
18 information as he deems incompatible with the public interest  
19 to disclose. Reports provided for under this subsection shall  
20 be transmitted to the Secretary of the Senate or the Clerk  
21 of the House of Representatives, as the case may be, if the  
22 Senate or the House of Representatives, as the case may be,  
23 is not in session.

24       SEC. 6. (a) There is hereby authorized to be appro-  
25 priated from time to time, out of any money in the Treasury

1 not otherwise appropriated, such amounts as may be neces-  
2 sary to carry out the provisions and accomplish the purposes  
3 of this Act.

4 (b) All money and all property which is converted  
5 into money received under section 3 from any government  
6 shall, with the approval of the Director of the Budget,  
7 revert to the respective appropriation or appropriations out  
8 of which funds were expended with respect to the defense  
9 article or defense information for which such consideration  
10 is received, and shall be available for expenditure for the  
11 purpose for which such expended funds were appropriated  
12 by law, during the fiscal year in which such funds are  
13 received and the ensuing fiscal year[; but in no event shall  
14 any funds so received be available for expenditure after June  
15 30, 1946].

16 SEC. 7. The Secretary of War, the Secretary of the  
17 Navy, and the head of the department or agency shall in all  
18 contracts or agreements for the disposition of any defense  
19 article or defense information fully protect the rights of all  
20 citizens of the United States who have patent rights in and  
21 to any such article or information which is hereby authorized  
22 to be disposed of and the payments collected for royalties on  
23 such patents shall be paid to the owners and holders of such  
24 patents.

25 SEC. 8. The Secretaries of War and of the Navy are

1 hereby authorized to purchase or otherwise acquire arms,  
 2 ammunition, and implements of war produced within the  
 3 jurisdiction of any country to which section 2 is applicable;  
 4 whenever the President deems such purchase or acquisition  
 5 to be necessary in the interests of the defense of the United  
 6 States.

7 SEC. 9. The President may, from time to time, promul-  
 8 gate such rules and regulations as may be necessary and  
 9 proper to carry out any of the provisions of this Act; and he  
 10 may exercise any power or authority conferred on him by  
 11 this Act through such department, agency, or officer as he  
 12 shall direct.

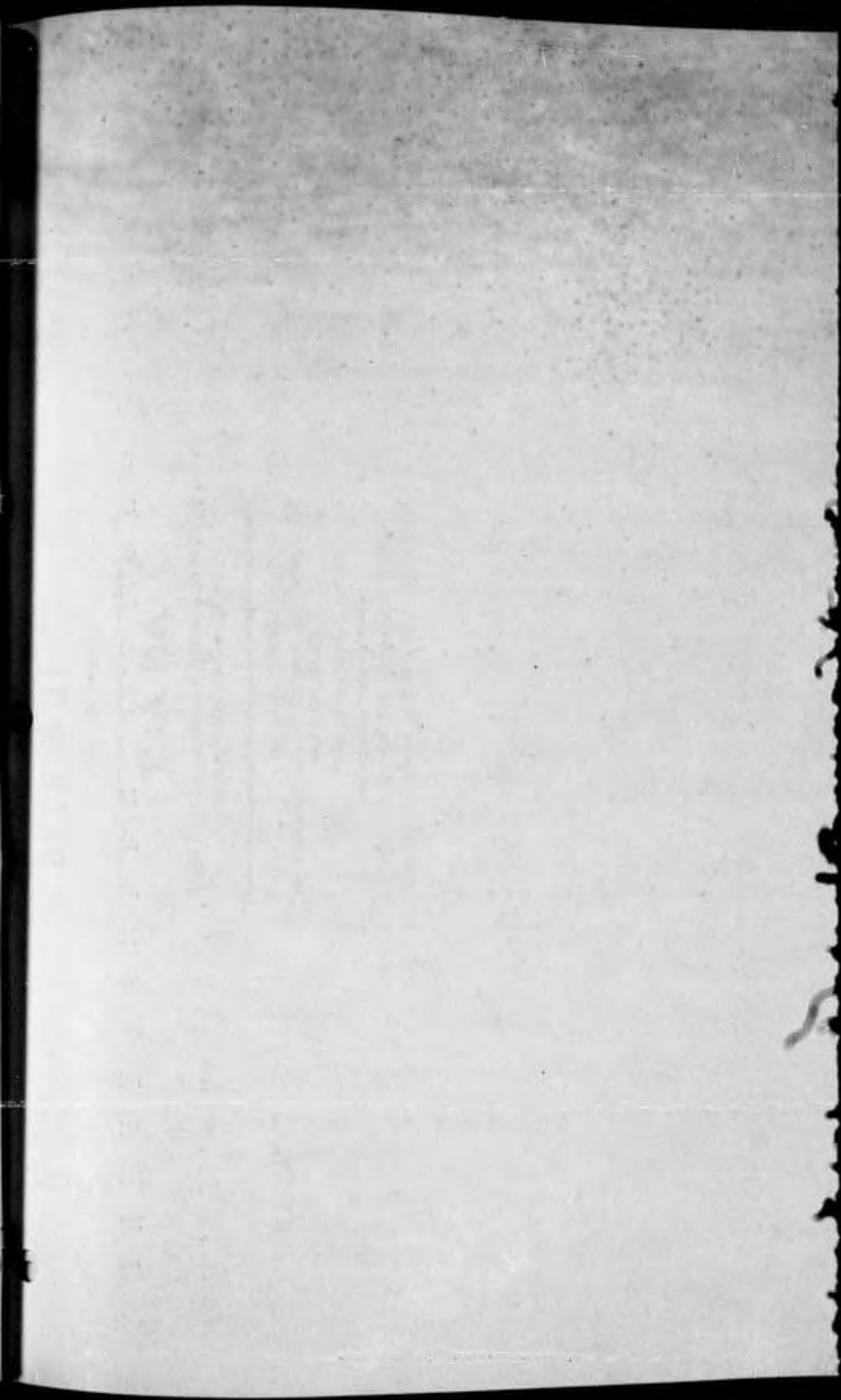
13 SEC. 10. If any provision of this Act or the application  
 14 of such provision to any circumstance shall be held  
 15 invalid, the validity of the remainder of the Act and the  
 16 applicability of such provision to other circumstances  
 17 shall not be affected thereby.

Passed the House of Representatives February 8, 1941.

Attest: SOUTH TRIMBLE,  
 Clerk.

By H. NEWLIN MEGILL.





Outline of ways in which HR-1776  
in its present form can work with  
respect to defense articles on hand and on order.

#### I. DEFENSE ARTICLES ON HAND

- (a) To the extent procured from appropriations made before passage of HR-1776 can be disposed of up to the value of 1.3 billion.

After 1.3 billion limitation is reached:

- (b) Defense articles (aircraft and surplus, obsolescent, deteriorated or unserviceable articles) can be traded in to the manufacturer and repurchased from him with funds appropriated for HR-1776 purposes.
- (c) Such traded-in defense articles can also be purchased from the manufacturer by the British themselves to the extent to which they can acquire dollar exchange.

#### II. DEFENSE ARTICLES ON ORDER

- (a) To the extent procured from appropriations made before the passage of HR-1776 can be disposed of up to the value of 1.3 billion.

After 1.3 billion limitation is reached:

- (b) If procured from appropriations made after passage of HR-1776 can be transferred to the extent authorized by Congress in such appropriation acts.
- (c) If procured from appropriations made before or after passage of HR-1776 can be made available to the British under the deferment procedure now in use. Where necessary, funds to finance are supplied either, by the British direct, or through appropriations available for the purposes of HR-1776.

Some of the Ways in Which H.R. 1776  
Can Work with Respect to Defense  
Articles on Hand and on Order

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The following are some of the ways in which H.R. 1776, in its present form, can legally operate in connection with defense articles on hand and on order.

(1)

Defense Articles Already Delivered  
to the Army and Navy.

There are several possible ways in which defense articles on hand can be disposed of to a foreign government:

- a) Within the \$1,300,000,000 limit, any defense articles now on hand can be transferred to Britain, for example. This applies not only to defense articles acquired years ago, but also to those procured out of appropriations made before H.R. 1776 is enacted.
- b) Outside of the \$1,300,000,000 limit, aircraft now on hand--whether or not they are surplus--



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can be traded in to a private manufacturer as part payment for new models. Then these older aircraft can be procured under Section 3(a)(1) of H.R. 1776 for Britain. To so procure them for Britain, subsequent Lend-Lease appropriations would be necessary. Whether or not this method should be used is a question of policy.

The Navy has no direct authority to trade-in aircraft, but has power to transfer aircraft to the War Department which can then trade it in.

- c) Other types of war materiel on hand can be traded in if they are surplus, obsolescent, deteriorated or unserviceable and handled in the same way as aircraft. Here again, whether this method should be used is a question of policy.

The Navy has no direct authority to trade-in all of the foregoing war materiel, but

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the Navy has power to transfer such war materiel to the War Department which can then trade it in.

- d) Traded-in aircraft and other war materiel can also be handled in still another way. If some of Britain's present orders, capital commitments or other obligations are taken over through the use of regular Army and Navy appropriations, or under the section of H.R. 1776 which authorizes direct procurement for a foreign government, dollars will thereby be released to the British. Those dollars can be used by the British to buy the traded-in materiel from the manufacturers to whom they are delivered.

(2)

Defense Articles on Order

Here again there are several ways in which H.R. 1776 can be made to operate:



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- a) Within the \$1,300,000,000, defense articles which are on order under appropriations made before H.R. 1776 is passed can be transferred to Britain.
- b) Defense articles which are now being produced under contract authorizations to be backed up by appropriations made after H.R. 1776 is passed can be transferred if Congress authorizes it in such subsequent Army and Navy, etc., appropriation acts. Similarly, such defense articles being produced under contract authorizations can be made available to the British by a deferment procedure similar to the one now being used. Such a deferment procedure can be used whether the appropriations to back up the contract authorizations are made before or after H.R. 1776 is passed.

It is understood that a very substantial amount of equipment is now being produced under



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contract authorization and some equipment now being produced and charged to appropriations can be shifted to production under contract authorization. Under Secretary D. W. Bell is now getting up the figures on the dollar amount of outstanding contract authorizations which have not yet been backed up by appropriations.

- c) Defense articles which now on order under appropriations made before H.R. 1776 is passed can be made available to the British by a procedure similar to the deferment procedure now being used. These Army and Navy orders can be transformed into procurement orders for the British under Section 3(a)(1) of H.R. 1776, and the Army or Navy can agree to take later delivery of more modern or the same type of defense articles. To be able to transfer these Army and Navy orders to Lend-Lease orders, appropriations to carry out H.R. 1776 will, of course, be necessary.

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- d) Defense articles now on order procured out of appropriations made after H.R. 1776 is passed can be transferred to the British to the extent that Congress authorizes such transfer in such subsequent appropriation acts. In the main, two types of situations will be presented:
- 1) Appropriation requests such as the pending War Department supplemental request for about 3 billion 8 hundred million dollars; and 2) The appropriation requests to carry out H.R. 1776. Congress may well handle each appropriation request differently. It may say that none, all or any part of the defense articles so procured can be transferred under H.R. 1776.



MEMORANDUM

MAR 7 - 1941

To: Harry Hopkins  
From: Oscar S. Cox  
Subject: Executive Order and Regulations Under H.R. 1776.

You may want to keep in mind having McCloy of the Army, Lockwood of the Navy, Hackworth of State, and myself revise the draft of the Executive Order which I prepared on February 17th.

In my opinion, if this is done at all, it should be done very secretly.

It is possible that H.R. 1776 will pass by the middle of next week. The Executive Order and Regulations should probably be ready for signature by the President on the same day that the bill is signed.

It is of some importance in the administration of the bill to give Army, Navy and State some sense of participation in the preparation of the Executive Order and Regulations. Also they will doubtless contribute good ideas.

OSC:djb - 3/7/41

(Signed) Cox



MAR 7 1941

MEMORANDUM

To: Harry Hopkins  
From: Oscar S. Cox  
Subject: Administration of H.R. 1776.

One thought which you doubtless already have in mind about the administration of H.R. 1776:

If each of the members of the Policy Board under H.R. 1776 assigns four or five of the members of his own staff to assist him in his capacity as a Board member, as contrasted with his capacity as Secretary of War, Secretary of the Navy, etc., it will be exceedingly helpful.

Since War and Navy, for instance, are operating Departments which will have to carry on a good bit of the activities under the bill, it is much easier for persons in the Department to relay the necessary requests for action, etc. Thus, for example, if you, or General Burns, ask McCloy or Colonel Greenbaum in

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the War Department to get something done, they have not only your very important backing, but, in dealing with the men in Ordnance, the Air Corp, etc., they also have the implied support of the Secretary and Under Secretary of War. Thus, in addition to General Burns and Admiral Yarnell, you may want to indicate to Secretary Stimson that he might consider the possibility of assigning men like Colonel Greenbaum and Colonel Quinton to assist him in his capacity as Board member, and to Secretary Knox that he assign someone like Luke Lockwood to aid him in his capacity as a member of the Policy Board.

OSC:djb  
3-7-41



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

W 50 1  
M 1

DATE March 7, 1941

to Secretary Morgenthau

from Mr. Oochra

With reference to the final paragraph of my memorandum dated February 26 regarding Plinsent's reference to the pending question of the application of British regulations to American legacies from Great Britain, the following paragraph summarizes a conversation which I had with Mr. Lavey on this subject at 2:55 p.m. on March 5. I told Mr. Lavey that I understood there had been discussions between the American Embassy in London and the British Government officials there, concerning the application of British rules requiring payments of legacies into blocked accounts. Lavey told me that a number of cases have been brought to the attention of the Department of State, usually through Congressmen in Washington, arising from the impossibility of American citizens to obtain the release from blocked accounts of legacies due them from Great Britain. Lavey gave me a little background on this subject. He said that when Germany had made it impossible for Americans to withdraw legacies from that country strong protests had been made. Since the matter of legacies in the United States is controlled by State law, at least two of the United States have passed laws of "escheat" retaliating against Germany. The State Department does not desire that any wave of public opinion should develop in this country on a basis unfriendly to Great Britain as a possible result of the application of British rules to legacies due Americans. Mr. Lavey had, however, caused to be cancelled a proposed draft instruction to our Embassy in London which would have requested our Ambassador to remind the British of the Great assistance which we contemplated giving their Government under our Lend-Lease program, and requesting, in return, lenient application of the blocking rules on legacies. Instead, an instruction was sent out to bring individual cases to the attention of the appropriate British authorities. Several of such cases have now accumulated. The State Department is not, however, instructing our Embassy at London to press these cases vigorously toward seeing immediate and complete release of the funds in question. The State Department will continue, however, to bring such cases to the attention of our Embassy, for further transmission to the British Foreign Office, as they arise. The State Department is cognizant of the fact that there is a conflict of interest, in that this Government desires to see Americans treated as well as possible and at the same time desires that the British conserve wisely their dollar exchange, to which they are now looking at us for so important a supply.

Mr. Plinsent called on me at 12 noon today. I gave him orally such of the above background as I thought appropriately might be communicated for his guidance in framing a cablegram to London. Plinsent is, I think, going to make the suggestion that the cases be considered on their merit insofar as possible. That is, that in spite of the need for conserving dollar resources there be made some arrangement to relieve cases in which suffering would result from failure to pay across any part of the legacies.

*R. M. P.*



D O P I

(Handed by Mr. Pinsent of the British Embassy to Mr. Cochran in the Treasury at 12:25 p.m., March 7, 1941.)

BRITISH CASH POSITION

In response to the invitation of the Secretary of the Treasury, an attempt has been made below to estimate the British cash position in the near future on certain assumptions.

I. Assumptions and their possible errors.

1. It is assumed that the new system to be set up after the passage of the Lend-Lease Bill will start coming into effective operation by 1st April, 1941.
2. As regards the goods to be included under the Bill, the assumption made is that the whole of the supplies referred to in the statement of requirements already filed with the U. S. Treasury will be covered. We do not yet know how far that assumption is correct.
3. It is an extreme assumption that the system can be brought into perfect and complete operation from the 1st April. Delays are inevitable particularly in such matters as regulating the procurement of foodstuffs and miscellaneous goods. In many cases goods which could be brought under the Bill if purchased by the U. K. Government from the U. S. Government are at present the subject of contracts between suppliers in the U. S. and traders in the U. K. and existing contracts will have to be worked off. Probably some residue of orders, such as small rush orders for goods over the counter to meet some special emergency, will never get effectively covered. We shall have to continue buying for cash to whatever extent is necessary. No allowance has been or can well be made for these factors at present and the figures of deficits given below are therefore minimum figures which will be exceeded to an unknown extent in practice.
4. It is assumed that we continue to meet our existing commitments as they are estimated to stand on April 1st.
5. It is assumed that newly-mined African gold can go on being made available either by shipment or by switching. But our ability to ship is in fact very limited, and the amount we have available to switch is probably less than the new production of March, April and May.
6. We think we should be enabled to accumulate within a reasonable time a cash working balance of \$250 millions. Of this we propose that say \$100 millions in gold should be reserved out of our new gold production and accumulated over the next year to meet any calls from the Balkans and Near East, and \$150 millions made available in U. S. dollars as soon as possible.

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7. Our liabilities in gold to third countries amount to about \$100 millions a year (apart from liabilities in dollars of about \$130 millions a year). After allowing for this and the accumulation of a small gold reserve as above, there should be on the production figures an amount of free gold remaining equal to \$360 millions a year or \$30 millions a month.
8. It is very difficult to make any safe assumption as to the rate of sale of our capital assets. We feel it unsafe to rely on more than \$300 millions in the period March-June or \$450 millions in the period March-August.
9. It is assumed that the exports of the whole sterling area are maintained at their present level but this may be optimistic in the case of United Kingdom exports in view of war conditions.
10. It is assumed that at least the great part of our current obligations to <sup>C</sup>anada (roughly \$1200 millions a year) will be met by the repatriation of debt owed by Canada to the United Kingdom or by Canada buying and holding sterling.

At this point, two alternative assumptions are made according as we pay something or nothing in gold to Canada:

- Either (1) The available newly-mined gold, at a rate of \$360 millions a year or \$30 millions a month, is paid to Canada and used by her to reduce the deficit in her balance with the U.S.;
- or (2) The available newly-mined gold is applied towards covering our obligations in the U.S., instead of in Canada (this would, of course, accelerate the realization of Canada's U. S. assets, and no doubt advance the date at which Canada might have to ask for the benefit of the Lend-Lease Bill).



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## II. THE FIGURES UP TO AUGUST 1941

The tables attached to this note show figures based on these assumptions in some detail. The result may be summarized as follows:-

			<u>March-June</u>	<u>March-August</u>
Deficit on current account in U. S. dollars .....			675 *	850 *
<u>Less</u>	<u>March-June</u>	<u>March-Aug.</u>		
Available gold and dollars as at March 1	185	185		
Sale of assets	300	450	<u>485</u>	<u>635</u>
Debit balance	...	...	190	215
To which should be added provision for a working balance in dollars (see assumption 6), say	...	...	<u>100</u>	<u>150</u>
Leaving an amount to be found under the <u>first alternative</u> above of	...	...	<u>290 *</u>	<u>365 *</u>
<hr/>				
If, however, the <u>second</u> <u>alternative</u> is followed, we must deduct	...	...	<u>120</u>	<u>180</u>
Leaving an amount to be found of	...	...	<u>170 *</u>	<u>185 *</u>

\* All these figures are certainly too low, as the wide and immediate application of the Lend-Lease system which has been assumed could hardly be reached in practice.

The deficit comes most heavily in the earlier months, when the payments on existing contracts are highest. This point is illustrated by the following estimate of monthly payments due on contracts of the British Purchasing Missions at March 1, 1941, in millions of U. S. dollars:-

	March	175
	April	155
	May	145
	June	135
	July	110
	August	85
After August		<u>655</u>
Total		<u>1,460</u>



- 4 -

III. FINAL RESULT

To cover our shortage up to August 1941 and to provide a cash balance on the lines proposed in assumption 6, we need assistance before the end of August to the extent of \$365 millions on the basis of the first alternative and \$185 on the basis of the second alternative, subject to the fundamental point raised on assumption 3. It is hoped that such assistance can be provided in the form of the taking over, after the passage of the Bill, of our existing contracts by the U. S. Government to the extent necessary to cover the above amounts. The taking over of capital assets by the R.F.C. will, of course, provide part of this assistance. For the rest it should not be difficult to select suitable contracts up to the amount required. Speed of action is very desirable as deliveries are constantly reducing the outstanding value of existing contracts.

Even after August our deficit will still rise for a time. This should be automatically taken care of, since many of the contracts to be taken over are bound to have payments due after August as well as before, of which we shall be relieved. The months to August are the most difficult ones.

The deficit of the early months will in part be currently met from gold borrowed by the U. K. Government, but as this is only a temporary expedient and leaves us still with a liability to repay in gold, no account has been taken of it in the calculations above.

British Embassy,  
Washington, D. C.  
March 7, 1941

APPENDIXTABLE IESTIMATED CURRENT DEFICIT OF THE STERLING AREA IN U. S. DOLLARS (1).

(in millions of U. S. dollars)

	<u>March-June</u>	<u>March-August</u>
Payments on contracts of the British Purchasing Missions existing at March 1, 1941	610	805
Estimated payments on contracts to be placed by British Purchasing Missions during March 1941 (2)	<u>85</u>	<u>95</u>
Total payments by British Purchasing Missions	695	895
<u>Less</u> credit on all other U. S. transactions (3)	- 65	- 120
<u>Add</u> dollars payable to third countries other than Canada (4)	<u>45</u>	<u>70</u>
Deficit in U. S. dollars	<u>675</u>	<u>850</u>

Notes (1) This table excludes all capital receipts.

(2) Estimated on the basis of contracts being placed at the rate of \$35 millions a week total value.

(3) Estimated to run at about \$160 millions a year after the passage of the Lend-Lease Bill, on the basis of assumption (2); but \$40 millions has been debited in arriving at the figure shown to allow for existing contracts, and payments on orders to be placed during March, for goods of a type which may eventually be covered by the Lend-Lease Bill.

(4) After the passage of the Lend-Lease Bill this will run at \$130 millions a year, in addition to the \$100 millions per annum paid in gold. \$5 millions have been added for March in respect of U. K. imports of U. S. owned oil bought from non-U. S. sources. These oil imports are assumed to come within the Lend-Lease Bill after March.

APPENDIXTABLE IIESTIMATED BALANCE OF PAYMENTS WITH CANADA

(in millions of U. S. dollars)

	<u>March-June</u>	<u>March-August</u>
U. K. defence payments	240	360
<u>Add</u> other payments less receipts for sterling area	<u>145</u>	<u>220</u>
Deficit	<u>385</u>	<u>580</u>

Note: The deficit shown is gross, without taking into account any assistance from Canada.

TABLE IIIDISPOSITION OF NEWLY MINED AFRICAN GOLD ON THE BASIS OF THE ASSUMPTIONS IN THE NOTE

(in millions of U. S. dollars)

	<u>March- June</u>	<u>March to August</u>	<u>Year from March 1, 1941</u>
Paid to third countries	35	50	100
Set aside for reserve	35	50	100
Remainder	<u>120</u>	<u>180</u>	<u>360</u>
Total new African gold output	<u>190</u>	<u>280</u>	<u>560</u>

Washington, D. C.  
6th March 1941.



(Handed by Mr. Plimsont of the British Embassy to Mr. Cochrane in the Treasury at 12:25 p.m., March 7, 1941.)

ESTIMATED BALANCE SHEET FOR MARCH, 1941

I. CREDIT

1. Official dollar balances as of March 1	82
2. Gold as of March 1 *	102
(a) in North America	36
(b) switched shortly after March 1, 52	6
(c) in transit to N. America	6
(d) in South Africa *	8
3. Newly-mined African Gold **	40
h. Sales of market securities and direct investments, say	<u>75</u>
	<u>299</u>

II. DEBIT

1. Expenditure by British Purchasing Missions	215
(a) On contracts placed by March 1,	175
(b) On contracts to be placed in March	40
2. Balance of all other gold & dollar items ***	24
3. Estimated balance at March 31, 1941	<u>60</u>
	<u>299</u>

\* Total gold holdings as of March 1st were 123. The balance of 21 is composed of 10 in South Africa and 11 in London and in scattered localities, which is excluded because part is needed as a reserve against payment agreement liabilities and the balance can probably not be shipped to North America during March.

- 2 -

- \*\* Latest intelligence is that the newly mined gold being sold to us in South Africa is running at a rather low rate at the moment. We hope that this tendency may soon be reversed.
- \*\*\* It has been assumed that no gold will be paid to Canada during March.

(Handed by Sir Frederick Phillips and Mr. Pincet of the British Treasury to Under Secretary Hall at 3 p.m., March 7, 1941.)

SUMMARY OF TELEGRAM FROM LONDON DATED 15 FEB. 1941

It is our present intention either to make a payments agreement with Japan providing for special account procedure or failing this, to act unilaterally.

2. Continuing to support FA-Pi in the face of inflationary situation in China seems likely to involve a continuous drain of United States dollars.

3. We cannot, in view of our dollar difficulties, delay in restricting Chinese-owned sterling so that it will no longer be freely convertible into United States dollars and, indeed, we should have instituted such restrictions last July but for our desire to choose the least embarrassing moment. Financial assistance promised in December by the United States and ourselves to China, clearly affords the best opportunity for imposing restrictions without destroying confidence in the FA-Pi.

4. We understand that Dr. T. V. Soong agrees that some scheme on lines which we have suggested is inevitable in the event of war between us and Japan and if so, there seems to be much to be said for beginning to operate it now when, at any rate, some difficulties are not so great.

5. We have, meanwhile, been examining the draft agreement. We think that Fund B, which we understand has not yet been drawn upon, must disappear as Banks cannot be expected to put up money which will rank behind the proposed new funds. We think that sterling funds and dollar funds cannot be merged. The question of priority will, therefore, not arise.

6. The following points on the draft have arisen from consideration of the new United Kingdom-Chinese agreement which would be required parallel to the United States-Chinese agreement.

(1) We think it necessary to maintain the existence of Fund A, suspending (until after the expiration of it or determination of the new agreement), all clauses of the 1939 agreement which are irreconcilable with the forthcoming 1941 Anglo-Chinese agreement; and to place Fund A and the new sterling as separate funds under control identical with that of dollar fund by Stabilisation Board. Objections to winding up Fund A are, that we should have to repay the banks as well as providing the new £5 million. This would reveal the present state of Fund A (since we undertook to inform Parliament as soon as possible of any amounts issued) and would undo much of the effect of the new loan; and would strengthen the critics of the Committee and of the Banks who would disappear from the picture as if they had failed.



- 2 -

(2) We suggest separate interest accounts as in inter-Bank agreements, Chinese to pay interest in dollars and sterling not in yuan, appropriating in aid interest earned on invested dollar and sterling resources. We should, of course, want to keep provisions to which we attach importance that yuan acquired should be in the form of Chinese legal tender notes withdrawn from circulation.

(3) In principle we suggest only the most liquid investments should be allowed, Treasury Bills and fine Bank Bills.

(4) Alterations in U.S.-Chinese draft agreement involved in the above, would include substitution throughout of "Board" and "Assets under the control of the Board" for "Fund" and "Assets of Fund" respectively; references to "Dollar Fund 1941" and "Sterling Fund 1939 and 1941" and to corresponding income accounts.

COPY:lep

March 7, 1941

Four-man Board meeting with the President after  
Cabinet today at 4:40 p. m.

March 7, 1941

**AGENDA**

1. A discussion of the status of the Lend-Lease Bill.
2. Progress Report
  - A. Ferrying Planes
  - B. Increase in Training Facilities
  - C. Increase observers for air
  - D. Food
  - E. Merchant Ships
3. Request of Russians for release of machinery and machinery tools.

At 4:40 p.m., Messrs. Hull, Hopkins, Forrestal, Stimson and HM, Jr met with the President.

On #1 above, the President suggests can we convoy ships to Greenland or Iceland.

On #3, machinery for Russia referred to Hull.



CONFIDENTIAL(To Keep You Posted)

March 7, 1941

To: The Secretary

From: Mr. Young

Re: Memorandum on Russian Orders

I am attaching herewith a copy of a memorandum which I have prepared concerning Russian orders and forwarded to Mr. Harry Hopkins. This follows the same lines as your letter to Mr. Hopkins and the previous memorandum submitted to the new Advisory Committee last Saturday.

The figures given in this memorandum do not quite check with the figures given in the original breakdown of orders due to the fact that General Maxwell has supplied more up-to-date information. By far the greatest part of Russian orders are for machine tools and heavy machinery, such as railroad equipment, hoists, cranes, furnaces, etc.

The problem of the priorities policy in the case of Russia is equally applicable to all foreign purchasers other than the British. This problem of policy may be summarized by deciding whether the burden of proof as to the need of a machine tool is to be placed upon the foreign purchaser who already has an existing order or upon the defense program because there is a specific need for the tool in the United States.

D.Y.

MEMORANDUM

March 7, 1941

**Re: Russian Orders and Defense Requirements.**

Russian orders in the United States amount to about \$53,000,000 distributed among more than 250 firms. Requests are pending with the President's Liaison Committee for clearance on proposed additional orders totalling about \$32,000,000. Thus, existing and immediately prospective Russian orders approximate \$85,000,000.

Of the \$53,000,000 of orders outstanding, about 60 per cent are already subject to export control and half of these are also subject to priorities regulations. Export licenses for about \$14,000,000 of orders have been denied or revoked in the interest of national defense. Less than 50 per cent of this amount has actually been requisitioned for the defense program. The balance amounting to about \$10,000,000 is frozen on order books, in the factories, and on the docks.

Export licenses are still in effect for another \$10,000,000 of orders, but delivery of a substantial portion of these orders is prevented by existing priorities policy. No machine tools may be delivered unless Russia's need endorsed by the Department of State is established to the satisfaction of the Division of Priorities.

The impact on Russian orders of the United States defense program as presently administered has embittered Russia and confused domestic manufacturers. This situation must be clarified if friendly relations with Russia are to be maintained and the support of domestic manufacturers assured. Decisions on the following points can, therefore, no longer be delayed:

- (1) Is it desired to maintain friendly relations with Russia?
- (2) Are existing Russian orders to be released except where a specific need is established for the Defense Program?
- (3) Are no existing Russian orders to be released, even though not specifically required for the Defense Program, except where Russia's need is established with the endorsement of the Department of State?
- (4) Are new orders to be considered on the same basis as existing orders?
- (5) Designation of the President's Liaison Committee, the Lend-Lease Administration, or some other single coordinating authority to implement these policies.

PY:bj

Mr. Hopkins read this at the meeting  
of the Secretary Hall & Co.

Regraded Unclassified

March 8, 1941

Dear Harry:

At the last meeting of the new Advisory Committee with the President on March 1st, I presented a memorandum and exhibits outlining the Russian purchasing situation. You will recall that I emphasized the need for a policy which would serve as a guide for the administration of export control, priorities, and production clearances. You will also recall that the President said that this matter was within the purview of the Committee.

This situation, especially in view of the latest developments in the middle East, is becoming more serious every day and immediate action must be taken.

I have not heard anything from you or from the other members of the Advisory Committee since March 1st. Will you secure the President's authority to call a meeting of the Advisory Committee this Friday to settle the following:

- (1) A policy with respect to present and future Russian orders which will serve as a basis for the administration of export control, priorities, and production clearances.
- (2) The assignment of priority ratings consistent with the policy established for both present and future orders.
- (3) The issuance of export licenses consistent with the policy established for both present and future orders.
- (4) The coordination of production clearances with the assignment of priority ratings and the administration of export control.



- 2 -

General Maxwell, the Administrator of Export Control, and Mr. E. R. Stettinius, Jr., Director of Priorities of the Office of Production Management, should be invited to attend this meeting, and I should like to bring Philip Young, member of the Liaison Committee, with me to present the case.

Yours sincerely,

(Sgd.) Henry

Mr. Harry Hopkins,  
The White House.

March 7, 1941

The Secretary gave the original of this letter, on proposed transfer of Coast Guard cutters to the British, to the President at Cabinet today.

*Harper - 16 - 1000 - 1 - 3* 306

March 7, 1941.

Dear Mr. President:

With further reference to my letter of February 28, 1941, regarding the proposed transfer of Coast Guard cutters to the British, and as an alternative to the suggestions therein, I am listing below certain other vessels of the Coast Guard, some of which may be found suitable for the purpose intended.

<u>NAME</u>	<u>LENGTH</u>	<u>BEAM</u>	<u>DRAFT</u>	<u>BUILT</u>	<u>CRUIS.</u>	<u>RADIUS</u>
UNALGA	190'	32' 6"	14' 2"	1912	9-kts 2800 mi.	11-kts 2500 mi.
TALLAPOOSA	165'	32' 0"	11' 0"	1915	7-kts 6000 mi.	12-kts 2800 mi.
OSSIPEE	165'	32' 0"	11' 9"	1915	7-kts 3900 mi.	11-kts 2800 mi.

The UNALGA, which is at San Juan, and the TALLAPOOSA, at Savannah, are oil burners. The OSSIPEE, at Sault Ste. Marie, is a coal burner. All three have reciprocating steam engines, developing 1000 horsepower. It is doubtful whether any of these three vessels would be of much use to the British, due to their age and other limiting characteristics. However, the hull and machinery of the TALLAPOOSA and UNALGA are in good condition for vessels of their age, and might be of limited usefulness. The OSSIPEE was sent to the Great Lakes on account of her poor physical condition and I feel that she would be of little, if any, use. Funds for three new vessels to replace these three cutters are carried in the 1942 Treasury Department Appropriation Bill, which has passed the House and is now pending before the Senate.



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<u>NAME</u>	<u>LENGTH</u>	<u>BEAM</u>	<u>DRAFT</u>	<u>BUILT</u>	<u>CRUIS. RADIUS</u>
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MOJAVE	240'	39' 0"	16' 6"	1921	8-kts 14-kts 5400 mi. 3900 mi.
TAMPA	240'	39' 0"	16' 6"	1921	8-kts 14-kts 5400 mi. 3900 mi.

These four are oil burners, with turbo-electric drive, developing 2500 horsepower. The HAIDA is stationed at Juncau, the TAMPA at Mobile, the MODOC at Wilmington, N.C., and the MOJAVE at Miami. The hull and machinery of these four vessels are in excellent condition and, while the vessels are twenty years old, they still are very able seagoing vessels for their size. It is believed that they could perform convoy or other duty nearly, if not quite as well, as the 250-foot cutters of the CAYUGA class.

<u>NAME</u>	<u>BUILT</u>	<u>STATION</u>
ARGO	1933	Newport, Rhode Island
ARIADNE	1934	Alameda, California
ATALANTA	1934	Seattle, Washington
AURORA	1931	San Pedro, California
CALYPSO	1932	Baltimore, Maryland
CYANE	1934	Ketchikan, Alaska
DAPHNE	1932	Alameda, California
DIONE	1934	Norfolk, Virginia
GALATEA	1933	Stapleton, New York
HERMES	1932	San Pedro, California
ICARUS	1932	Stapleton, New York
NEMESIS	1934	St. Petersburg, Florida
NIKE	1934	Pascagoula, Mississippi
PANDORA	1934	Key West, Florida
PERSEUS	1932	San Diego, California
THETIS	1931	Boston, Massachusetts
TRITON	1934	Gulfport, Mississippi

- 3 -

These vessels are of the same type as the Presidential yacht POTOMAC. They are direct-connected Diesel, twin-screw, and while rated 16 knots would probably not be capable of more than 14, except in very smooth water. At 6 knots they have a cruising range of 5,400 miles and at 14 knots about 2100 miles under average conditions. They are 165 feet long, 25' 3" beam, 9' 6" draft. All are in excellent condition, and are able seaworthy craft for vessels of their size. Due, however, to their short length their speed is greatly reduced in heavy weather, and they are not considered suitable for ocean convoy work.

All the vessels above listed, with the exception of the UNALGA, TALLAPOOSA, and OSSIPPEE, are in process of being converted for Navy use, by equipping them with additional guns, echo ranging apparatus, searchlights, depth charge racks, and other equipment. It seems probable, in view of the history of the destroyers turned over to the British, that some structural changes, as well as changes in armament, would be desired, should they be transferred to Britain. This work could probably best be done in American yards.

The transfer of any of these vessels, with the exception of the first three named, would be a serious loss to the Coast Guard, and replacements should be immediately provided for.

Should it be decided to transfer any of the 240-foot class, or 165-foot class Coast Guard cutters to Britain, I would appreciate the opportunity of presenting for your consideration a replacement program, including the desirability - if not the necessity - of replacing the ships used on Weather Observation Patrol, with suitable merchant ships.

Faithfully,

Secretary of the Treasury.

The President

The White House.

March 7, 1941.

Dear Mr. President:

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The UNALGA, which is at San Juan, and the TALLAPOOSA, at Savannah, are oil burners. The OSSIPEE, at Sault Ste. Marie, is a coal burner. All three have reciprocating steam engines, developing 1000 horsepower. It is doubtful whether any of these three vessels would be of much use to the British, due to their age and other limiting characteristics. However, the hull and machinery of the TALLAPOOSA and UNALGA are in good condition for vessels of their age, and might be of limited usefulness. The OSSIPEE was sent to the Great Lakes on account of her poor physical condition and I feel that she would be of little, if any, use. Funds for three new vessels to replace these three cutters are carried in the 1942 Treasury Department Appropriation Bill, which has passed the House and is now pending before the Senate.



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<u>NAME</u>	<u>LENGTH</u>	<u>BEAM</u>	<u>DRAFT</u>	<u>BUILT</u>	<u>CRUIS. RADIUS</u>
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These four are oil burners, with turbo-electric drive, developing 2600 horsepower. The HAIDA is stationed at Juneau, the TAMPA at Mobile, the MODOC at Wilmington, N.C., and the MOJAVE at Miami. The hull and machinery of these four vessels are in excellent condition and, while the vessels are twenty years old, they still are very able seagoing vessels for their size. It is believed that they could perform convoy or other duty nearly, if not quite as well, as the 250-foot cutters of the CAYUGA class.

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Should it be decided to transfer any of the 240-foot class, or 165-foot class Coast Guard cutters to Britain, I would appreciate the opportunity of presenting for your consideration a replacement program, including the desirability - if not the necessity - of replacing the ships used on Weather Observation Patrol, with suitable merchant ships.

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- 3 -

These vessels are of the same type as the Presidential yacht POTOMAC. They are direct-connected Diesel, twin-screw, and while rated 16 knots would probably not be capable of more than 14, except in very smooth water. At 6 knots they have a cruising range of 5,400 miles and at 14 knots about 2100 miles under average conditions. They are 165 feet long, 25' 3" beam, 9' 6" draft. All are in excellent condition, and are able seaworthy craft for vessels of their size. Due, however, to their short length their speed is greatly reduced in heavy weather, and they are not considered suitable for ocean convoy work.

All the vessels above listed, with the exception of the UNALGA, TALLAPOOSA, and OSSIPPE, are in process of being converted for Navy use, by equipping them with additional guns, search ranging apparatus, searchlights, depth charge racks, and other equipment. It seems probable, in view of the history of the destroyers turned over to the British, that some structural changes, as well as changes in armament, would be desired, should they be transferred to Britain. This work could probably best be done in American yards.

The transfer of any of these vessels, with the exception of the first three named, would be a serious loss to the Coast Guard, and replacements should be immediately provided for.

Should it be decided to transfer any of the 240-foot class, or 165-foot class Coast Guard cutters to Britain, I would appreciate the opportunity of presenting for your consideration a replacement program, including the desirability - if not the necessity - of replacing the ships used on Weather Observation Patrol, with suitable merchant ships.

Respectfully,

Secretary of the Treasury.

The President

The White House.

## TELEGRAM SENT

JT

GRAY

March 7, 1942

4 P.m.

AMERICAN CONSUL

HANOI

8

The Rubber Reserve Company informs Department that there are some 350 tons of trade rubber awaiting transportation to the United States. The Company much desires to see this rubber come forward promptly, on ENSLEY if possible. You may inform the authorities that Treasury advises that the use of the proceeds of such rubber in payment for exports to Indochina from the United States will be licensed under Executive Order No. 8389, as amended.

HULL  
(HF)

EA:FL:MSG



DEPARTMENT OF STATE  
Washington

316

In reply refer to  
NE 740.00112 Harloers/338

March 7, 1941

My dear Mr. Secretary:

There is enclosed herewith a paraphrase of a telegram, dated February 24, 2p.m., from the American Consul General at Beirut, Lebanon, regarding funds which might be derived from the sale of Syrian wool in the United States and the possible use of such funds for the purchase of foodstuffs for shipment to Syria.

It may be pointed out that some months ago the British Government began to apply a policy of economic pressure on Syria and Lebanon, designed to limit severely the foreign trade of that French mandated area. On February 13, 1941, the Department of State instructed the American Embassy at London to discuss this subject with the British Government, and to urge a relaxation of the restrictions, on the grounds that too severe a policy would tend to drive the trade of the area into undesired hands and would have unfavorable political repercussions throughout the Near East.

The British Embassy in Washington has now been informed by its Government that the latter has decided to permit the shipment of Syrian silk and wool to the United States in exchange for American foodstuffs and newsprint to be shipped to Syria.

The Department of State believes that trade between Syria and the United States should be facilitated because of particular considerations concerning Syria, but even more, because the Syrian commodities involved are important to American industry at this time. It is recommended, therefore, that funds which are derived from American purchases of Syrian commodities be permitted to be utilized for the purchase of American commodities, notably foodstuffs, to be exported to Syria.

The Honorable

Henry Morgenthau, Jr.,  
Secretary of the Treasury.

It will be appreciated if the Treasury Department will indicate its views in this regard.

Sincerely yours,

For the Secretary of State:

(S) Adolf A. Berle, Jr.  
Assistant Secretary

Enclosure:

Paraphrase.

eh:copy

PARAPHRASE OF TELEGRAM NO. 47  
FROM BEIRUT.

DATED FEBRUARY 24, 2 P.M., 1941

About five hundred tons of wool are ready for shipment to the United States by a local firm. Export permits will be granted by the French authorities provided foodstuffs, especially sugar, may be purchased in the United States with these funds. I would appreciate being informed whether the American Government would permit the transfer of funds from one transaction to another, as indicated above. Is it considered probable that shipping would be available to transport the commodities involved to and from Basra?

740.00112 Navicert/328

eh:copy



DES

GRAY

BERLIN

Dated March 7, 1941

Rec'd 6 p.m.

Secretary of State,  
Washington.

869; March 7, 3 p.m.

My 655, February 21, 9 a.m.

FOR TREASURY FROM HEATH.

According to a statement just published by the Reich Ministry of Finance the Reich's total disclosed indebtedness increased during December by 2.53 billion marks to 79.51 billion marks at the close of the year compared with 48.04 billion marks at the end of 1939. This increase is somewhat below the average of months since the beginning of the campaign of spring 1940. Average monthly borrowing during the last eight months of 1940 was 3.25 billion marks compared with 2.01 billion marks during the first eight months of the war. The below average increase in the German public debt in December is not to be taken as indicating any tendency toward either decreased spending or borrowing. All indications are that there is a still increasing rate of expenditure which is only met to a small degree by increased tax revenues. A considerable part of German military

#2-869, March 7, 3 p.m. from Berlin

military expenditures is now being met by the levies on Belgium, Holland and occupied France for the costs of military occupation (SEE MEMORANDUM for Treasury dated January 14).

Of the total amount borrowed in December 1.27 billion marks was in the form of long term indebtedness which stood at 43.05 billion marks on December 31 and only 0.76 billion marks in the form of short term indebtedness which stood at 36.46 billion marks on December 31. There were increases of 0.49 billion marks in 4% treasury bonds and 1.14 billion marks in 4% 11 loans. The amount of short term treasury bonds and bills outstanding increased during December by 0.65 billion marks, other short term loans increased by 0.16 billion marks, utilization of the Reich's operation credit at the Reichsbank decreased by 0.08 billion marks to 0.58 billion marks and tax certificates outstanding decreased by only 2 million marks.

MORRIS

KLP



Federal Reserve Bank  
of New York

## OFFICE CORRESPONDENCE

To Mr. Knoks

Date March 7, 1941.

From W. H. Rosell

Subject: German Dollar Assets

(Copies to Messrs. Williams, Roelse (Sanford), and McKeon (Cameron) ).

Yesterday's papers carried a United Press despatch from Washington, stating that, according to authoritative sources, Germany is accumulating dollar funds faster than they can be spent for Nazi propaganda in the Western Hemisphere and such other limited uses to which the funds can be put. According to THE TIMES, "official sources estimated that Germany holds dollar balances in this country of about \$250,000,000." Furthermore, it is reported that this sum represents only openly held balances and does not include large amounts nominally held by neutrals, but controlled by Germany.

Although "official sources" were purported to have supplied these data, neither the Treasury, the Board, nor the Department of Commerce issued any formal release. Since these are the only Washington agencies qualified or likely to release such figures, it is apparent that the term "official sources" was being used in a journalistic sense. Obviously, Germany does not openly hold any such amount in dollar balances. According to our regular weekly reports, Germany held only \$6,700,000 of banking assets in the Second District on February 26. (Funds held in other Districts are negligible.) Even if long term American investments are included, the total dollar assets actually held (German accounts would not approach \$250,000,000. The Department of Commerce estimated Germany's holdings of American stocks and bonds at \$15,000,000, as of August, 1940, and direct and all other long term investments at \$24,000,000. If these are added to the banking assets of about \$7,000,000, the total, both short and long term, would be only somewhat over \$100,000,000.

Of course, it is conceivable that the total amount of dollar resources held by Germany both directly and indirectly through nominees may amount to as much as, if not more than, \$250,000,000, especially if those assets seized in the occupied countries are included. However, to the extent that these latter holdings were physically situated in the United States before the German seizure, they would be "frozen" and, therefore, not available for transfer to "hard-pressed Japan," as was suggested in THE TIMES.

The despatches mentioned several ways in which Germany has acquired dollar assets through third parties, all of which methods may very well have been employed with varying degrees of success. According to these reports, much of the gold which Germany was able to acquire from the occupied countries has been converted, indirectly through neutrals, to drawing power in the New York and other money markets. It is, of course, impossible to determine the extent to which this is true, from the information available to us, although it may have occurred to some degree. The use of France's occupation payments to Germany for the purchase of American securities in foreign markets is also mentioned as a possible means of building up dollar reserves. In this connection, a State Department cable (No. 238) from Vichy, dated February 26, contained the following: "The payment of 400,000,000 francs a day from the French Government to the Germans has now accumulated to the considerable total of 45,000,000,000 francs at the Bank of France. As there have been no definite indications as to how and when the Germans propose to utilize this amount. Buying into French industry continues, but apparently it is at a



erly small rate." Since these payments had been made for about eight months, Germany must have received a total of about 100,000,000,000 francs by the end of February, of which 45,000,000,000 francs, or about half, remained unused. None of the State Department cables have, to my knowledge, ever mentioned the possibility that the French occupation payments may have been used to acquire American securities in foreign markets.

WHR:EC

Copy:alm 3-20-41

SHANGHAI

March 7, 1941

From Hsi

For Nicholson

Returned to Hongkong last Sunday after two months stay in Chungking Understand Currie was pleased with his mission and had good impression as a result of which our people are more cheerful and confident Had an hour interview with Currie and found him possessing charming personality Government decided developing exchange market in Chungking which was announced by press released on March 3rd which I consider a wise move particularly for political and psychological reasons Hongkong committee will be allowed to function as before for time being Met K.P. Chen in Chungking who contemplates visiting Lashio again shortly to inspect transportation wood oil Learned from H.H. Kung that K.P. will be appointed chairman of new stabilization committee.

eh:copy

NO. 315  
NO. \_\_\_\_\_ Embassy, China.

AMERICAN CONSULATE GENERAL

Shanghai, China, March 7, 1941

Subject: Reactions in Shanghai Financial Circles  
to Chungking Announcements that Central  
Bank at Chungking would Resume Trading  
in Foreign Exchange.

THE HONORABLE

THE SECRETARY OF STATE

WASHINGTON

SIR:

I have the honor to refer to this office's special financial radiogram No. 249 of March 3, 1941, in which was mentioned the announcement of the Chungking financial authorities to the effect that exchange facilities at Chungking were to be increased and that the Central Bank of China had been instructed to resume foreign exchange operations to meet all requirements for legitimate purposes, and to elaborate in greater detail the reactions to this announcement in Shanghai financial circles.

Summary: Chungking's vague announcement was interpreted at first to indicate that exchange would no longer be supported at Shanghai, though later reassuring statements to the effect that the measure is precautionary were accepted. Chinese bankers have outlined the various technical problems involved in establishing a new exchange market in Chungking without adverse effects upon the markets at Shanghai and Hong Kong. The Chinese bankers at Shanghai naturally associate the new move with Dr. Lauchlin Currie's visit to Chungking.

The statement of the Chungking financial authorities reached Shanghai in a Reuter's despatch dated Chungking, March 2, which



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commented on the official release in Chungking as being vague. It mentioned Chungking intimations that the Chinese stabilization fund control body might be removed from Hong Kong and Shanghai to Chungking, and another interpretation to the effect that the result might be the eventual withdrawal of official support of rates on the Shanghai market. This latter interpretation was, in fact, the one which was generally subscribed to by Shanghai exchange operators on Monday, March 3, when rates declined upon speculative buying activity.

A later Reuter despatch from Chungking, dated March 4, believed to have been officially inspired and to represent an effort to alleviate misgivings in the Shanghai market, described the measure as more political than economic in its implications. The use of the term "political" was for a time interpreted in Shanghai to mean that the move was the result of possible conflict, between great financial personalities in the National Government, over the manner of use and locus of control of the anticipated US \$50,000,000 currency stabilization credit, but later views discarded this theory. Reuter's despatch went on to say that the possibility of removal of the stabilization fund control from Hong Kong to Chungking is unlikely, and that the "decision is merely a precautionary move owing to the possibility of developments which may disrupt the exchange markets in Shanghai and Hong Kong." While the exchange market at first exhibited some uneasiness over the hint that something might happen to disrupt exchange operations in Shanghai, this feeling was short lived and the market

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in general accepted the statement as bona fide that the move is "precautionary".

The fact that a section of Chinese official opinion favored abandonment of support of the Shanghai exchange market and establishment of a new controlled market at Manila, Hong Kong or Chungking, was pointed out in my despatch No. 85 of December 9, 1940, entitled "The Outlook in the Chinese Currency Situation in Light of the Announcement of American Support and in Face of the Progressive Threat to the Security of Shanghai", and in my telegram No. 41 of January 9, 1941, itemizing the preponderant arguments against continuance of support of the Shanghai market.

Shanghai Chinese bankers, since the publication locally of the above-mentioned Chungking news items, have expressed the belief: (1) that the new commercial exchange market in Chungking is not likely to be a "free market" but that only approved import shipments are likely to be given exchange cover; (2) that the arrangement is tantamount to the adoption of a permit or licensing system for exchange; and, (3) that, for the time being, the new market may exist only nominally (i.e. that there will be no actual active trading at Chungking).

These bankers hold that one of the practical problems which will confront the Chungking financial authorities will be whether to sell exchange at their present nominal commercial rates (decreed August 1, 1940) of 4-1/2 pence or 7-3/8 cents (the latter rate in U. S. Cur-



- 4 -

rency is derived from the prevailing Shanghai free sterling parity) which are considerably above the Shanghai rates (today's Shanghai rates being 3-3/8 pence or 5-1/2 cents) or to lower the Chungking rates to the Shanghai level in order to prevent arbitrage profiteering. These bankers held that a lowering of the Chungking commercial rates would naturally create an unfavorable psychological impression in Shanghai and Hong Kong, a matter which should be given consideration.

Some question exists in the minds of local bankers as to whether the sale of exchange by the Central Bank of China in Chungking will necessitate that bank buying back its cover from the Shanghai market and as to whether such action may tend to depress Shanghai rates. Certain of them point out, however, that most of the import exchange cover on commercial (non-government) merchandise shipped from abroad to the Chinese controlled interior has been in the past obtained at Shanghai or Hong Kong, "fapi" being remitted from the interior for the purpose, hence that buying in Shanghai to cover sales in Chungking would represent no new drain.

Chinese bankers generally assume that the Shanghai open exchange market can no longer be maintained, should the Far Eastern situation deteriorate to the point where Chinese exchange credits in the United States would be frozen or to a point where Shanghai commerce with non-yen-bloc countries would no longer be possible. The development of a new exchange market in the interior, even if not entirely free, is therefore welcomed.

Chinese bankers have been concerned over the possibility that



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the huge accumulation of "fapi", estimated at yuan one billion, in the Shanghai vaults of foreign banks for the account of the Anglo-Chinese Stabilization Committee and of the Chinese Government banks, may be used for the purchase of exchange from the Shanghai market, as, if such action eventuates, Shanghai rates would be greatly depressed. However, some believe that such action will be unlikely, unless the new Nanking "Central Reserve Bank" undertakes actively to buy exchange using "fapi" acquired by locally converting its own notes. They also point out that the Chinese financial authorities are fully aware of prospects for buying foreign currency credits held by private interests at much higher than current rates after the conclusion of the hostilities, especially as possible freezing of the funds in the meantime in the United States would preclude the risk that other disposition of private holdings might be made.

Hence, Chinese bankers here in general do not anticipate collapse of Shanghai rates owing to the prospects for smaller imports as affected by many adverse factors now throttling trade, but rather expect somewhat higher rates should the Far Eastern political situation become worse, for the reason that further liquidation of private exchange holdings may be expected to continue as the outlook darkens. It is natural that many people will not want to be cut off from their monetary resources and will convert some of their holdings back into Chinese currency if possible before it becomes too late to do so, though wholesale liquidation, it is believed, will be unlikely because some hoarders under such circumstances will undoubtedly regard funds

- 6 -

frozen in the United States as a satisfactory form of protection for their money.

Local financial circles have naturally assumed that Dr. Lauchlin Currie's visit to Chungking had for its purpose the determining of a method by which the American currency stabilization credit of US \$50,000,000 might be used to the greatest effectiveness in strengthening China's currency during the national emergency. Hence the announcements from Chungking above enumerated, made immediately after Dr. Currie's departure from Chungking, were naturally interpreted here as constituting part of the stabilization scheme possibly now mutually agreed upon by the Chinese and American financial authorities.

Respectfully yours,

Frank P. Lockhart  
American Consul General

851

ABC:JCB

In Quintuplicate

Copy to Embassies Peiping, Chungking, Tokyo

Copy:jpt

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE March 7, 1941

**CONFIDENTIAL**

TO Secretary Morgenthau  
FROM Mr. Cochran

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns      £82,000  
Purchased from commercial concerns   £16,000

The Federal Reserve Bank of New York sold £25,000 in registered sterling to Kidder Peabody & Co.

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

Sold to commercial concerns      \$2,000  
Purchased from commercial concerns   \$6,000

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

Canadian dollar	14-7/8% discount
Swiss franc (commercial)	.2323
Swedish krona	.2384
Belgian mark	.4005
Lira	.0505
Argentine peso (free)	.2305
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	6-7/8% discount

In Shanghai, the yuan in terms of our currency was unchanged at 5-1/2¢. Sterling was also unchanged at 3.93.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

In London, the prices fixed for spot and forward silver were again unchanged at 23-3/8d and 23-5/16d, respectively. The U.S. equivalents were 42.44¢ and 42.33¢.

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

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



## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 7, 1941.

TO THE SECRETARY

FROM Alan Barth

PUBLIC AND PRESS OPINION ON H. R. 1776

Two rather disturbing evidences of confusion have followed the opposition oratory of the past fortnight. There is uncertainty and misunderstanding as to the methods under which H. R. 1776 will be put into operation. And there is an acceptance, in some measure, of the isolationist thesis that the issue posed by the bill is one of war or peace.

THE LEND-LEASE ISSUE AS NEWS

News coverage of the Lend-Lease issue has been, for the most part, adequate and accurate. During the progress of the House debate and the House and Senate Committee hearings, it was treated as the prime news story of the day, arguments pro and con receiving about equal representation. Lately, however, the headlines have been held predominantly by opponents of the bill, since they absorbed most of the discussion time in the Senate and expounded their views profusely and sensation-ally over the radio.

The staleness of their attacks has been reflected in diminished press attention to the bill. Despatches from the Balkans and from the far east have superseded it in prominence. There are indications also of diminished popular interest in the subject, together with graver misgivings about the tangled foreign situation.

Perhaps for want of more concrete material, a number of news-

- 2 -

papers have recently printed speculative stories as to the implementation of the Lend-Lease measure when it is enacted. These have given rise to two unfavorable types of editorial: (1) Those which assume that nothing much can be done to accelerate aid to England and that, therefore, action on the bill is not especially urgent; (2) those which assume that the Administration contemplates immediate convoying or some other dramatic use of the United States Navy and that, therefore, we are in grave danger of war involvement.

#### IDENTIFICATION OF LEND-LEASE WITH WAR

The isolationist attack on H.R. 1776 has twanged two strings: First, that it constitutes dictatorship; this has been pretty thoroughly overwhelmed by the exceedingly undictatorial behavior of the Administration. Second, that it is tantamount to a declaration of war.

Unfortunately, this latter charge was given a certain degree of color by Mr. Jesse Jones' observation that "we are practically in the war now." The somewhat bellicose speeches delivered by Senators Bailey and Pepper, proclaiming their personal willingness to fight if necessary, did nothing to allay the fear that the Administration emphasis is on saving England at any cost, rather than on keeping out of war. And the applause of a few southern editorial writers has added fuel to the isolationist fire.

All of this has pitched recent editorial discussion of the Lend-Lease issue on a new level -- and precisely the level on which the isolationists have sought to place it. The bulk of the support for H. R. 1776 has



- 3 -

come from those who viewed it as the most effective means available for avoiding full-fledged American conflict with the Axis. Isolationist argument has been directed — and with a high degree of ingenuity — to persuading these supporters of what Senators Bailey and Pepper have now acknowledged, that the Administration will not stop at methods short of war.

The burden of the Senate campaign led by Senator Wheeler and of the adroit propaganda disseminated by the America First Committee has been to depict the isolationists as advocates of peace, the Lend-Lease enthusiasts as advocates of war. That they have achieved some degree of success in this effort to confuse the situation is apparent from the confusion in current editorial thinking. While it is insufficient to prevent enactment of the legislation, it may seriously hamper implementation of it later on.

#### POPULAR REACTION

This confusion has evidently affected public opinion as well. The latest Gallup Poll reveals a significant shift in sentiment on the Lend-Lease issue. The slight decline in the percentage of those endorsing the bill — from 58 per cent on February 14 to 55 per cent on February 28 — is less arresting than the sharp increase in the percentage of those with no opinion concerning it. Seven per cent of those polled expressed no view on February 14, while 14 per cent were undecided on February 28.

It appears to be a sound inference from these figures that the opposition, though unable to win appreciable public support for its point of view, has managed, to some extent, to undermine public confidence in the Administration's purposes. This has been the object of its strategy of delay. Clearly, longer delay will render no service to national unity.



- 4 -

ANTIDOTES

The opposition should be put back on the defensive. Actually, it is more vulnerable to the charge of warmongering than is the Administration, since its obstructionism and delay enhance the danger of American involvement in the war. The soundest presentation of H. R. 1776 is as an instrument for the avoidance of war.

The isolationists can best be placed on the defensive by making it clear that the majority is entirely ready to move ahead with a constructive, affirmative program. For this reason it would seem useful at this time to outline with as much concreteness as practicable the steps contemplated to make H. R. 1776 effective. Such an outline would dissipate the exaggerated fears which have been aroused. It would make clear that the opposition is thwarting the majority will, without any specific program of its own. And, most important of all, perhaps, it would prepare the public mind for the measures which must be taken when the bill finally becomes law, disarming the objections which Senator Wheeler and others can be expected to raise.

It may be that the time is now at hand when the President himself can best clear away the confusion over the Lend-Lease issue by giving authoritative expression to the Administration's plans in a broadcast to the nation.

March 7, 1941

**CONFIDENTIAL**

Dear Mr. Knack:

I have pleasure in acknowledging, on behalf of Secretary Morgenthau, the receipt of your letter of March 6, 1941, enclosing your compilation for the week ended February 26, 1941, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

Faithfully yours,

H. Marie Cochran  
Technical Assistant to the Secretary

L. W. Knack, Esquire,  
Vice President,  
Federal Reserve Bank of New York,  
New York, New York.

HMC:lap-3/7/41

FEDERAL RESERVE BANK  
OF NEW YORK

March 6, 1941.

CONFIDENTIAL

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

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

Faithfully yours,



L. W. Knobe,  
Vice President.

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

Enclosure

RECORDED  
MAR 10 1941  
MAR 10 1941



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

Week Ended Feb. 26, 1941.

Strictly  
Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT)								BANK OF FRANCE							
	DEBITS				CREDITS				Net Incr. (+) or Deer. (-) in Balance	DEBITS			CREDITS			
	Total Debits	Gov't Expendi- tures (a)	Other Debits	Total Credits	Proceeds of Sales of	Net Incr. (+) or Deer. (-) in Balance	Total Debits	Gov't Expendi- tures (d)		Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Deer. (-) in Balance		
1939																
Aug. 31 - Sept. 27	94.3	5.6	90.7	207.8	185.4	-	22.4	+113.5	19.4	6.0	13.4	11.3	-	11.3	- 8.1	
Sept. 28 - Nov. 1	106.7	5.8	100.9	142.0	3.2	-	138.8	+ 35.3	88.6	61.8	105.4	76.2	55.0	41.2	- 12.4	
Nov. 2 - 29	191.7	8.9	182.8	105.8	57.8	-	48.0	- 85.9	78.6	-	-	32.9	55.1	27.8	- 4.3	
Nov. 30 - Jan. 3	97.7	8.7	89.0	75.2	50.6	-	24.6	- 22.5	86.8	28.1	58.7	109.2	93.9	15.3	- 23.4	
1940																
Jan. 4 - 31	54.8	16.8	38.0	43.4	20.6	-	22.8	- 11.4	61.5	31.5	30.0	55.9	50.1	5.8	- 5.6	
Feb. 1 - 28	124.2	15.4	108.8	108.3	56.7	-	51.6	- 15.9	72.7	32.8	39.9	71.5	54.8	16.7	- 1.2	
Feb. 29 - Apr. 3	115.5	14.5	101.0	94.0	60.9	14.0	19.1	- 21.5	99.6	35.9	83.7	105.0	75.4	29.6	+ 5.4	
Apr. 4 - May 1	113.4	26.1	87.3	86.4	46.8	20.0	19.6	- 27.0	84.8	22.4	55.4	78.7	60.7	18.0	- 6.4	
May 2 - 29	100.9	23.6	77.3	126.2	93.2	12.0	21.0	+ 25.3	101.4	57.0	44.4	145.4	126.2	19.2	+ 26.0	
May 30 - July 3	222.2	145.3	127.2	319.3	301.3	3.0	15.0	+ 36.1	267.7(e)	127.3(e)	29.4	345.1(e)	335.6	9.5(e)	- 186.4	
July 5 - 31	249.7	156.7	93.0	325.0	212.2	2.0	10.8	- 24.7	7.3	6.3	1.0	3.2	5.0	0.2	- 4.1	
Aug. 1 - 28	261.1	180.2	60.9	294.8	267.4	1.0	26.4	+ 33.7	8.9	0.5	8.4	10.9	10.4	0.5	+ 2.2	
First year of war	1,793.3	805.6	1,187.6	1,828.2	1,826.1	52.0	420.1	+ 35.0	866.3	416.6	449.7	1,095.3	908.2	195.1	- 225.5	
Aug. 29 - Oct. 2	316.6	244.3	72.3	308.9	271.6	6.0	51.4	- 7.9	8.6	4.4	4.2	1.3	-	1.3	- 7.3	
Oct. 3 - 30	196.7	167.8	28.9	198.5	160.6	6.0	32.0	+ 1.2	0.5	0.3	0.2	0.5	-	0.5	-	
Oct. 31 - Nov. 27	241.0	201.1	39.9	259.5	210.0	18.0	31.5	+ 18.5	0.8	0.1	0.7	0.7	-	0.7	- 0.1	
Nov. 28 - Dec. 31	234.6	206.6	27.8	196.0	111.4	26.0	60.6	- 36.6	2.1	-	2.1	0.6	-	0.6	- 1.5	
War period through Dec. 31	782.3	1,425.6	1,356.7	2,793.1	2,109.5	108.0	575.6	+ 10.8	872.3	421.4	456.9	1,096.4	900.8	198.2	- 220.7	
Jan. 2 - 29	197.3	162.7	34.7	259.9	196.2	58.0	31.7	+ 62.5	1.7	-	1.7	0.2	-	0.2	- 1.2	
Jan. 30 - Feb. 26	164.6	137.8	26.8	101.4	26.6	26.0	48.8	- 63.2	0.2	-	0.2	0.2	-	0.2	-	
Feb. 27 - Apr. 2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
WEEK ENDED:																
Feb. 5	46.5	40.7	5.8	21.2	-	10.0	13.2	-21.3	0.1	-	0.1	-	-	-	- 9.1	
11	37.4	31.9	5.5	14.1	-	6.0	8.1	-23.3	-	-	-	0.1	-	0.1	+ 0.1	
19	40.7	38.2	2.5	19.6	-	6.0	13.6	-21.1	0.1	-	0.1	-	-	0.1	-	
26	40.0	27.0	13.0	44.5	26.6	4.0	13.9(f)	+ 4.5	-	-	-	-	-	-	-	

Average Weekly Expenditures Since Outbreak of War  
France (through June 19) \$19.6 million  
England (through June 19) 27.6 million  
England (since June 19) 55.1 million

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

Week ended Feb. 26 \$ - million  
Cumulation from July 6 \$ 132.5 million

(See footnotes on reverse side)



- (a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply, Timber Control, and Ministry of Shipping.
- (b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December 1940 amounted to \$334 million.
- (c) Includes about \$85 million received during October from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts during more recent months apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Adjusted to eliminate the effect of \$20 million paid out on June 26 and returned the following day.
- (f) Includes about \$7 million transferred from accounts of authorized British banks with New York banks and \$1.2 million transferred from Uruguayan account at Chase.

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

Week Ended Feb. 26, 1941.

Strictly Confidential

PERIOD	BANK OF CANADA								COMMONWEALTH BANK OF AUSTRALIA							
	DEBITS				CREDITS				DEBITS				CREDITS			
	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C For Own A/C	For French A/C	Other Credits	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance
1939																
Aug. 31 - Sept. 27	17.5	0.6	16.9	21.8	15.1	0.8	-	5.9	+ 4.3	-	-	-	-	-	-	-
Sept. 28 - Nov. 1	9.6	0.3	9.3	16.7	7.3	2.1	-	7.3	+ 7.1	-	-	-	-	-	-	-
Nov. 2 - 29	9.9	0.7	9.2	14.4	13.3	-	-	1.1	+ 4.5	-	-	-	1.9	1.9	-	+ 1.9
Nov. 30 - Jan. 3	30.0	-	30.0	22.8	13.3	3.0	-	6.5	- 7.2	2.5	-	2.5	5.8	5.8	-	+ 3.3
1940																
Jan. 4 - 31	23.5	-	23.5	25.7	21.1	-	-	4.6	+ 2.2	5.2	0.3	4.9	3.3	3.0	0.3	- 1.9
Feb. 1 - 28	23.1	-	23.1	17.0	16.1	-	-	0.9	- 5.1	3.3	0.1	3.2	2.4	2.2	0.2	- 0.9
Feb. 29 - Apr. 3	42.3	-	42.3	29.5	29.3	-	-	0.2	- 12.8	3.0	0.3	2.7	2.2	1.6	0.6	- 0.8
Apr. 4 - May 1	38.2	-	38.2	42.9	24.8	15.0	-	3.1	+ 4.7	2.3	-	2.3	2.0	1.8	0.2	- 0.3
May 2 - 29	37.9	15.0	37.9	50.2	50.0	-	-	0.2	+ 12.3	1.2	0.2	1.0	2.6	1.7	0.9	+ 1.4
May 30 - July 3	44.1	-	44.1	72.5	72.2	-	-	0.3	+ 22.4	2.3	-	2.3	5.9	4.4	1.5	+ 3.6
July 4 - 31	28.2	-	28.2	117.6	96.3	-	19.3	2.1	+ 89.4	4.6	-	4.6	5.0	4.2	0.8	+ 0.4
Aug. 1 - 28	19.7	-	19.7	73.6	53.9	-	19.5	0.2	+ 54.9	6.6	3.0	3.6	3.0	3.4	1.6	- 1.8
First year of war	323.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+ 181.7	31.2	3.9	29.3	36.1	30.0	6.1	+ 4.9
Aug. 29 - Oct. 2	44.3	-	44.3	43.9	16.4	-	27.3	0.2	- 0.4	8.7	2.5	6.2	8.0	6.7	1.3	- 0.7
Oct. 3 - 30	26.7	-	26.7	28.6	14.0	-	14.3	0.3	+ 1.9	10.1	7.5	2.6	7.9	6.5	1.4	- 2.2
Oct. 31 - Nov. 27	35.2	-	35.2	69.6	49.2	-	16.7	3.7	+ 34.4	3.1	0.6	2.5	3.6	2.1	1.5	+ 0.5
Nov. 28 - Dec. 31	42.0	-	42.0	60.6	42.5	-	13.7	4.4	+ 12.6	4.8	-	4.8	6.8	4.8	2.0	+ 2.0
Period through Dec.	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+ 230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Jan. 2 - 29	33.7	-	33.7	33.9	16.9	-	15.0	2.0	+ 0.2	4.8	-	4.8	5.8	5.1	1.7	+ 2.0
Jan. 30 - Feb. 26	31.1	-	31.1	24.1	14.1	-	6.8	3.2	- 6.8	5.0	1.7	3.3	3.2	0.6	2.6	- 1.8
Feb. 27 - Apr. 2																
WEEK ENDED:																
Feb. 5	8.4	-	8.4	7.1	4.6	-	2.3	0.2	- 1.3	2.6	1.7	0.9	2.2	0.6	1.6	+ 0.4
11	1.9	-	1.9	9.7	3.4	-	4.3	2.0	+ 7.8	1.0	-	1.0	0.5	-	0.5	- 0.5
19	12.9	-	12.9	4.5	3.7	-	0.2	0.6	- 8.4	0.2	-	0.2	0.3	-	0.3	+ 0.1
26	7.9	-	7.9	3.0	2.6	-	-	0.4	- 4.9	1.2	-	1.2	0.2	-	0.2	- 1.0

Weekly Average of Total Debits Since Outbreak of War  
Through February 26 \$ 6.9 million





	Actual Receipts				1942		1943		Revised Estimates				
	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949
<b>National Income (Billions of dollars)</b> .....	71	84	89	74	75	83	75	84	91	100	100	91	90
<b>Receipts (net)</b>													
Income tax .....	2,164	2,442	2,189	2,326	3,055	4,510							
Excise taxes .....	2,181	2,380	2,292	2,345	2,971	3,000							
Customs .....	486	399	319	349	300	293	7,011	8,500	10,000	14,000	15,000	14,000	11,500
Special payments by Govt. corporations .....	-	-	189	64	360	-							
<b>Total</b> .....	5,029	5,250	5,189	5,087	7,013	8,273	7,013	8,500	10,000	18,000	15,000	17,000	11,500
<b>Expenditures</b>													
Departmental .....	223	233	251	350	431	447	431	447	450	450	450	450	450
Department of Agriculture .....													
Federal Crop Insurance Act .....	-	-	6	13	18	18	20	20	20	20	20	20	20
Adm. of Sugar Act of 1937 .....	-	6	62	49	49	48	48	48	48	48	48	48	48
Disposal of Surplus Commodity .....	-	-	20	215	211	205	211	205	-	-	-	-	-
Exportation & Domestic Consumption, etc. ....	42	28	77	91	125	109	129	100	25	28	28	28	300
Commodity Credit Corp. restoration of capital ..	22	15	129	51	95	100	95	100	-	-	-	-	-
Soil Conservation Service, salaries, etc. ....	31	28	21	21	20	20	20	20	80	60	60	60	60
Conservation and use of land resources .....	357	304	478	603	475	475	475	475	30	30	30	30	30
Other .....	128	14	8	3	2	2	2	2	2	2	2	2	2
Farm Credit Administration .....	9	-5	-3	-1	9	8	9	8	5	5	5	5	5
Farm Credit Administration - repayments .....	-	-	-	-	-25.54	-	-25.54	-	-	-	-	-	-
Federal Farm Mortg. Corp. - reduction in interest rate	-	6	7	7	10	9	10	9	9	9	9	9	9
Federal Land Banks .....													
Reduction in interest rates .....	33	34	31	29	28	27	28	27	26	25	24	23	22
Capital and surplus .....	21	24	15	1	-100	-	-100	-	-	-	-	-	-
Farm Security Administration .....	210	180	164	157	167	167	167	167	21	21	21	21	21
Farm Tenant Act .....	-	3	27	42	42	42	42	42	21	21	21	21	21
Rural Electrification Administration .....	9	15	38	38	31	4	31	4	-	-	-	-	-
Rural Service .....	51	46	65	67	36	30	36	30	30	30	30	30	30
All other departmental .....	87	74	87	90	79	81	79	81	60	60	60	60	60
<b>Total Agriculture</b> .....	946	879	1,251	1,580	999	1,177	999	1,177	730	734	734	737	841
Department of Interior .....													
Reclamation Projects .....	97	68	78	66	83	74	83	74	60	53	53	53	50
All other .....	111	149	137	114	116	97	116	97	100	100	100	100	100
National Defense .....													
Army Department .....	577	596	673	692	3,126	3,447							
Navy Department .....	378	431	490	667	3,045	3,957							
Supplemental Defense Items .....	-	-	-	-	100	1,000	3,300	7,000	7,300	11,000	9,300	6,000	1,000
Selective Service, administrative expenses .....	-	-	-	-	21	32							
Other agencies .....	-	-	-	-	21	32							
<b>Total National Defense</b> .....	955	1,027	1,163	1,359	6,292	10,811	5,500	7,000	7,500	11,000	9,500	7,000	1,000
Less-Lend Bill .....	-	-	-	-	-	-	1,000	3,500	4,500	-	-	-	-
Postal deficiency .....	42	44	43	43	30	51	30	51	30	30	30	30	30
War Department .....													
Sewer and harbor work and flood control .....	235	199	193	203	211	193	211	199	30	30	30	30	100
Passes Canal .....	19	21	10	12	11	11	11	12	11	11	11	11	11
Treasury Department .....													
Interest on the public debt .....	866	926	943	1,043	1,100	1,225	1,100	1,225	1,450	1,400	1,450	1,400	1,700
Refunds of taxes and duties .....	56	100	60	91	70	85	70	85	70	75	75	75	75
All other departmental (excluding national defense) ..	180	168	176	172	188 1/2	192 1/2	188 1/2	192 1/2	174	174	174	174	174
District of Columbia .....	5	5	5	5	6	6	6	6	6	6	6	6	6
Federal Loan Agency .....													
Federal Housing Administration .....	17	12	9	7	6	7	6	7	-	-	-	-	-
Reconstruction Finance Corporation .....	-4	3	8	6	3	-	2	-	-	-	-	-	-
Federal Home Loan Bank-capital stock .....	21	5	-	-	-	-	-	-	-	-	-	-	-
Other .....	2	1	1	1	1	1	1	1	1	1	1	1	1
Federal Security Agency .....													
Civilian Conservation Corps .....	385	326	290	283	274	253	274	253	-	-	-	-	-
National Youth Administration (incl. nat'l defense) ..	66	51	70	95	95	97	95	95	25	25	25	25	71
Office of Education (excluding nat'l defense) .....	13	27	20	20	28	27	28	27	27	27	27	27	27
Public Health Service .....	22	22	20	20	32	33	32	33	13	13	13	13	13
Social Security Board .....	185	289	321	264	410	440	410	440	434	434	434	434	513
Federal Works Agency .....													
Public Buildings Administration .....	95	92	66	75	73	42	73	42	30	30	30	30	70
Public Roads Administration .....	341	223	171	165	179	165	179	165	100	90	90	90	100
Public Works Administration .....	368	149	408	348	123	79	123	79	-	-	-	-	-
U. S. Housing Authority .....	-	21	4	2	7	14	7	14	22	22	22	22	22
Works Project Administration .....	1,931	1,451	2,161	1,478	1,325	998	1,325	998	300	300	300	300	2,000
Fed. Emerg. Relief Adm. & C.W.A. ....	13	5	2	1	-	-	-	-	-	-	-	-	-
Railroad Retirement Board .....	1	3	3	3	8	9	8	9	5	4	4	4	4
Railroad Retirement Account .....	1	143	107	121	120	142	120	142	150	150	150	150	150
Tennessee Valley Authority (excluding nat'l defense) ..	42	42	41	39	40	40	40	40	40	40	40	40	40
Veterans Administration .....	1,138	562	557	557	565	599 1/2	565	599 1/2	600	600	600	600	600
Government employees' retirement funds .....	67	73	75	87	92	102	92	102	140	140	140	140	125
Supplemental items (regular) .....	-	-	-	-	150	100	150	100	-	-	-	-	-
<b>Total, excluding public debt retirements</b> .....	8,177	7,209	8,707	8,998	13,202	17,485	13,208	18,184	18,969	15,672	14,280	12,795	12,489
<b>Net deficit</b> .....	3,148	1,961	3,517	3,911	4,389	9,218	6,325	9,684	6,500	3,672	750	225	95
<b>Gross public debt, end of year</b> .....	36,425	37,385	40,403	42,964	47,137	58,367	47,193	58,797	65,300	69,032	66,980	70,040	71,032
<b>Means of financing net deficits:</b>													
Decrease or increase (-) in public debt -													
U. S. Savings Bonds .....	464	438	600	1,077	1,000	3,000	1,000	3,000	3,000	3,300	1,000	2,300	2,000
Other public loans, etc. ....	1,230	-264	1,350	486	3,902	3,808	3,977	6,212	1,900	-1,687	-4,254	-4,055	-2,462
Special issues .....	923	1,118	1,084	1,095	1,208	1,202	1,208	1,212	1,000	3,100	1,400	1,200	1,000
<b>Total increase in debt</b> .....	2,617	1,292	2,034	2,558	6,110	8,010	6,185	10,424	5,900	4,713	756	355	538
Trust accounts, etc. excess of receipts (+) or													
expenditures (-) .....	-974	-977	-890	-136	-41	-38	-	-	-	-	-	-	-
Increase (+) or decrease (-) in general fund balance ..	-128	-377	-452	-247	-11	-38	-	-	-	-	-	-	-
<b>Total means of financing</b> .....	3,148	1,961	3,522	3,811	6,168	9,210	6,225	9,586	5,900	3,672	756	355	538

Includes \$25 M. requested to Treasury  
 \$100 M. for Adjusted Service Certificates  
 \$20 M. for refugees relief for 2 years  
 \* Requests under 1941 budget program

*Handwritten:* Bell you me this much?  
 1/14/45



BRITISH EMBASSY,  
WASHINGTON, D. C.

   
PERSONAL AND  
SECRET

7th March, 1941

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Halifax*

The Honourable

Henry Morgenthau, Jr.,  
United States Treasury,  
Washington, D.C.

**TELEGRAM RECEIVED FROM LONDON  
DATED MARCH 6th, 1941**

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**NAVAL**

Suez Canal still closed but ships drawing less than 20 feet may enter Port Said through a swept channel.

2. 8 mines were exploded Liverpool Bay on March 5th among others exploded elsewhere one was exploded in Midway three miles above Rochester Bridge. One Junkers 88 shot down by Sunderland off South-West Ireland on 5th. Probably two Blenheims shot down one Heinkel same area.

3. Results of raid on Løsten Island on 4th German factory ship 9780 tons, seven German, 1 Norwegian small vessels, 1 armed trawler and 1 unarmed trawler destroyed. Total tonnage about 18,000 tons. 198 German prisoners of all three services taken, also 10 Quisling Norwegians, one German Naval officer and six ratings killed. We suffered no damage, no casualties and reception of our troops on shore most friendly.

4. Cruiser torpedoed and believed sunk by Upright on 25th now reported a Condottieu A class.

5. **MILITARY. ETHIOPIA.**

Enemy evacuated Durye on March 4th owing to patriots pressure and are withdrawing through Debra Marcos. 1500 Banda and 200 Colonial troops have deserted from the enemy with their arms.

6. **ALBANIA.**

Italian divisions of all types in Albania now total 24.

7. **ROYAL AIR FORCE.**

ROYAL AIR FORCE.

Night of 5th/6th. All operations cancelled.

8. GERMAN AIR FORCE.

Night of 5th/6th. Activity negligible.

MEDITERRANEAN.

Mines were again dropped in the Suez Canal on the night of 3rd/4th and on the 5th another bombing attack was made on Halpar aerodrome Malta causing considerable damage.

9. Aircraft casualties in operations over and from British Isles.

GERMAN:Destroyed

2

Probable

7

Damaged

2

BRITISH:

Destroyed - 4 fighters.



BRITISH EMBASSY,  
WASHINGTON, D. C.

March 7th, 1941

PERSONAL AND  
SECRET

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Halifax*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated

March 5th, 1941

Naval.

Further mines dropped by aircraft Suez Canal on March 3rd. It had been expected the Canal would be open by March 3rd. The positions of the new mines as plotted considered fairly accurate.

2. "Canberra" and "Leander" P.M. March 4th, 300 miles South East of the Seychelles sighted merchant vessel and tanker. Within 20 minutes both were on fire and later sank. Merchant ship was German S.S. "Coburg" of 7400 tons which recently left Massawa and the tanker was Norwegian "Ketty Brovig" of 7000 tons previously on passage from Bahrein to Lourenco Marques.

3. On March 4th, successful operation against fish oil plants in four principal fishing ports Lofoten Island successfully completed by units of the Home Fleet.

4. Prisoners taken were German or Quisling Norwegians. Special service and Norwegian troops were employed.

5. Aircraft on patrol Dutch coast dropped 250 pounds of bombs Den Helder docks night of March 3rd/4th, which caused very heavy explosion. Aircraft reconnaissance Tripoli harbour p.m. March 3rd, showed eight large ships, 21 medium, 24 small craft. Two miles North were two large merchant vessels and two destroyers - 15 miles North a warship with one destroyer standing by was seen to be on fire.

6. Military. Italian Somaliland.

We have occupied Bulo Burti, our patrols have reached Iaha Beido, and have captured 200 prisoners, much transport and 20,000 gallons of petrol. Prisoners now exceed 10,000.

-2-

7. Bulgaria.

Sixteen of Bulgaria's seventeen infantry divisions are now reported mobilized and movement of Bulgarian troops towards Turkish frontier continues.

## 8. Royal Air Force night of March 3rd/4th.

43 tons of H.E. and 7500 incendiaries were dropped on Cologne; a fire  $\frac{3}{4}$  of a mile long was left burning on the West side of the river.

9. March 4th, in the afternoon 2 sweeps were carried out over the Channel each by 3 squadrons of fighters but no enemy aircraft were seen. A Spitfire on photographic reconnaissance shot down an enemy fighter near Brest.

10. The Night of March 4th/5th, bad weather on the Continent prevented operations.

11. Greece.

On March 3rd, Hurricanes shot down five out of ten Italian bombers returning from Larissa.

12. German Air Force.

Night of March 4th/5th, about 50 enemy aircraft were operating of which about 12 were minelaying in the Thames Estuary, the remainder swept South Wales area. One aircraft was destroyed by our night fighters and two others are reported to have been shot down.

13. Aircraft casualties in operations over and from the British Isles.

<u>German</u>	Destroyed	Probable	Damaged
	2	2	4

<u>British</u>	Nil
----------------	-----

14. Home Security.

Night of March 3rd/4th. Casualties at Cardiff estimated 46 killed and 85 seriously wounded.

15./



-3-

15. Night of March 4th/5th. Some fires were started in Cardiff area but were quickly under control, Penarth railway station received a direct hit. Very little damage, very few casualties anywhere.

RESTRICTED

G-2/2657-220  
No. 333

M.I.D., W.D.  
March 7, 1941  
12:00 M.

SITUATION REPORTI. Western Theater of War.

Air: German. Minor harrassing activity.

British. Apparently no important offensive operations were undertaken.

II. Balkan Theater of War.

Ground: Bulgaria. Advance of German main forces continues.

Albania. No change.

Air: No activity reported.

III. Mediterranean and African Theaters of War.

Ground: Italian Somaliland. British troops have occupied Ferfer which is about 220 miles northwest of Mogadiscio. They report the advance is continuing.

Libya. The British report further brushes between armored vehicles west of Agheila.

Eritrea. The Italians claim a successful counter-attack in the Cheren area.

Air: Axis. Malta was again attacked by dive bombers. German planes in North Africa raided Derna, 175 miles east of Benghazi.

Note: This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

RESTRICTED

**CONFIDENTIAL**

Paraphrase of Code Radiogram  
Received at the War Department  
at 12:08, March 7, 1941.

London, filed March 7, 1941.

1. On Thursday, March 6, British planes carried out raids against German merchant shipping off the coasts of Germany and Denmark with bombs and torpedoes. In addition, direct hits were scored by British bombers on a German-occupied airfield at Huyzbeek, Holland, (?) which is eight miles north of Rotterdam. Manufacturing establishments at the Belgian city of Sluiskil were bombed by British planes. (It is probable that this was Sluiskil, Holland. 0-3) The crew was forced to leave a German vessel which was bombed by the British in the vicinity of Horns Reef (?) and another German ship in the mouth of the Elbe River was torpedoed. During the preceding night no British planes were over the Continent because of adverse weather conditions. During all of these operations four fighter planes were lost by the British.

2. During the night of March 6-7 one German plane carried out a raid against Bristol. In addition, the coast line from Flamborough Head to Newcastle-upon-Tyne was mined by German planes that engaged in a bombing attack on the latter city. German aircraft losses and the damages done to British installations as a result of these attacks have not been determined. During the preceding day German fighter planes maintained continuous patrols over the Dover Straits. During the same day two German planes were plotted over the Biggin Hill and Northolt airfields and over London. Less German planes in large

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numbers carried out attacks against targets primarily in Norfolk and Suffolk. During this day German aircraft losses were one bomber confirmed and one bomber probable. During daylight hours of March 5 German plane losses were two confirmed, seven probable and two damaged.

3. In all Middle Eastern theaters British planes were on patrol duty and were engaged in reconnaissance. No British planes were lost in these theaters. In the Eritrean theater direct hits were scored by British bombers on a tunnel on the railroad line running from Asmara to Keren.

4. German aircraft carried out four small, ineffective attacks on Malta.

5. Desertions by native troops from the Italian Army in Ethiopia now total 1,700. All deserters escaped with their weapons.

6. A path in the Suez Canal has been cleared of German mines providing a channel through which all boats of less than a 20-foot draft can proceed into Port Said. The rest of the Canal is still closed.

7. The arrival of German troops and planes in Casablanca, Morocco, and in other points in this section of Africa is a matter of considerable concern to the British Government. It is now known that German troops and at least two German large 4-motored bombers are in Casablanca. It is thought that more of these bombers will arrive soon and that attacks from these African points on British merchant shipping can be expected.

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8. All types of Italian troops now in Albania total 34 divisions.
9. Some of the German prisoners taken during the naval and landing party attack on the Lofoten islands off the Norwegian coast were personnel sent there for the construction of a German airbase. During this attack a total of 11 small German cargo boats totalling 18,000 tons were sunk.

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