

DIARY

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Work Projects Administration

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April 11, 1941
9:30 a.m.

RE TAX LEGISLATION

Present: Mr. Sullivan
Mr. Blough

Sullivan: I will have to change one figure there.
(See Attachment No. 1.) It should be two hundred.

H.M.Jr: What should be two hundred?

Sullivan: Instead of 9,280, it should be 9,200.

H.M.Jr: Now, what is the thing that goes with this?
(See Attachment No. 2.)

Clocks and watches, that is a new one. How much does the \$25 license fee for a place to sell liquor produce, do you know?

Sullivan: We can get that. I don't know offhand. A great deal of those occupational licenses we are not able to collect because of lack of personnel.

H.M.Jr: You ought to go after that. I spoke to Helvering yesterday about it.

Sullivan: I discussed it with him, too.

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H.M.Jr: I don't know what it produces, but if it produced any real amount, I wouldn't mind, for instance, making it fifty dollars.

Sullivan: There are a number of those occupational licenses that we can increase.

H.M.Jr: Would you look at those?

Sullivan: Yes. I have gone over that with Berkshire, and I have quite a memorandum on it.

H.M.Jr: Would you digest it, and we can talk about it?

Sullivan: Yes, sir.

H.M.Jr: This is good enough. What does that mean, "a related tax basis?"

Sullivan: Well, because of these various corporation taxes, there will be less in dividends, you see.

H.M.Jr: I see, this is the break-down here? (See second page of Attachment No. 2.)

Sullivan: Yes.

Blough: The second page is the description.

H.M.Jr: And the next one is the individual rates.

Sullivan: And that one is your estates.

H.M.Jr: What is this?

Sullivan: The upper line, the red line, shows the --

H.M.Jr: Where does it go?

Sullivan:the new tax, and the black line is the 1940

- 3 -

tax, and the upper line there is the new tax - new surtaxes without the defense taxes.

H.M.Jr: I see.

Sullivan: I don't know whether you want these charts to go to the President.

H.M.Jr: Yes, they are interesting. We might as well. This is all right. Now, what I would suggest is this. I think you could fix two little books, you see, with covers and holes through it so it would be flat, you see, and I can give him this in a book and have one for me. I think this is fine.

Sullivan: Let me do that over so there won't be any corrections. Are we going to see him today?

H.M.Jr: It is supposed to be at eleven o'clock. The Treasury doesn't close today, does it?

Sullivan: I don't recall that it did last year.

H.M.Jr: What time did you go to Mass?

Sullivan: I didn't go.

H.M.Jr: Can you go later?

Sullivan: Twelve-thirty.

H.M.Jr: What if you miss it then?

Sullivan: It isn't a Holy Day obligation.

H.M.Jr: If you miss it is it another one?

Sullivan: No.

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H.M.Jr: I think we are in good shape to go over there.

Sullivan: Yes, I think so.

I had a very interesting luncheon with Senator LaFollette yesterday.

April 11, 1941.

MEMORANDUM FOR THE PRESIDENT:

Testifying before the Senate Finance Committee on the Public Debt Act of 1941, I expressed the hope that two-thirds of our current expenditures be met by current revenues and the other one-third be financed through borrowings. If this is to be accomplished it will be necessary to enact at this session of Congress a tax bill yielding an additional \$3.5 billion per year.

Estimated expenditures for fiscal 1942 . . .	219,000 million	21.8
Two-thirds of expenditures	142,667 million	14.6
Estimated net revenue fiscal 1942	9,223 million	9.4
Balance to be raised by new taxes	3,144 million	5.2

The attached schedule presents a suggested plan for raising approximately \$3.5 billion. This amount represents new tax liabilities which would accrue during the fiscal year of 1942. However, because of the lag in collections in the case of income, excess profits and estate taxes, the actual collections in fiscal 1942 will be substantially less than the total of \$3.5 billion.

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Estimated expenditures for fiscal 1942 . . .	\$19,000 million
Two-thirds of expenditures	12,667 million
Estimated net revenue fiscal 1942	9,300 million
Balance to be raised by new taxes	3,467 million

The attached schedule presents a suggested plan for raising approximately \$3.5 billion. This amount represents new tax liabilities which would accrue during the fiscal year of 1942. However, because of the lag in collections in the case of income, excess profits and estate taxes, the actual collections in fiscal 1942 will be substantially less than the total of \$3.5 billion.

JLS:kb

*1. The amount of the
depreciation is dependent
on the amount*

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Estimated expenditures for fiscal 1942 . .	\$19,000 million
Two-thirds of expenditures	12,667 million
Estimated net revenues fiscal 1942	9,223 million
Balance to be raised by new taxes	3,444 million

The attached schedule presents a suggested plan for raising approximately \$3.5 billion. This amount represents new tax liabilities which would accrue during the fiscal year of 1942. However, because of the lag in collections in the case of income, excess profits and estate taxes, the actual collections in fiscal 1942 will be substantially less than the total of \$3.5 billion.

Tax changes aggregating approximately an additional \$3,600 million of revenue 1

Source	Estimated Increase 1. (In millions)
Individual Income Taxes	61,517.1
Increase surtax rates, adopting attached schedule (with defense tax)	393.0
Estate and Gift Taxes	
Estate tax changes: (1) reduce exemption to \$25,000;	
(2) adopt attached estate tax rate schedule (with defense tax)	
(3) reduce insurance exclusion to \$25,000	
Gift tax changes: (1) reduce exemption to \$25,000;	
(2) increase the gift tax rates to three-fourths the rates	
in the estate tax schedule	
Excise Taxes	933.5
1) Surtax on normal tax net income, 6%	533.5
2) Excess profits tax: Reduce the average earnings credit	
from 55 to 75 percent and the invested capital credit	
from 8 to 6 percent	400.0
Alcohol	200.8
Cigarettes: Additional 75 cents per 1,000	125.8
Liquor, tobacco and snuff: Double rates	75.0
Other excise taxes	1,056.0
Gasoline, 2 cents per gallon additional	400.0
Soft drinks, 1 cent a bottle and equivalents	132.5
Automobiles, parts and accessories, double rates	78.3
Check tax, 2 cents per check	56.0
Amusements, (reduce exemptions from 20 cents to 9 cents)	55.0
Woolly, 10 percent of retail sale price	50.0
...res and tubes, increase rates from 2 1/2 and 4 1/2 cents to 5 and 9 cents	43.5
Telephones, telegraph, cable, etc., lower exemptions and increase	
rates	37.0
Telephone bill, 5 percent	30.0
Passenger transportation, 5 percent of amount paid	30.0
Handy, shaving gum, 5 percent	20.0
Furs, 10 percent of retail sale price	15.0
Photographic apparatus, etc., 10 percent	13.0
Toilet preparations, revise base	12.0
Electr. watches, etc., 10 percent	11.0
Club dues, initiation fees, lower exemptions and redefine base	9.5
Mechanical refrigerators, increase rate from 5 1/2 to 10 percent	9.0
Matches, 2 cents per 1,000	8.0
Cigarettes, change base and impose occupational tax	7.5
Deodorizers, toilet soap, etc., 5 percent	7.2
Sporting goods, 10 percent	6.5
Radio sets and parts, increase rate from 5 1/2 to 10 percent	5.0
Medical instruments, 10 percent	5.0
Bowling alleys, \$15 per alley, billiard or pool table	5.0
Trunks, suitcases and other luggage, 10 percent	4.0
Playing cards, increase rate from 11 to 15 cents	2.0
Cafe deposit boxes, increase from 11 to 20 percent	2.0
Photographs and phonograph records, 10 percent	2.0
Summation of items	4,000.4
Less: Allowance for interrelated tax bases (approximate)	450.4
Total	3,600.0

Army Department, Division of Tax Research April 10, 1941
 Estimates for individual income taxes are on basis of calendar year 1941 levels of
 income; all other estimates are at business levels estimated for the fiscal year 1942.

Other excise taxes

		Estimated increase (in millions)
Gasoline	Increase rate 2 cents per gallon additional	400.0
Soft drinks	1 cent per bottle with equivalent taxes on unbottled drinks and fountain syrups	132.5
Automobiles	Increase rates on automobiles, etc., from $3\frac{1}{2}$ to 7 percent and on parts or accessories from $2\frac{1}{2}$ to 5 percent	74.3
Cheek tax	Re-enact the 2-cent tax, Act of 1932	56.0
Admissions	Reduce exemption from 20 cents to 9 cents	55.0
Jewelry	10 percent of retail sale price	50.0
Tires and tubes	Increase rates from $2\frac{1}{2}$ and $4\frac{1}{2}$ cents to 5 and 9 cents	43.5
Telephone, telegraph, cable, etc.	Lower exemptions and increase rates	37.0
Telephone bill	Impose 5% tax on amount paid	30.0
Passenger transportation	5 percent of the amount paid	30.0
Candy, Chewing gum	5 percent	20.0
Furs	10 percent of retail sale price	15.0
Photographic apparatus, etc.	10 percent	13.0
Toilet preparations	Increase rate and revise basis for sale price	12.0
Clocks, watches, etc.	10 percent	11.0
Club dues, initiation fees	Tax amounts in excess of \$10 per year and extend scope of tax	9.5
Mechanical refrigerators	Increase rate from $5\frac{1}{2}$ to 10 percent	9.0
Matches	2 cents per 1,000	8.0
Cabarets	Change rate to 4 percent of amount paid for refreshments, etc., and impose tax on operators	7.5
Dentifrices, toilet soap, etc.	5 percent	7.2
Sporting goods	10 percent	6.5
Radio sets and parts	Increase rate from $5\frac{1}{2}$ to 10 percent	5.0
Medical instruments	10 percent	5.0
Bowling alleys	\$15 for each alley, billiard or pool table	5.0
Trunks, suitcases and other luggage	10 percent	4.0
Playing cards	Increase rate from 11 to 15 cents	2.0
Safe deposit boxes	Increase rate from 11 to 20 percent	2.0
Photographs and photograph records	10 percent	2.0
	Total	<u>1,050.0</u>

Individual surtax rate schedule

Surtax net income (In thousands of dollars)	Bracket rate (percent)	Total surtax cumulative
\$ 0 - 2	11	\$ 220
2 - 4	14	500
4 - 6	16	820
6 - 8	19	1,200
8 - 10	21	1,620
10 - 12	23	2,080
12 - 14	25	2,580
14 - 16	27	3,120
16 - 18	29	3,700
18 - 20	31	4,320
20 - 22	33	4,980
22 - 26	36	6,420
26 - 32	39	8,760
32 - 38	42	11,280
38 - 44	45	13,980
44 - 50	48	16,860
50 - 60	51	21,960
60 - 70	54	27,360
70 - 80	57	33,060
80 - 90	59	38,960
90 - 100	61	45,060
100 - 150	62	76,060
150 - 200	63	107,560
200 - 250	64	139,560
250 - 300	66	172,560
300 - 400	68	240,560
400 - 500	70	310,560
500 - 1,000	72	670,560
1,000 - 2,000	73	1,400,560
2,000 - 5,000	74	3,620,560
Over - 5,000	75	-

Treasury Department, Division of Tax Research March 31, 1941

Comparison of surtax rate schedules under
present law and proposal

Surtax net income (\$000)	Bracket rate (percent)		Total surtax cumulative	
	Present law	Proposal	Present law	Proposal
\$ 0 - 2	-	11	-	\$ 220
2 - 4	-	14	-	500
4 - 6	4	16	\$ 80	820
6 - 8	6	19	200	1,200
8 - 10	8	21	360	1,620
10 - 12	10	23	560	2,080
12 - 14	12	25	800	2,580
14 - 16	15	27	1,100	3,120
16 - 18	18	29	1,460	3,700
18 - 20	21	31	1,880	4,320
20 - 22	24	33	2,360	4,980
22 - 26	27	36	3,440	6,420
26 - 32	30	39	5,240	8,760
32 - 38	33	42	7,220	11,280
38 - 44	36	45	9,380	13,980
44 - 50	40	48	11,780	16,860
50 - 60	44	51	16,180	21,960
60 - 70	47	54	20,880	27,360
70 - 80	50	57	25,880	33,060
80 - 90	53	59	31,180	38,960
90 - 100	56	61	36,780	45,060
100 - 150	58	62	65,780	76,060
150 - 200	60	63	95,780	107,560
200 - 250	62	64	126,780	139,560
250 - 300	64	66	158,780	172,560
300 - 400	66	68	224,780	240,560
400 - 500	68	70	292,780	310,560
500 - 750	70	72	467,780	490,560
750 - 1,000	72	72	647,780	670,560
1,000 - 2,000	73	73	1,377,780	1,400,560
2,000 - 5,000	74	74	3,597,780	3,620,560
Over - 5,000	75	75	-	-

Comparison of present and proposed individual income taxes
on net incomes of selected sizes ^{1/}

Married person - no dependents

Net income before personal exemption ^{2/}	Amount of tax ^{3/}		Effective rates		Increase in tax under proposal	
	Present law	Proposal	Present law	Proposal	Amount	Percent
2,500	\$ 11	\$ 72	.4%	2.9%	\$ 61	554.5%
3,000	31	152	1.0	5.1	121	390.3
4,000	70	312	1.8	7.8	242	345.7
5,000	110	506	2.2	10.1	396	360.0
6,000	150	700	2.5	11.7	550	366.7
8,000	317	1,131	4.0	14.1	814	256.8
10,000	528	1,628	5.3	16.3	1,100	208.3
12,500	858	2,316	6.9	18.5	1,458	169.9
15,000	1,258	3,073	8.4	20.5	1,815	144.3
20,000	2,336	4,800	11.7	24.0	2,464	105.5
25,000	3,843	6,824	15.4	27.3	2,981	77.6
50,000	14,128	19,540	28.3	39.1	5,412	38.3
75,000	27,768	35,127	37.0	46.8	7,359	26.5
100,000	43,476	52,474	43.5	52.5	8,998	20.7
500,000	330,156	346,122	66.0	69.2	15,966	4.8
1,000,000	717,584	738,086	71.8	73.8	20,502	2.9
5,000,000	3,916,548	3,937,050	78.3	78.7	20,502	.5

Treasury Department, Division of Tax Research

April 9, 1941

- ^{1/} Under the proposal the attached surtax rate schedule is substituted for the present schedule.
- ^{2/} Maximum earned income assumed.
- ^{3/} Includes 10 percent defense tax.

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Estate tax rate schedule

Net estate after specific exemption (in thousands of dollars)	Bracket rate (Percent)	Cumulative tax on higher amount
\$ 0 - \$ 5	4	\$ 200
5 - 10	8	600
10 - 20	12	1,800
20 - 30	16	3,400
30 - 40	20	5,400
40 - 60	23	10,000
60 - 80	26	15,200
80 - 100	29	21,000
100 - 150	32	37,000
150 - 200	35	54,500
200 - 250	38	73,500
250 - 300	41	94,000
300 - 500	44	182,000
500 - 1,000	47	417,000
1,000 - 2,000	49	907,000
2,000 - 3,000	51	1,417,000
3,000 - 4,000	53	1,947,000
4,000 - 5,000	55	2,497,000
5,000 - 6,000	57	3,067,000
6,000 - 7,000	59	3,657,000
7,000 - 8,000	61	4,267,000
8,000 - 9,000	63	4,897,000
9,000 - 10,000	65	5,547,000
10,000 - 20,000	67	12,247,000
20,000 - 50,000	69	32,947,000
Over - 50,000	70	-

Treasury Department, Division of Tax Research

April 9, 1941

Proposed estate tax rates compared with
present estate tax rates

Net estate after specific exemption (in thousands of dollars)	Proposed rates 1/		Present rates 1/	
	Bracket rate (percent)	Cumulative tax on higher amount	Bracket rate (percent)	Cumulative tax on higher amount
\$ 0 - \$ 5	4	\$ 200	2	\$ 100
5 - 10	8	800	2	200
10 - 20	12	1,800	4	600
20 - 30	16	3,400	6	1,200
30 - 40	20	5,400	8	2,000
40 - 60	23	10,000	10 - 12	4,200
60 - 80	26	15,200	12 - 14	6,800
80 - 100	29	21,000	14	9,600
100 - 150	32	37,000	17	18,100
150 - 200	35	54,500	17	26,600
200 - 250	38	73,500	20	36,800
250 - 300	41	94,000	20	46,600
300 - 500	44	182,000	20 - 23	89,600
500 - 1,000	47	417,000	23 - 29	222,600
1,000 - 2,000	49	907,000	32 - 35	557,600
2,000 - 3,000	51	1,417,000	38 - 41	952,600
3,000 - 4,000	53	1,947,000	44 - 47	1,407,600
4,000 - 5,000	55	2,497,000	50 - 53	1,922,600
5,000 - 6,000	57	3,067,000	56	2,482,600
6,000 - 7,000	59	3,657,000	59	3,072,600
7,000 - 8,000	61	4,267,000	61	3,682,600
8,000 - 9,000	63	4,897,000	63	4,312,600
9,000 - 10,000	65	5,547,000	65	4,952,600
10,000 - 20,000	67	12,247,000	67	11,652,600
20,000 - 50,000	69	32,947,000	69	32,352,600
Over 50,000	70	-	70	-

Treasury Department, Division of Tax Research

April 9, 1941

1/ Exclusive of temporary defense tax.

Comparison of proposed estate tax with present estate
tax on net estates (before exemption) of selected
sizes ^{1/}

Net estate: before exemption (000)	Amount of tax ^{2/}		Effective rate		Increase in tax	
	Present law	Proposal	Present: law	Proposal	Amount	Percent
\$ 50	\$ 220	\$ 2,860	0.4%	5.7%	\$ 2,640	1,200.0%
60	660	4,840	1.1	8.1	4,180	633.3
80	2,200	9,735	2.8	12.2	7,535	342.5
100	4,620	15,290	4.6	15.3	10,670	231.0
200	21,780	50,325	10.9	25.2	28,545	131.1
400	64,460	139,700	16.1	34.9	75,240	116.7
600	113,740	238,975	19.0	39.8	125,235	110.1
1,000	232,100	445,775	23.2	44.6	213,675	92.1
2,000	597,960	984,225	29.9	49.2	386,265	64.6
4,000	1,527,680	2,127,125	38.2	53.2	599,445	39.2
6,000	2,706,220	3,358,025	45.1	56.0	651,805	24.1
10,000	5,430,260	6,083,825	54.3	60.8	653,565	12.0
20,000	12,799,380	13,453,275	64.0	67.3	653,895	5.1
40,000	27,978,500	28,632,725	69.9	71.6	654,225	2.3
60,000	43,268,060	43,922,450	72.1	73.2	654,390	1.5
100,000	74,068,060	74,722,450	74.1	74.7	654,390	.9

Treasury Department, Division of Tax Research

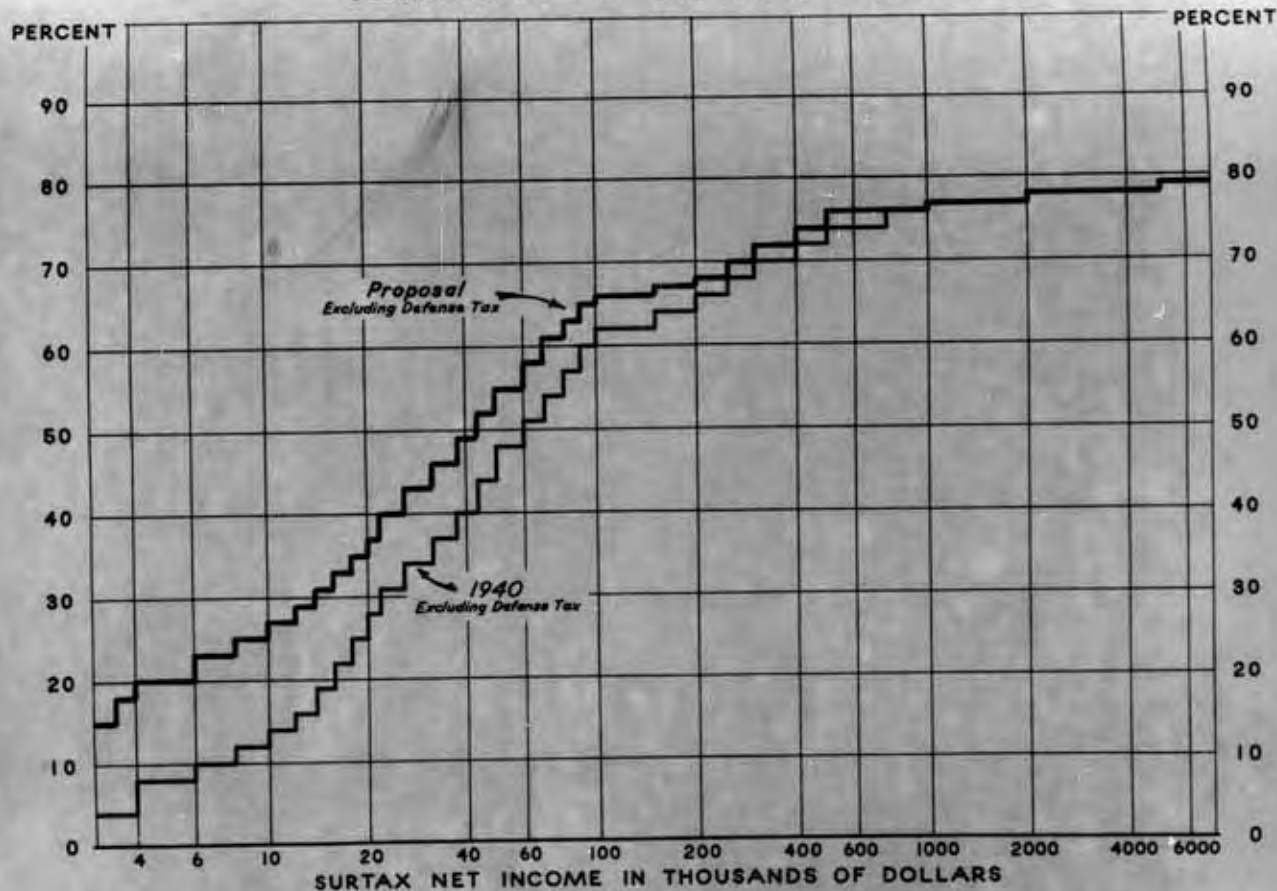
April 9, 1941

^{1/} Under the proposal the attached rate schedule is substituted for the present schedule and the specific exemption is reduced from \$40,000 to \$25,000.

^{2/} Includes 10 percent defense tax.

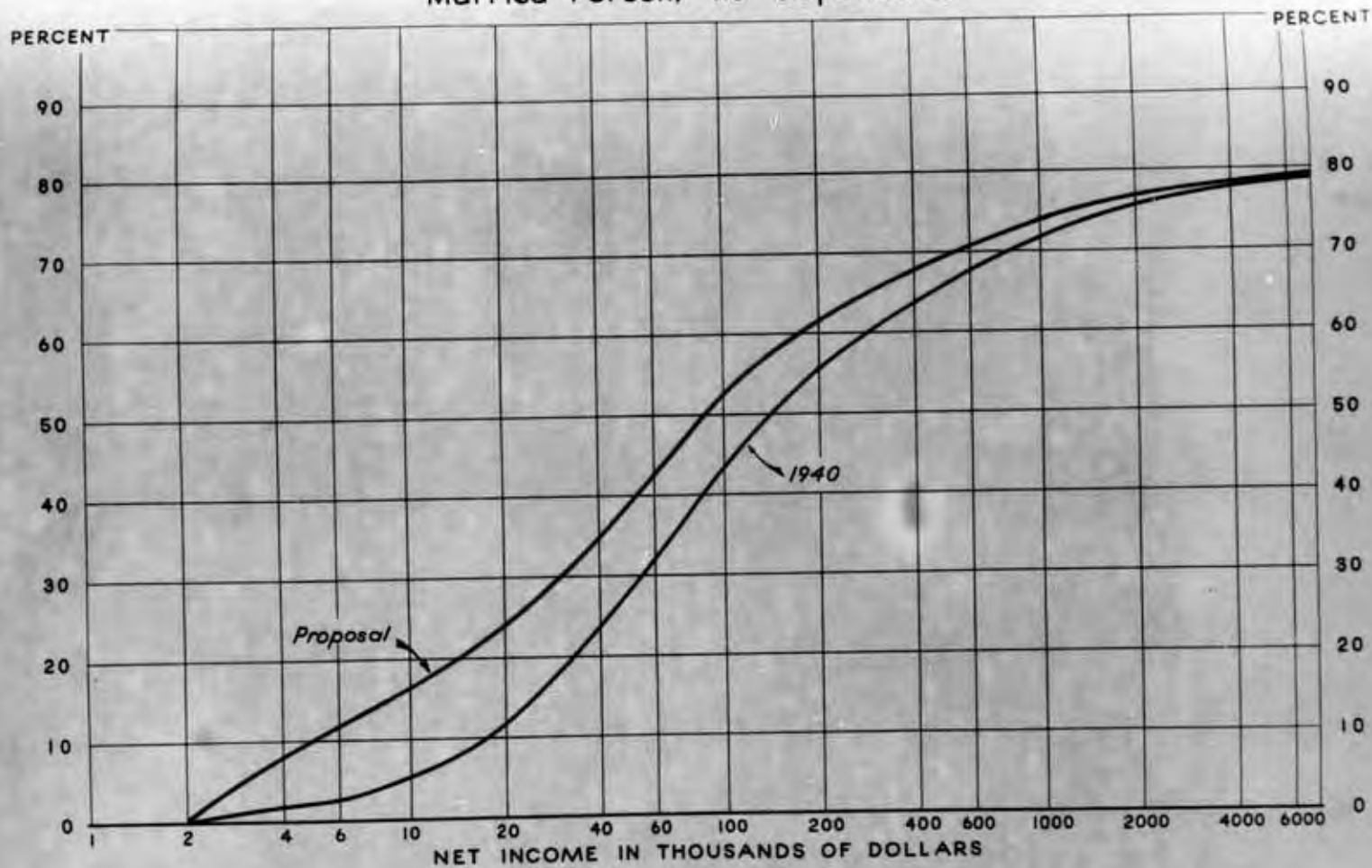
INDIVIDUAL INCOME TAX RATES 1940 AND PROPOSAL

Combined Normal and Surtax Rates



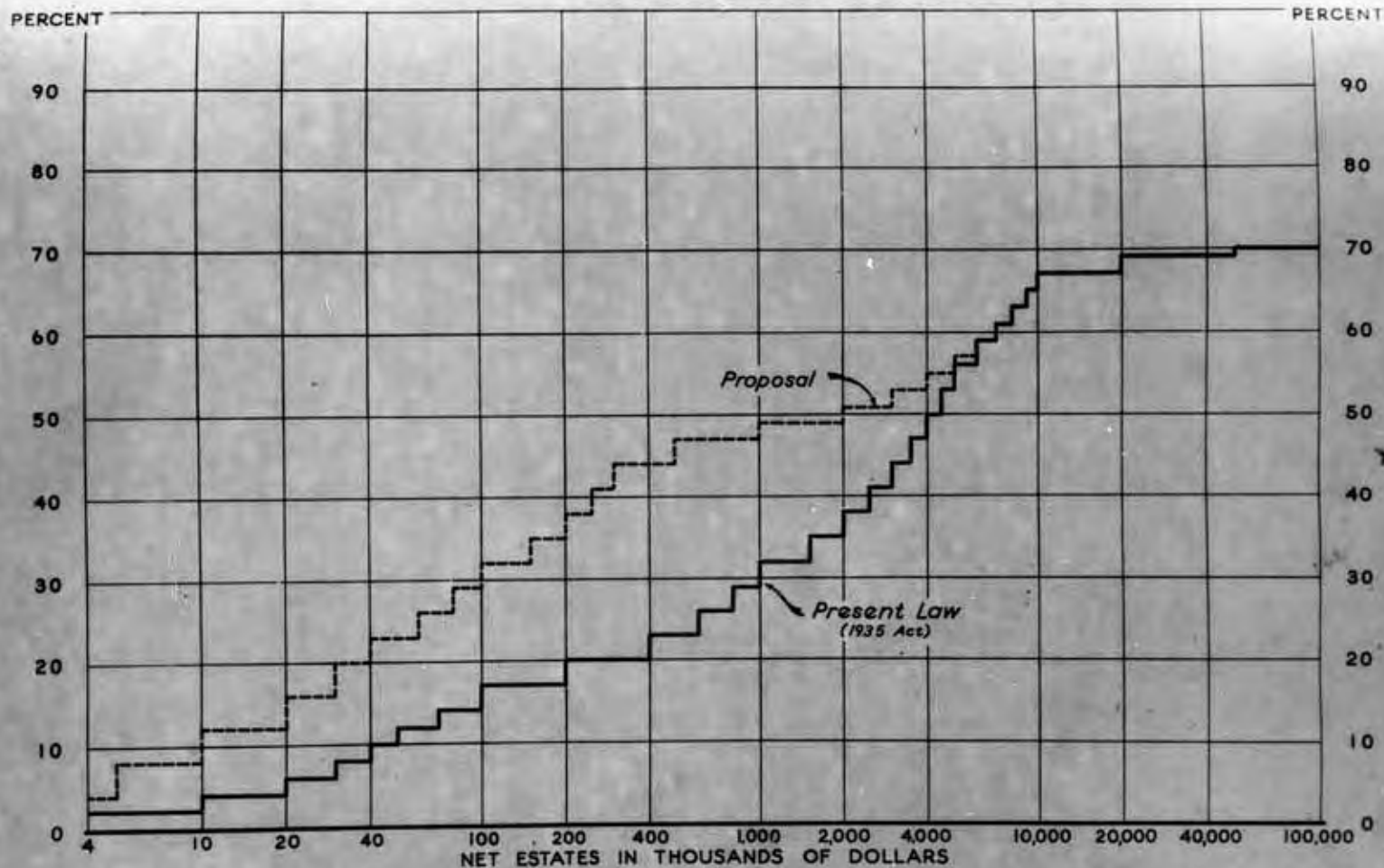
EFFECTIVE INDIVIDUAL INCOME TAX RATES WITH DEFENSE TAX

Married Person, No Dependents



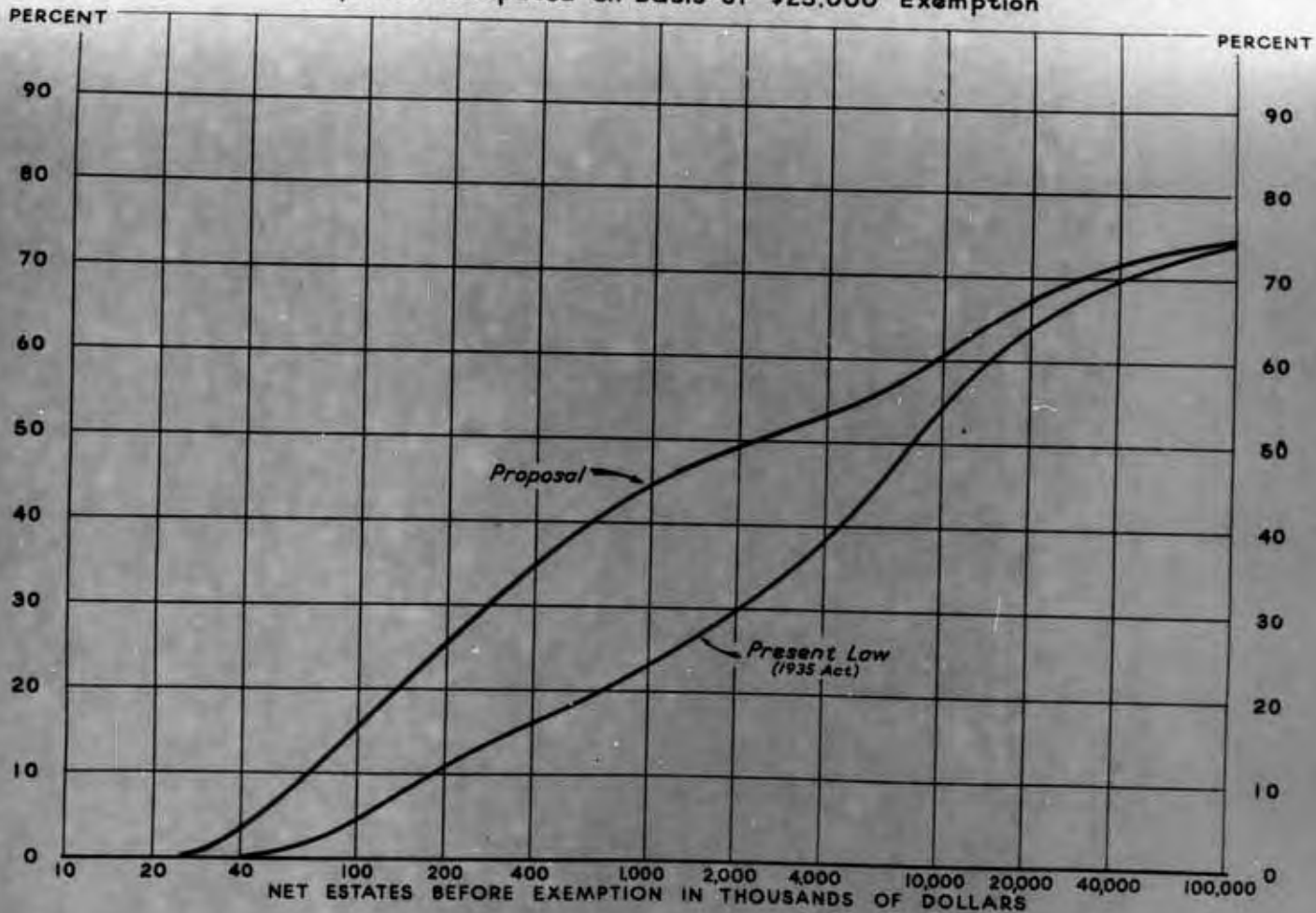
ESTATE TAX RATES: WITHOUT DEFENSE TAX

Bracket Rates



EFFECTIVE ESTATE TAX RATES, WITH DEFENSE TAX

Proposal Computed on Basis of \$25,000 Exemption



MEMORANDUM

April 11, 1961.

TO: Secretary Worgenthan

FROM: Mr. Sullivan

SUBJECT: Conference with the President. Present: Secretary Worgenthan
and Mr. Sullivan.

This conference immediately followed the press conference and the President spent some time reviewing the announcements he had made at the press conference. Before looking at the memorandum and schedules submitted to him he said he wished us to regard taxes from the point of view of their impact upon the impending upward spiral of prices. He then discussed at some length the situation in the steel industry and referred to his conference with Leon Henderson in regard to the proposed ten cents an hour raise for steel workers. Secretary Worgenthan advised him that we were making some studies on the 1939 and 1940 comparative distribution of profits and wages and that as far as we had gone the increase in wages seemed to be lagging behind the increase in profits. He then said, "I am sure that what you are submitting to me is already approved in principle but I would like to have you discuss it with Messrs. Henderson, Eccles and Currie and get their views."

Addressing himself to the memorandum he asked but one question in regard to it. He inquired if the estimated receipts for fiscal 1962 was the same figure he had sent to Congress in the Budget and I replied that this estimate had been revised upward almost a billion dollars over the figure he sent to Congress. The amount of \$3.5 billion did not seem to disturb him. He said it might be a good idea to ask for more than we hoped to get. He further commented that he would like to have an absolute minimum of \$2.5 billion, a probable goal of \$3 billion, and a possible goal of \$3.5 billion.

He then addressed himself to the first page of the attached schedules showing the taxes through which additional revenue was to be raised. He made some inquiry about estate taxes and then approved our making the increase on corporations a surtax rather than a normal tax. He said he thought the excess profits tax increase looked like the old undistributed profits tax. I told him they were altogether different but that there was a surprising support in Congress last summer for the undistributed profits tax as a substitute for the excess profits tax.

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He suggested that we work out a revised undistributed profits tax bill to have as an alternative for the excess profits tax.increase.

The increase in excise on gasoline and automobiles he suggested we discuss with Leon Henderson, and he seemed to approve the increased tax on gasoline as one means of reducing consumption of automobiles. He questioned the increase in tax on refrigerators and I advised him the reason we had done this was because the plants manufacturing refrigerators appeared to be particularly adaptable to defense projects. He then said, "Yes, that's the way to go at this".

After we arose to leave, he said he had talked with a friend of his from Aiken who said he was the only liberal in Aiken. This gentleman advised the President there were between two and three hundred families in Aiken with net incomes of \$200,000 and the President asked this gentleman how those families would get along if the tax law were to take from them everything over \$100,000, and this gentleman said they would get along all right. Secretary Morgenthau said that we would go to work upon his idea. As we left the President again asked us to get in touch with Henderson, Eccles and Gurrie and returning to the Treasury the Secretary asked me to see each of these three gentlemen on Monday and show them the schedules we had prepared.

VHS

April 11, 1941
9:50 a.m.

RE AID TO BRITAIN

Present: Mr. Young
Mr. Cox
Mrs. Klotz

Cox: Would you like to take a look at this? (Referring to large map)

H.M.Jr: Oh, I love maps.

Cox: This was an attempt to make this understandable in terms of that complicated Neutrality Act.

H.M.Jr: This is your interpretation of it?

Cox: Yes. Green is where you can go anywhere with anything in a private American vessel.

H.M.Jr: I see.

Cox: Red is where you can't go unless the President issues a proclamation.

(Mrs. Klotz entered the conference.)

Cox: Red and Green is where you can carry on

- 2 -

private American vessels oil and trucks and tractors except machineguns and so forth. Broken red is where you can go with Presidential permission. That was Banyas' idea of where you can get a loophole.

H.M.Jr: Who is he?

Cox: He is George Haas' man.

H.M.Jr: You will be amused at this meeting yesterday. The President said, "It is wonderful that Harry Hopkins discovered a loophole in this thing that even the Attorney General doesn't know about." I just grinned a sarcastic grin at Harry thinking he would drop his eyes and say bashfully, "Of course, Mr. President, it really wasn't me. It was given me by Oscar Cox," but he sat there.

Cox: That doesn't bother me.

I notice they are going to use those ships for transporting stuff to the bases and relieve the load on the others.

H.M.Jr: But he never said boo on it.

Young: Do you see this sort of peculiar thing around Montreal? You can ship arms into Montreal and Quebec but not into Newfoundland.

H.M.Jr: That is that big place. That is where the CPR handles all this stuff.

You know Sir Edward Beatty is the man who handles it.

Cox: Yes. The Neutrality Act is one of the craziest--

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H.M.Jr: They can go into Montreal?

Cox: But they can't stop at Halifax. You can take either the inland way or the ocean way.

H.M.Jr: Is this for Hopkins?

Cox: Yes. I guess he wants to give it to the President.

H.M.Jr: Have you got on there any where that the Treasury has done it?

Cox: We really ought to put a big label on there somewhere.

Klotz: I would.

Cox: We will get some binder strip and put it on.

H.M.Jr: Why not put it right up here?

Klotz: So they can't rub it off.

H.M.Jr: I would put in, "Prepared by," whatever Haas' office is called.

Cox: Traffic Section of the Division of Research.

Klotz: That is a wonderful map.

H.M.Jr: But I would put it right up there.

Cox: Look at what we do down here. (Indicating) Those are the two people in the War College who did it. But they only did the basic map. They didn't do the classifying.

H.M.Jr: Where would the President be apt to look at it?

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Cox: I would think down there.

H.M.Jr: Why not here? (Near legend)

Klotz: That part was prepared by the Treasury.

H.M.Jr: Why not put it here?

Cox: That is right.

H.M.Jr: I think I would put it right here, right across the bottom.

The other day when I took over that map that - was it done in the Treasury? Somebody gave it to me. Oh, yes, it was Kamarck. The President said, "What does the Treasury know about this sort of thing?"

Cox: Well, this fellow Banyas is good.

Klotz: He must be. I brought him into the Treasury.

H.M.Jr: Did you?

Klotz: Sure.

Cox: He is as smart as can be.

Klotz: And Haas didn't want him.

Cox: He is good.

Klotz: Brought him over from Farm Credit. He was there.

H.M.Jr: Oh!

Cox: He is an engineer by trade.

H.M.Jr: Was he in Farm Credit?

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Klotz: I brought him into Farm Credit and then brought him over here. He is marvelous. Haas didn't want him.

H.M.Jr: He must be good.

Klotz: I am sure he is. That is the man.

H.M.Jr: I remember sort of vaguely something about him. Causing a lot of trouble, wasn't he?

Klotz: That is right. Haas didn't want him.

Cox: We did one other mapping job here, but it is mostly Phil's handiwork.

(See Attachment)

H.M.Jr: What is that?

Cox: That is mostly Phil's handiwork.

Young: This is a joint effort to serve as a point for discussion.

H.M.Jr: What are you, the Executive Assistant? (Young)

Cox: Yes.

Young: I guess so.

H.M.Jr: Very good.

Has Hopkins accepted this?

Cox: He hasn't seen it.

Young: He hasn't seen it.

H.M.Jr: Yesterday the President asked - Hopkins after he got through with everything else brought up

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the discussion of six ships of sixteen knots each. The Maritime Commission turned him down.

Cox: That was the one I told you about the fight in Land's office.

H.M.Jr: He said unhesitatingly to give it. I wondered what happened. Would you hear very soon?

Cox: Yes.

H.M.Jr: Oh, I wouldn't go out of the way. Do you what to bring up anything?

Cox: Yes. Still on this shipping thing, as you know, the Greenland thing has gone through and - the Greenland bases. It seems to me that the next thing of political significance would be a constant harping on this Western Hemisphere thing because that has a lot of implications. One is in terms of patrolling in that area generally, which means that the British convoy work is much less. And I think publicly you can say that any German raider or submarine that is in there will just be cleaned out or that there should be no fighting there and make it apply to the British as well as to the Germans on the surface so that their convoy route will be shortened to the point from where the Western Hemisphere ends to their North Atlantic ports. The other second implication to that might very well be that you actually convoy to the Western Hemisphere point and the British pick up. That is looking to the future on the practical end of it.

H.M.Jr: It has been settled. I can't discuss it, but the President is going to announce it

- 7 -

either Monday night or Tuesday morning, and I am entirely satisfied. As far as I know, it is a brilliant conception. The thing would jell.

Cox: Well, we have been sort of talking about it ahead of the game, and I didn't know how far it had gone.

H.M.Jr: It has been jelled, and it is all right.
Were you in on the Greenland base thing?

Cox: Yes.

H.M.Jr: You were?

Cox: You know what happened. State and Justice had been looking up the law, apparently, for weeks as to how to do it, and then Hopkins - I had mentioned to him that it was bogged down.

H.M.Jr: Was what?

Cox: Was bogged down, and thought he ought to give it a push, and then he called up one afternoon and said, "Can you in 15 minutes tell me legally how to do this thing?"

H.M.Jr: I don't think you told me about that, did you?

Cox: Yes, I did.

H.M.Jr: Did you?

Cox: So we called them back and told them how it could be done, and he wrote a short memo for the President, and the President added in his own handwriting, "All right to go ahead,

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if the consent of the Greenland Government is obtained." The way it is done is, the President is allocating five million dollars from his emergency fund for defense to the War Department to start immediate construction of bases.

H.M.Jr: Did you tell me about that?

Cox: Yes.

H.M.Jr: Funny I have no recollection of it.

Cox: Well, now, the next thing which may be--

Young: That was quite a while ago.

Cox: It was about a week ago.

Young: A week or 10 days ago.

Cox: The other thing which may not be a practical possibility but which I think ought to be explored is the extent to which aircraft, as I mentioned before, can be integrated in the convoy job.

H.M.Jr: Yes, going over.

Cox: Yes, going over, and that raises the next question which is going to come up, and that is the allocations of things like the North American B-25 and the Glenn Martin medium bombers, of which the British are getting none as the schedules now stand.

H.M.Jr: Well, I looked up the Martin production thing, and the British are getting most of their production, and the Army is getting very little in the bomber.

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Cox: That is so in one bomber--

Young: On the B-26?

H.M.Jr: Almost no B-26's have been produced.

Young: They are just beginning to come over the line. The schedules don't make any provision for the British.

H.M.Jr: But look what they are getting from the Glenn Martin factory. It is almost four to one coming off the line.

Cox: That is right.

H.M.Jr: The English are getting, my guess is almost four to one.

Cox: I think that is roughly correct.

H.M.Jr: It is the B-26 which the Army gets, of which the English gets nothing. But they are getting - I say, out of the factory, I think you will find it is about four to one. I don't understand it.

Cox: I don't think they are getting any of the North American B-25's, either.

H.M.Jr: I am rusty on this stuff. I used to know this. I happened to look up the other day to see what they were getting out of Glenn Martin, and what they were getting out of Consolidated, and what they were getting out of Boeing and Curtiss, and they are getting more than 50 percent of it. Of course they are not on the trainers.

Cox: And also not on certain types. On the new B-17-D and -E, I don't think they are getting any.

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H.M.Jr: But they have their own ship coming out.

Cox: That is right.

H.M.Jr: Incidentally, that memo which finally came through which was a good order, one of the last ones you sent me, I wrote you a memorandum on. If it comes through - I would like a similar memo within 10 days.

Young: I have arranged for it every week.

H.M.Jr: Well, this stuff that you are talking about is something that I am not in on any more.

Klotz: Well, I think, from time to time, as these meetings go along, you will be in.

H.M.Jr: I would like to know about it. I like to know about them.

What else?

Cox: That is all.

H.M.Jr: No, the patrol area thing is fixed up beautifully.

How about you (Young)?

Young: We are just moseying along on our procedures, getting that all worked out, the mechanical details and so on. We are handling requisitions at about the rate of a hundred a week to start off for the British. That is what it has been for the last two weeks. It is going along fairly smoothly. We have got 17 offices in Federal Reserve.

H.M.Jr: How many offices?

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- Young: Seventeen, which I am going down and look at this morning. I think that it - we ought to move in this weekend.
- H.M.Jr: Well, I told you the other day that was your decision, yours and Cox'.
- Young: Because we have got files now scattered all over the darn place. There are some in the Budget and some in the War Department and some here.
- H.M.Jr: But you realize once you move off, you no longer are on Treasury soil. That is what you want to get off from.
- Cox: Well, I raised the question--
- H.M.Jr: Philip said he - he wasn't on neutral soil when he was here. Once you leave here, you have left. I mean, it is no longer a Treasury organization.
- Young: That is right.
- H.M.Jr: You appreciate that? You must. It is one of the reasons why. You said you wanted to get off on a neutral soil.
- Young: I think it will be better for that particular organization. I don't think it can operate this way.
- H.M.Jr: I told you it was your decision. But we won't have these meetings any more when you are over at the Federal.
- Cox: I was going to raise another question with Phil. That is this. Certainly until the first of July on the Budget end, it is going

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to be handled on an allotment basis. I mean, a request is now in to transfer monies to the Treasury to reimburse the Treasury for Philip's pay, so to speak. To that extent there is a degree of connection. He is a Treasury man, and he has been assigned on an allotment basis to the Lease-Lend, which raises the question of whether you ought to break the contact completely in the sense that he has no office here at all, because I think you have got this thing - it is going to come more and more into the picture, and it seems to me for informational and other purposes the more you know about it the more of that objective is going to be achieved, and with a parking space here, so to speak, I should think, and spending a certain amount of time here, I should think it would be useful on the over-all picture. That is my off-hand reaction on it.

- H.M.Jr: What are you going to do?
- Cox: I am only a lawyer. These are the fellows that get to the guts of this job.
- H.M.Jr: That doesn't answer me. Where are you going to have your office?
- Cox: Well, I understand they are making some space over there, but I would like to keep a two-by-four space here, if it is all right with you, in terms of law books and whatnot.
- H.M.Jr: It is all right with me, if it is all right with Foley.
- Cox: Yes.
- H.M.Jr: Well, you are all of age, and you will just have to make up your own minds, that is all.

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- Young: As far as I am concerned, of course I would rather be here, no doubt about that. At the same time, I don't think it is going to be as effective, and I don't think it is going to get over this psychological barrier with the other Departments, Budget and so on, as long as you have got it operating within the Department or even if it is physically in a departmental building with no connection technically with the Department. I still think you have got a psychological hurdle to get over. Maybe I am crazy.
- H.M.Jr: You see, one of the things that they don't do, Harry doesn't attempt in any way to service this committee of four.
- Cox: That was one of the reasons I think they should get more and more into these policy questions and the committee in terms of servicing and in terms of effectiveness is going to be conditioned by the information and the facts it has, and if you just walk in cold and don't know the background and the factual picture, it is pretty hard to advise on policy.
- Young: We ought to have a series of weekly reports, I think, for the committee for one thing and special reports of different things that come up, something of that sort. I think it ought to be a regular service.
- H.M.Jr: Do I understand that after the first of July this group will be completely detached?
- Cox: I don't think so. Budget would like to see it, but I don't think Hopkins wants to see it that way. I think he wants to be in a position to resist job seekers and to say

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that he hasn't got a big staff and is using 10 million dollars a year to run it.

H.M.Jr: How does Budget want it? You say they want--

Cox: They would like to have a separate organization with a separate fund for it instead of on the allotment basis.

(Telephone conversation with Mr. Mack follows:)

April 11, 1941
10:15 a.m.

H.M.Jr: Mack?

Clifton
Mack: Yes, sir.

H.M.Jr: Is your operator on there?

M: Hello.

H.M.Jr: Are you on all right now?

M: Yes, sir.

H.M.Jr: Anything new in regard to foreign purchasing?

M: This. We will complete today the War Department list and that will be over with.

H.M.Jr: Good.

M: Now, on the new materiel we have certain requisitions that have come through that we're waiting for clearances on from O.P.M. and they're all timely. None of them have been delayed beyond any reasonable time, and we have one expedite shipment we're working on now that they want on the boat tomorrow morning - oh, let's see, Sunday morning.

H.M.Jr: What's that?

M: That's 1,000 rolls of mosquito proof gauze for West Africa. It has to be on the boat leaving here Sunday morning in order to get there in time for use.

H.M.Jr: Can you do it?

M: I think we can get substantially what they want.

H.M.Jr: How do you transport it?

M: It's going by boat. It's being shipped in or trucked in from the various manufacturers.

H.M.Jr: Coming in by truck.

- 2 -

M: By truck to New York and the Shipping Commission up there is taking it over from that point.

H.M.Jr: Now, Mack, when this present thing is completed - the buying - give me a little report on it. Will you?

M: Yes, sir.

H.M.Jr: On the first group. See?

M: Yes, sir. I'll do that.

H.M.Jr: Get it to me fairly promptly.

M: I'll do that today.

H.M.Jr: Got enough help over there on this?

M: Yes, but we are now working on an outline of what additional help will be needed, depending on the increased flow of these requisitions.

H.M.Jr: O.K.

M: All right.

H.M.Jr: Anything else?

M: There is just one other thing that I'm taking up with Young today and I think perhaps you ought to know about it. Some of these requisitions are coming through asking for materiele that seem to be much too expensive for the indicated use, but I'm taking it up with him and I'm sure he can straighten it out.

H.M.Jr: In other words, you mean they're charging too much?

M: Well, they're asking for things that are altogether too expensive.

H.M.Jr: For instance, what?

- 3 -

M: Well, for example, on this 1,000 rolls of mosquito gauze that they want Monel Metal. Well, now Monel Metal costs \$28.50 a roll and it's a commodity that is not available only in small quantities.

H.M.Jr: Have you a substitute?

M: And the substitutes, yes - bronze and copper, that's what we're working on, and they cost about half the amount.

H.M.Jr: Monel screen. Is this mosquito screening?

M: Yeah. That's it.

H.M.Jr: And you'll get it in copper?

M: Yeah, we can get it in copper and we get it in bronze and it costs just about half the \$28.50 price.

H.M.Jr: Seems silly.

M: Well, it does, and I'm taking that up with Young this morning.

H.M.Jr: I'm glad you're watching that.

M: Yes, sir.

H.M.Jr: Thank you.

M: Yes, sir.

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H.M.Jr: My original purpose was to give Hopkins the people necessary to make this thing work. You people are on this thing and after all, if you didn't do it, I don't think it would work nearly as well, but it will be different. I mean, I am conscious of it. I want the thing to work. So wherever it can be most effective, I have got only one objective and have had on this thing. I want the English to get the stuff and get it as fast as possible. But as to what my own arrangements will be and where I will get my information, I will just have to think that over.

Cox: Well, just thinking out loud, would it be wise for us to combine the whole thing in terms of obtaining one room here and report in to you at a set time every day for a while for 10 or 15 minutes a day?

H.M.Jr: Well, think it over.

Cox: The main objective--

H.M.Jr: I am going to get my information somewhere, I don't know how.

Cox: Well, it is more than information, because you are doing an effective job in moving these things on on the basis of that information so if it works the end result, it is better from the all around standpoint if we can supply you with that information.

Young: You don't want as much the information as you want the feel of it.

H.M.Jr: That is right.

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Young: And you can't get that unless you talk to us.

H.M.Jr: Handling that thing on the Danish ships, I was able to dynamite that out. I made no contribution on the Greenland thing. A little on the patrol, not much. Some on the six ships. I helped some in getting Donovan to go after the shipping. At least I know where the things are blocked.

Cox: I think there will be a lot of those from day to day where, if they are pushed by you, you can probably put them over the hump.

H.M.Jr: All right.

Cox: Would it be asking you too much sometime to give Banyas a vote of thanks through Haas.

H.M.Jr: Sure.

Klotz: He works day and night. He works all hours.

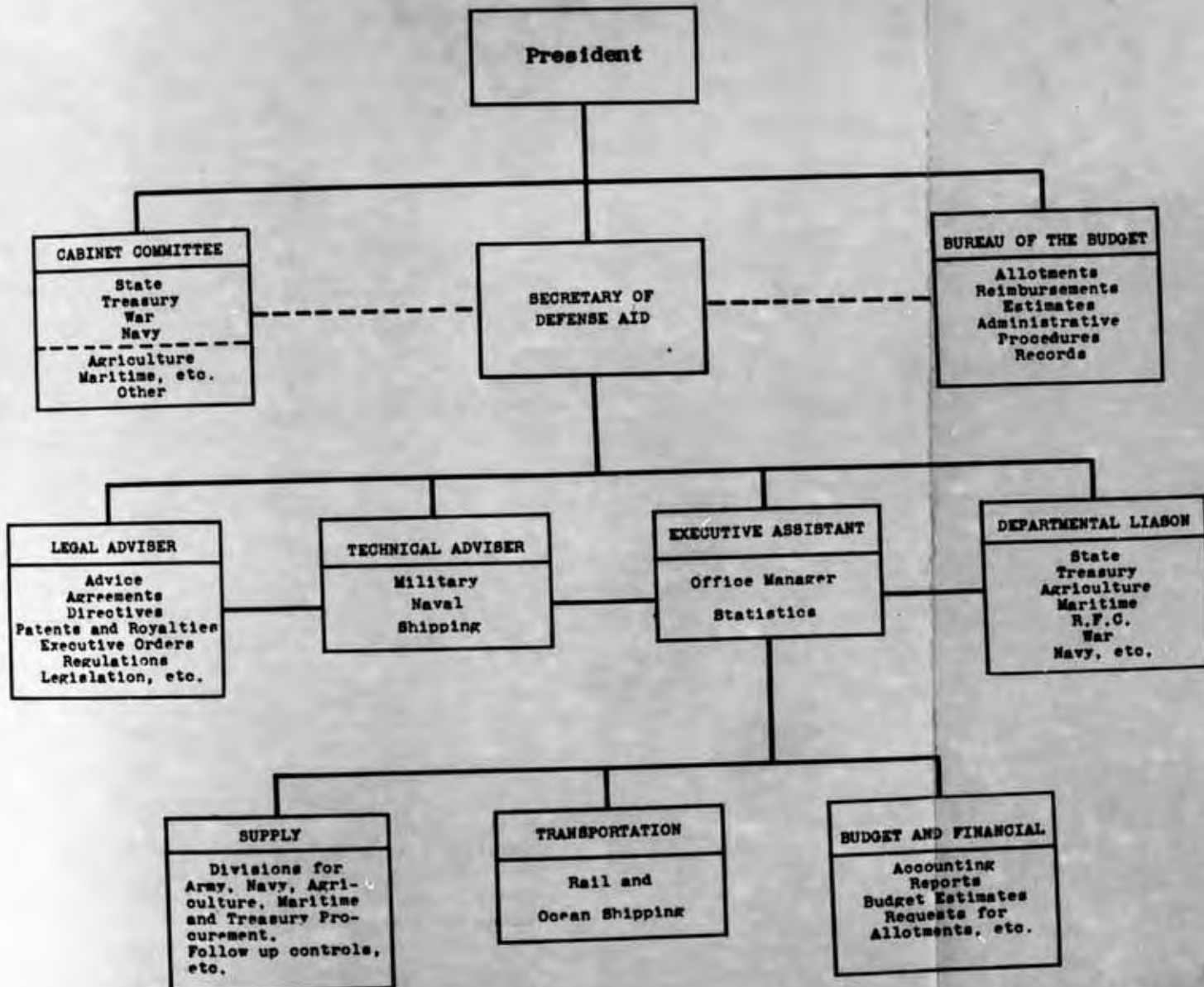
H.M.Jr: You write the letter and send it to Mrs. Klotz and I will sign it.

Cox: O.K., thanks.

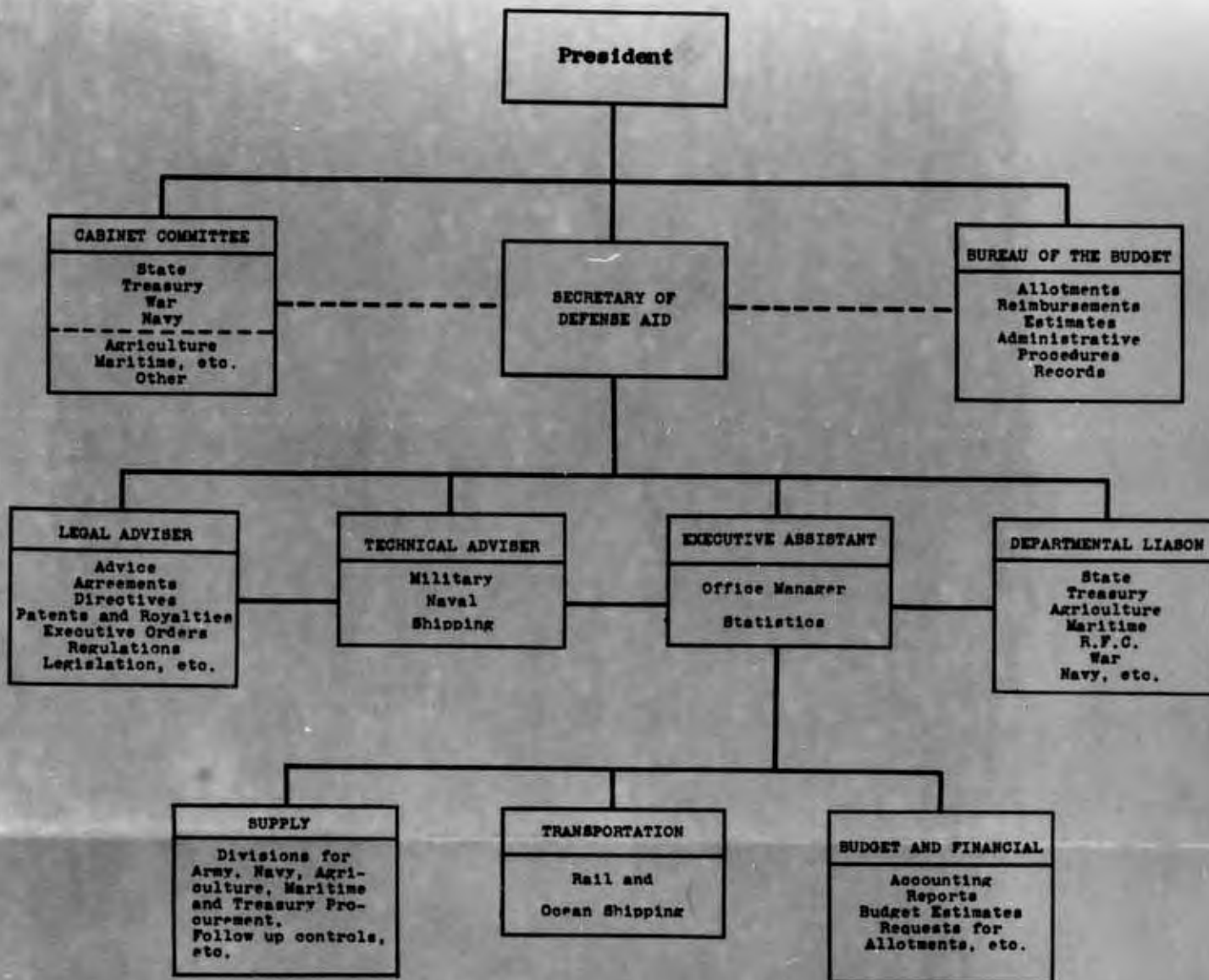
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41

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 11, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 9:50 this morning Mr. Jones of the Far Eastern Division of the Department of State telephoned me, and I called him back at 10 o'clock. He asked me what balances the Thailand Government had with the Federal Reserve Bank. I asked him why he was seeking this confidential information. He said that the question was up as to whether this country should consider a loan to Thailand. I reminded him that this same question had arisen several months ago and that it had been the understanding of the Treasury that the State Department desired no such assistance to be given. I asked why this question is now again up. Jones replied that everything was still in a very uncertain state, but that the British had approached the State Department with the idea of a possible joint financial assistance to Thailand. Jones said that this Government, therefore, might be called upon to make a loan. When I asked him what branch of the Government he was talking about, he thought the Export-Import Bank would be the most likely source. I reminded Jones that when the matter was up before it had been agreed that the Treasury should not recommend that in this instance a practice heretofore not followed be now instituted through which a foreign government or central bank could borrow from a private American institution on gold held under earmark with the Federal Reserve Bank of New York. The Treasury would desire very much to be consulted before any plan toward such an end be carried forward by the Department of State. Mr. Jones promised faithfully to keep us informed of any developments. I told him in strictest confidence, and with the request that the figure should not appear in any memorandum and should not be communicated to any British or other foreign officials, that the Thailand Government at present has \$9,000,000 of gold under earmark with the Federal Reserve Bank at New York.



TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE April 11, 1941

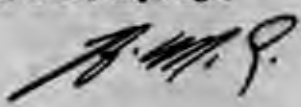
TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 10:15 this morning Secretary Morgenthau received Messrs. Gutt, Theunis and van der Straten-Ponthos. Mr. Gutt arrived in New York a few days ago from London where he is serving as Minister of Finance, War and Commerce in the Belgian Refugee Government in England. Mr. Theunis is the special Belgian Ambassador who has been in this country for over a year attending to purchases and certain financial matters. Mr. van der Straten-Ponthos is the resident Belgian Ambassador in Washington. Messrs. White and Cochran also were present.

Mr. Gutt explained to the Secretary that he had come over from England to look after the case of his Government against the Bank of France based upon the failure of the latter properly to conserve gold entrusted to it by the Bank of Belgium. The Secretary stated that he was familiar with the proceedings which had been instituted, but that there was an uncertainty in our minds as to the correct figures of Belgian gold holdings. Messrs. Gutt and Theunis insisted that all calculations made on this side of the water by Mr. Theunis, upon checking just a day or two ago, had been found to be within \$30,000 of the latest figures of the National Bank of Belgium. In answer to Mr. White's questions on this point, Mr. Gutt promised to give us a memorandum on their gold position. He made the point that the sum which Belgium is asking from the Bank of France includes not only the gold taken to Dakar, but also covers the sums alleged to be due the National Bank of Belgium for transactions in Belgian francs carried out through the Bank of France. Mr. Gutt is returning to New York tomorrow, and will probably remain there ten days. Before entering the Secretary's office, I had a brief conversation with Mr. Gutt, whom I have known for many years. He told me that the British had tried very hard to "bamboosle" the Belgian Government in London into selling their gold to the British against sterling. The Belgians had not agreed to this and have only made an arrangement with the British which involves a loan of gold until after the war.

During the conversation Mr. Theunis remarked that legislation had been before our Congress which would give Secretary Hull the authority to decide who was entitled to National Bank of Belgium gold held under earmark in this country. It was explained to the Belgian group that the bill which they presumably referred to had actually been signed by the President a few days ago.



April 11, 1941
12:02 p.m.

Jerome
Frank: Yes, Henry.

H.M.Jr: Hello, Jerry.

F: I just called to ask whether you had any other talk with the President Saturday about that Departmental Committee.

H.M.Jr: I did and he said he liked it very much. I left the memorandum with him and told him when he was ready he should talk to me. I haven't pressed him on it again.

F: I see. Well, now, I'm going to be shoving off shortly - I don't know just when. Ed Eicher is the new Chairman and he knows all about it.

H.M.Jr: Good. Well, I hope to see you before you go.

F: I'll drop over sure if I may.

H.M.Jr: Will you do that?

F: Yes, indeed.

H.M.Jr: Thank you.

April 11, 1941
12:04 p.m.

H.M.Jr: Hello.

Operator: Mr. Stettinius.

Edward
Stettinius: Hello, Henry.

H.M.Jr: How are you?

S: I'm fine. I just wanted to tell you that this Netherlands thing did not look so bad and we've already taken care of a large quantity of it and everyone seems happy and I think we'll be able to do the necessary.

H.M.Jr: Well, I'm delighted.

S: You might have to be a little patient on some of the deliveries but I wanted to report progress to you.

H.M.Jr: Thank you so much.

S: Right-o, Henry.

April 11, 1941
12:08 p.m.

Henry L. Stimson: Hello, Henry.

H.M.Jr: Hello, Harry.

S: How's your cold. It sounds rather bad.

H.M.Jr: Well, it's a little better, thank you.

S: Well, I hope that it will clear up. You don't want one this fine weather.

H.M.Jr: No, that's right. It's much better today, thank you.

S: Yes. I called you up just on this point. The Coast Guard is still in your hands, and the President asked me as you may have heard yesterday in that meeting to fly into the question of Greenland, and I've been working on it ever since almost.

H.M.Jr: Yes.

S: It's a grim problem - that coast, and I'm looking for all the help in the way of ice breakers that I can get, and the Coast Guard is the only group that has any ships that could be called that at all.

H.M.Jr: That's correct.

S: Now, you see, the Germans are already threatening the East Coast of Greenland and that's right within range of the Norwegian and this Russian-Siberian coast along there where the Russians have been using those exceptionally big ice-breakers that keep that - they've been able to go all the way along between the two oceans - between the Atlantic and the Pacific. Now, the Germans have got access to them, too, so we've got to take all of that into our consideration, and I've been talking with Frank and he told me that you had the only ice-breakers or anything of that nature except possibly the Bear, which is down

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with Byrd's party, I think, still coming up.

H.M.Jr: Yesh.

S: And he also told me - he gave me the impression that the best ones you had were in the Pacific.

H.M.Jr: No, I don't think that is correct. We have one up there now, you know.

S: Only one?

H.M.Jr: No, up at Greenland.

S: Oh. Which one is that?

H.M.Jr: I don't know the name of it.

S: Who has it?

H.M.Jr: Well, it's there as I understand it - well, it's up there and I think it's under Navy orders.

S: Well, that was what I was going to ask you. It's under the Navy.

H.M.Jr: I'm not sure but I think so. I know there is one there now. Tell me what you want and I'll see if I can get it for you.

S: I want an ice breaking ship, practically, or at least one of that type to carry up the men who are going to do the work. We've got a survey party now up on the West Coast of Greenland, but it is only a survey party. They've just arrived and they're up at Godhavn.

H.M.Jr: Now, you

S: And I have this memorandum that we want in addition to that - I'm just looking over the list here - a boat that will serve to carry the construction party up to Greenland.

- 3 -

- H.M.Jr: Yeah. Well, now these boats are not terribly big, you know.
- S: No, I suppose not.
- H.M.Jr: The ones that are the best ice breakers are 165 feet long and they've got this 44-foot beam. I don't know how many people they would hold, but how soon would you want this, Harry?
- S: Well, just as soon as we can get up there.
- H.M.Jr: I mean - well, let's put it this way. How
- S: I think it will depend a little on the weather. One party - I mean somebody was saying - the Navy or somebody was saying that we couldn't get up there now, but it isn't so. We've got the party up there already.
- H.M.Jr: Now, which part of Greenland - there's quite a difference. Which part of Greenland do you want to go to?
- S: Well, we want to go to both sides. Of course, the easy side, comparatively, the one where we're probably going to be limited to is the Western side.
- H.M.Jr: Now, would you hold the wire just a minute. I just sent for Mr. Gaston. Would you mind holding one second.
- S: Sure.
- H.M.Jr: (Talks aside). Harry.
- S: Yes.
- H.M.Jr: We think we have one - the Northland - which is either leaving today or tomorrow for Greenland. I'll find out. Hello.
- S: Yes, but that's on its regular duty.

- 4 -

H.M.Jr: No, going up there specially to replace another one - the one up there. I'll have all the facts and figures at my finger-tips and I can call you a little bit before 3:00. How'll that be?

S: Well, you'll catch me where I

H.M.Jr: Are you going

S: I was going away this afternoon but

H.M.Jr: Well, who were you going to leave this in charge of?

S: Well, I can leave it in charge of Lovett. I've been telling him about it.

H.M.Jr: Well, I tell you what you do. Fill Lovett up with this thing, you see, and if he'll be at my office at quarter of 3:00, I'll have the necessary people here. See? And I'll ask the Navy to send somebody over too because we're sort of in the midst of transferring

S: All right. At what time

H.M.Jr: 2:45 my office, and if the boat isn't full, we'll hold it so that you can put some people on her.

S: I see. Where is it now - Northland?

H.M.Jr: The Northland. I don't know where

S: Where in the devil is Northland?

H.M.Jr: No, that's the name of the boat.

S: Oh, that's the name of the boat. But you don't know where - it's down here then somewhere.

H.M.Jr: It's here somewhere, but I'll have everything a quarter of 3:00 and I can assure you that if you want to send a party up there, Frank Knox being willing, we'll send them up.

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S: Frank is willing; I've talked with him.

H.M.Jr: Well, consider it done. We'll do it.

S: All right. Thank you very much.

H.M.Jr: We'll do it; we'll find a way. You have your people that know about it

S: That's the way to talk.

H.M.Jr: What?

S: That's the way I like to hear a friend talk.

H.M.Jr: You forget about it and it'll be done and we'll have the boat ready before your men are ready.

S: I've no doubt you will.

H.M.Jr: Yeah.

S: All right. Thank you very much.

H.M.Jr: Have a good time.

S: Thanks.

April 11, 1941
2:27 p.m.

H.M.Jr: Hello.

Operator: Chairman Ecoles.

Marriner
Ecoles: Hello, Henry.

H.M.Jr: Marriner, we went in today and saw the President for the first time on the tax bill and we gave him kind of an outline, and he said that he'd like us to keep you posted, et cetera, which I'm delighted to do and I said I had expected to do it anyway.

E: Yes.

H.M.Jr: Now, what I'd like to do on Monday is to have John Sullivan show you what we have in strictest confidence and then get the benefit of your advice.

E: What happened, I didn't go over to talk to the President on the tax question at all yesterday and when I was away the week before he had sent over word by Watson that he wanted to see me next week and set a tentative date, which was Tuesday. Then he later put it off until Wednesday. I suppose it was a result - prior to his going away I had sent him a letter with reference to the vacancy on the Board here - primarily that, and there was that matter that I wanted to talk to him about. He had sent me a memorandum over in his own handwriting with reference to a vacancy on the New York Board, which he wanted me to talk to him about. There was the annex to the building which I discussed with him last fall and which he wanted us to go ahead with because they were going to need space anyway - if we didn't use it for banking purposes we'd need it anyway, and he had a memorandum on taxes that he had discussed with Currie, that he had gotten from Currie.

H.M.Jr: Currie never showed it to me.

- 2 -

E: Well, of course, Currie being Assistant to the President I suppose he was driving him with reference to that just as he would other matters, and it was dealing more or less, I understand, with just general things. And I was discussing with him also the inflationary deposit developments and also the - some of the price developments, and he asked me what I thought about a tax program. I mean, we just got into the subject and he said that he had this from Currie and wanted to know what views I might have with reference to the matter. So that's how the tax thing came up. Of course I was very glad to get into the situation and to have an opportunity to express views which I haven't expressed because I hadn't had - I didn't go into any discussion of the details of taxes at all, and he said that he hadn't made up his mind with reference to the tax program or the tax question and that was one of the things that he had to do, and he was going away Monday and it was a matter he'd have to consider. Now, I've given you the entire story and so as far as a tax program is concerned, I didn't discuss any tax program at all and

H.M.Jr: Well, Sullivan will get in touch with you.

E: Well, I'll be delighted to do it because, as I expressed myself to you once before,

H.M.Jr: Well, we only were ready today

E: that the tax thing is of course closely related to this whole question of budget and inflation and everything else.

H.M.Jr: That's right.

E: And from that standpoint I certainly would be delighted to

H.M.Jr: We'll be glad - the only thing is we hope to be able to keep it quiet until the leaders on the Hill want to get it out.

- 3 -

- E: Oh, sure. Well, any discussion that I have on it I can assure you - it isn't a matter that requires any Board action at all; it isn't anything of that sort.
- H.M.Jr: Well, you have a tax man over there haven't you?
- E: Well, we have a couple of men who have been working on the whole tax field with the idea - in connection with its financial and its economic implications, and your people over there I'm sure they know both these men, Krost and Defpref.
- H.M.Jr: Well, I'm sure you could make constructive suggestions and after you've had a look at it, I'd like to get together with you myself.
- E: What you'd like me to do then is to meet with Sullivan on Monday?
- H.M.Jr: That's right. He'll call you and he'll make an appointment and we'll show you just where we are and the initial suggestion. You see, this is just a rough suggestion - something to start from.
- E: Yes, I'll be very glad to do it and anything that we can contribute, I'll be glad to have our staff work with you on the thing.
- H.M.Jr: For once we took the President's breath away.
- E: You did.
- H.M.Jr: Sure.
- E: In other words you went farther than he would.
- H.M.Jr: Oh, way.
- E: Well, I'm delighted to hear that because if I had had a tax program to discuss with him, I think I would have taken his breath away too.

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H.M.Jr: We did. We're away above him.

E: Well, I'm delighted because I feel the thing awfully strongly

H.M.Jr: We left him breathless, which is difficult.

E: Uh-huh. Well, from that it looks like we'll be in the same boat on this tax picture.

H.M.Jr: That'll be pleasant.

E: O.K.

H.M.Jr: Thank you.

E: Good-bye.

TO: _____

4-11-41 _____

The Secretary

The Northland sailed last Monday, April 7th. Departure was speeded up so that she could relieve the Cayuga, which is to be transferred to the British. The Modoc can be used, or one of the 165-foot ice-breakers. Weesche will bring details and be here at 2:45. The Cayuga is the only one there now.



From: MR. GASTON

April 11, 1941
2:40 p.m.

RE GREENLAND AIR BASE

Present: Captain Sherman
Mr. Gaston
Mr. Waesche
Mr. Lovett

H.M.Jr: What is in Greenland now? Of the Coast Guard.

Waesche: Cayuga.

H.M.Jr: Is she staying there?

Waesche: Until the Northland arrives, and then she starts back to be made ready for transfer to the British.

H.M.Jr: And the Northland has left?

Waesche: This morning she was a hundred miles southwest of St. Johns.

H.M.Jr: Where does the Northland go to?

Waesche: She goes up and makes contact with the Cayuga. She went on up to Godthaab and is there now. The Cayuga is here in Godthaab.

Julianehaab still has ice in it. We have a little coasting vessel that can work its way down behind the ice and it is in Julianehaab and its people are making a survey now. The Northland's point of position was here.

- 2 -

H.M.Jr: Where is she going?

Waesche: To Godthaab and relieve the Cayuga, and then she will come down to Julianehaab.

H.M.Jr: What armed forces are there in Julianehaab now, what service?

Waesche: These representatives of the Army.

H.M.Jr: Army representatives?

Waesche: Yes.

H.M.Jr: And we took them up?

Waesche: Yes, up on the Cayuga.

H.M.Jr: And they are at Julianehaab?

Waesche: Yes, making a survey of this proposed air field back of Julianehaab.

H.M.Jr: The Army wants to send more people up there, Which one of these boats can you send up?

Waesche: My suggestion would be if they are in a hurry to get them up there, would be to stop and let the Northland come back to Halifax and let them jump on a train here and go up to Halifax and go get on the Northland.

H.M.Jr: I wouldn't do that. Haven't you got people on board there? They are not ready. They won't have their people ready.

Gaston: The Comanche can leave New York any time they are ready.

- 3 -

H.M.Jr: What about the Comanche?

Waesche: She is a hundred and sixty-five footer and is ready to leave any time today or tomorrow or a week from now. She is a hundred and sixty-five footer, and if there are only eight or ten in the party, they can be crowded aboard there and sleep on cots. If it is a party of twenty or twenty-five, then it would be rather difficult to pile them in there.

H.M.Jr: But you could?

Waesche: But we could.

Now, if they are not going to leave for a week or ten days, in ten days we can have the Tampa up, which is on patrol down here in the Gulf, and in ten days she can be up here at New York. She is a two hundred forty footer.

H.M.Jr: Has she got any ice breaking equipment?

Waesche: She is almost as good as the Cayuga. She is a good ship. She can go right in there.

As a matter of fact, the sister ship of the Tampa is slated to go up there on May 5.

H.M.Jr: Who is going up on May 5?

Waesche: She is going up there in accordance with the plans of the State Department.

I don't know right now who is slated to go.

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H.M.Jr: What is the boat?

Waesche: Modoc.

H.M.Jr: She is going on May 5 to Greenland?

Waesche: Yes, sir.

H.M.Jr: That is the State Department wants her to go up?

Waesche: Yes, sir, State and War.

H.M.Jr: Now, have you got another one?

Waesche: Now, the Tampa, which is a sister ship of the Modoc - the Modoc can't go now because the Modoc is down in New Orleans shipyard getting guns put on.

But the Tampa is now off Mobile, and she is a sister ship of the Modoc, and she is available to go to Greenland now. We can start her North. It will take about ten days before she will get her supplies.

H.M.Jr: Well, it is just a question of how many people and how soon, is that right?

Waesche: Yes, sir.

How many people and how soon they want to go.

(Mr. Lovett and Mr. Sherman entered the conference.)

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- H.M.Jr: You are not breaking any champagne bottles until you get confirmed?
- Lovett: My wife telephoned from New York and said on the basis of the pictures she saw in the papers, she didn't think there was a chance.
- H.M.Jr: I see. Well, if you could tell us how many men and how soon you want them to go, if it is agreeable to the Navy, we are ready.
- Lovett: Mr. Secretary, I have found since the Secretary spoke to me at about noon today on this that there are two parts to this plan which I think perhaps we ought to separate in considering it here. The first is the project on which we have been working so far. That is the ferry stop, landing field, that is, the West Coast base to permit the ferrying of the medium range bombers.
- H.M.Jr: Is that the one back of Julianehaab?
- Lovett: There is a survey up there now, sir, which you took up on the Cayuga, and I think the Northland left the seventh to spell it.
- Waesche: That is correct.
- Lovett: The Canadians think that there is land along the Julianehaab part. This large scale Danish map shows it fairly clearly here. Our men who have been up there flying with the Coast Guard officers--
- H.M.Jr: Do you want to show it to me?
- Lovett: Yes, sir. (Exhibiting large map)
- H.M.Jr: Everybody has to have a map these days. It

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is no good unless you have a map.

Lovett: There is only one name in this that I can pronounce, so it is kind of difficult.

H.M.Jr: I see.

Lovett: The Julianehaab section, which is here, was surveyed with the Coast Guard pilot working with Lacey, the Air Corps man, and then they went all the way up to here. (Indicating) There is a possible strip in there, but the only adequate place, both from the point of view of transportation and reasonable freedom from fog and ice is this district here. Now, the survey party, the Army survey party which we took up there, is in this district now and is going to move on up there later. This is the Holstenborg district.

H.M.Jr: You have learned a lot since noon, haven't you?

Lovett: Yes, sir. I haven't done anything except look at this. This Holstenborg district would make the best flight conditions from over here as regards weather and everything else. But the Canadians say that this Baffin Island section over here is almost impossible from the point of view of terrain for landing fields, and they, therefore, have asked us to inspect by survey this section so that we can make a direct hop from Newfoundland.

H.M.Jr: That is where they are now.

Lovett: Yes. The odds are somewhat against it, for really hot aircraft that lands fast. Here we can get a four thousand foot runway. So that dividing the problem into two parts,

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Our West Coast survey is under way. The Coast Guard is going to carry us on up when the Northland replaces the Cayuga. We have one remaining problem there and that is to get 340 engineers and three thousand tons of equipment and a 20-ton crane up there. That is to establish the base when the point is determined where it should be.

H.M.Jr: But you are not ready for that.

Lovett: No, sir.

H.M.Jr: I mean, you are not ready for that. You won't be ready this month.

Lovett: We can be ready this month if they establish the fact that there is no place here.

H.M.Jr: You are not ready to say, "Give me a ship today"?

Lovett: No, sir.

H.M.Jr: We are ready to give you one today.

Lovett: That is what they told me. I wanted to find out what it was for. There is nothing we can use a ship for today.

H.M.Jr: The other thing that you are talking about, we have nothing in Coast Guard that could move anything like that.

Lovett: No, sir, I was sure you didn't have. That is problem number one. Problem number two--

H.M.Jr: I mean the thing that you are describing, the 340 engineers--

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Lovett: And three thousand tons--

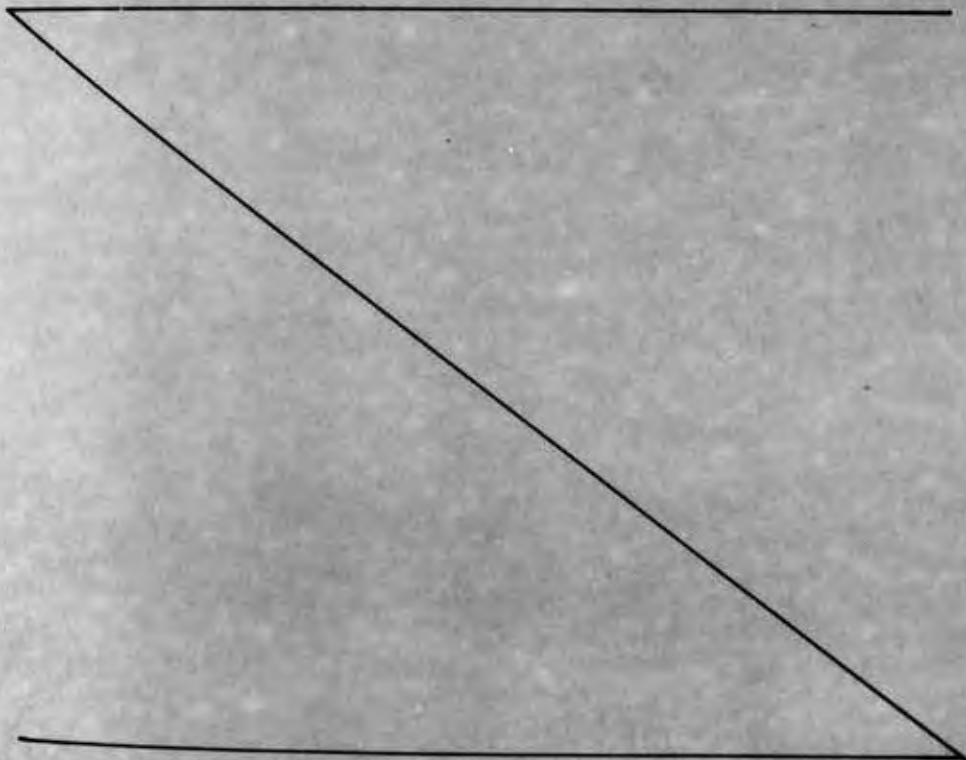
H.M.Jr: And a 20-ton crane, we have got nothing that would move that.

Lovett: No, sir. I was confident there wasn't.

H.M.Jr: We have nothing, so that is out.

Lovett: You have been my Father Confessor. I thought I had better come over and tell you the whole works.

H.M.Jr: Even on Good Friday?



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Lovett: Yes, sir, even on Good Friday. (Laughter.) Now we have got the second problem. That is the East Coast, which is his problem. There have been German meteorological expeditions in here (indicating). Apparently the British took them out. But there have been recently four-motored and two-motored German planes over there on reconnaissance. It is a relatively easy hop from northwest Norway. Our own men, Colonel Bissell, surveyed all of this land in connection with round-the-world flight and this - I won't even pronounce that, but it sounds like Angmagsalik. This district here has to carry two years' food supply because occasionally a year goes by when they can't get in because of the ice. The ice conditions here apparently are such that you couldn't get a ship in there until July or somewhere along around July even in a good year.

Therefore, our second problem is to get an East Coast survey up there, and that was the survey that we understood someone, some department here, had suggested that Byrd's ship, the Bear, would be back and available and --

H.M.Jr: We have got a boat scheduled to sail on the fifth of May at the request of the State Department to do that. What is her name?

Waesche: Well, the Northland - the Modoc will go up here on the West Coast to relieve the Northland and make available the Northland to go around there. In regard to the Bear, I have been pressing Byrd for the Bear --

H.M.Jr: She isn't here.

Waesche: No, she won't get up to Boston until May 20.

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H.M.Jr: What was going on the fifth?

Waesche: The Modoc.

H.M.Jr: Where is she going?

Waesche: She is going to relieve the Northland and let the Northland go around to do the ice work over here.

H.M.Jr: What ship is sailing the fifth of May?

Waesche: Modoc.

H.M.Jr: Does she have to go there? Couldn't the Modoc go right up on the --

Waesche: No, because the Northland is an ice ship.

Lovett: This is all heavy ice.

H.M.Jr: Would that help you any, a ship sailing on the fifth of May?

Lovett: We can't get in there until sometime - what, June or July?

Waesche: Not before the first of July and probably not until August. From the middle of August until the middle of September is the best time to go in there. I don't think anybody has ever gotten in before the first of July, so when this ship goes up May 5 she will have plenty of time to relieve the Northland, and the Northland can get around here by the first of July and will simply have to work her way in and get in when she can through the ice.

H.M.Jr: Have you got that?

Lovett: Yes, sir. The second part of the problem is at

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least a month off, so we have got plenty of time for that.

- H.M.Jr: And you know there is a ship scheduled the fifth of May. I don't know who the State Department is going to put on. I don't know how many it can take, but you have got plenty of time to find out.
- Lovett: Well, the War Department had been working with the Coast Guard and the State Department on this, and we were perfectly content until this new element was injected, which is Plan 3, and that is that heretofore we have only been talking about getting refueling stops for the medium-sized stuff, and if possible, to find some way to get the single-seater jobs over; and we had hoped to find something there and then fly them up into this district and then across, but that is the worst mountain section up here. Those are all the high mountains. It is very doubtful whether there is anything in there that we can use as a field. Consequently, we will have to rely on the medium-sized stuff coming right across Greenland and going into Iceland.
- H.M.Jr: I am going to have to interrupt you. Just tell me this. Do you want anything in the next ten days?
- Lovett: I don't see how we could use it, sir.
- H.M.Jr: Then I will ask you to excuse me.
- Lovett: Unless we can get a great big thing the size of the St. Mihiel to take in the construction stuff.
- H.M.Jr: If you don't want anything in ten days, there is nothing I can do today, and if you do want anything, contact Herbert Gaston.

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Lovett: Fine.

H.M.Jr: Just remember, we have a ship that can go today.

Lovett: I don't know what we could use it for. I am confident that the major problem behind all of this is how to protect these fellows, and it isn't something to be settled this way.

H.M.Jr: I would love to listen to it some other day.

Lovett: My story is told, sir. I don't see what we can do.

H.M.Jr: If you don't want anything for ten days, that is a life time.

Lovett: Much obliged to you, sir.

April 11, 1941

My dear Mr. Secretary:

Supplementing our conversation of this morning, I am enclosing an opinion from the General Counsel for the Department of the Treasury, ruling that the plan for transfer of a portion of the Coast Guard to the Navy is legally authorized. The plan is set forth in the proposed memorandum which is attached to the opinion.

I might add that on September 5 and 6, 1933, the President orally directed that certain Coast Guard vessels and their personnel be placed under the military control of certain naval officers, in connection with the internal Cuban disturbances at that time.

Very truly yours,

(Signed) H. Morgenthau, Jr.

The Honorable Frank Knox,
Secretary of the Navy.

By Messenger

C
O
P
Y

April 11, 1941

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TO: The Secretary of the Treasury
FROM: General Counsel,

Attached is a copy of a proposed memorandum from you to the President which is intended, if it is approved by the President, to effect a transfer of part of the Coast Guard to the Navy. More particularly, approval of the memorandum is intended to cause the entire sea-going fleet of the Coast Guard, with certain exceptions, together with the necessary personnel to man it, to operate as a part of the Navy under the Chief of Naval Operations. Together with the operation of the present sea-going fleet of the Coast Guard the Navy will take over responsibility for (1) off-shore rescue and assistance work; (2) weather observation patrols; (3) Bering sea and Alaskan patrols; (4) international ice patrols; (5) Greenland patrols; (6) transport and supply service to Pacific equatorial islands; (7) off-shore neutrality patrol.

My opinion has been requested whether the President has authority so to transfer part of the

Coast Guard and its functions to the Navy. It is my opinion that the President has such power.

Section 1 of the Act of January 28, 1915, 38 Stat. 800 (U.S.C. title 14, sec. 1), provides as follows:

"That there shall be established in lieu of the existing Revenue-Cutter Service and the Life-Saving Service, to be composed of those two existing organizations, with the existing officers and positions and the incumbent officers and men of those two services, the Coast Guard, which shall constitute a part of the military forces of the United States and which shall operate under the Treasury Department in time of peace and operate as a part of the Navy, subject to the orders of the Secretary of the Navy, in time of war or when the President shall so direct. When subject to the Secretary of the Navy in time of war the expense of the Coast Guard shall be paid by the Navy Department: Provided, That no provision of this Act shall be construed as giving any officer of either the Coast Guard or the Navy, military or other control at any time over any vessel, officer, or man of the other service except by direction of the President."

Beyond question, the President may direct that the entire Coast Guard shall operate as a part of the Navy.

It is submitted that the proviso at the end of the section clearly indicates that by the direction of the President, officers of the Navy may be given military or other control at any time over any Coast Guard vessel, officer, or man. It is obvious that the President may exercise that authority with respect to some vessels, officers, and men and not with respect to others.

On May 2, 1916, President Wilson issued Executive Order No. 2378. That order provided as follows:

"By virtue of the authority vested in the President by the act approved January 28, 1915, entitled 'An Act to create the Coast Guard * * *', it is hereby directed that whenever the Coast Guard or any part of it shall in times of peace operate as a part of the Navy, in accordance with law, the personnel of the Coast Guard shall be subject to the regulations of the Coast Guard service, except in so far as relates to military requirements which have to do solely with the movements or operations of ships, concerning which they shall be subject to the orders of the senior naval officer to whom they are directed by proper authority to report. It is further directed that whenever the whole or any part of the personnel of the Coast Guard is operating with

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the personnel of the Navy, officers and men of each service shall have the same authority and control over officers and men of the other service as that to which their rank or rating entitles them in their respective services." (Underscoring supplied.)

It is apparent, therefore, that President Wilson was of the opinion that under the organic law establishing the Coast Guard, part of that organization could in time of peace operate as part of the Navy. President Wilson, of course, signed the Act of January 29, 1915 which established the Coast Guard. He participated equally with the Houses of the Congress in enacting the law, and his view on the meaning of the words employed in it is of great significance. (1984) 37 Op. Atty. Gen. 505, 510.

Some months later there was enacted the Appropriation Act of August 29, 1916, 39 Stat. 556. The Act contained the following provision (at page 600):

"Whenever the personnel of the Coast Guard, or any part thereof, is operating with the personnel of the Navy in accordance with law, precedence between commissioned officers

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of corresponding grades in the two services shall be determined by the date of commissions in these grades."

That provision has been covered into the United States Code as Title 14, section 7. It is an unequivocal recognition by the Congress that part of the personnel of the Coast Guard may operate with the personnel of the Navy.

In view of the foregoing considerations, I have concluded that the President has authority to transfer part of the Coast Guard vessels and personnel and part of the Coast Guard functions to the Navy at the present time.

(Signed) E. H. Foley, Jr.

General Counsel.

*This was re-written
and dated 4/14/41
in which duty was
given to the Pres by
the Pres when he
launched
with him.*

April 10, 1941.

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TO: The President
FROM: The Secretary of the Treasury.

The following embodies my understanding of your verbal instructions of this day with respect to the assignment of certain equipment and functions of the Coast Guard to the Navy:

With the exception of those vessels which are especially adapted to use as ice-breakers, and with the exception of cutters needed for operations on the Great Lakes, the entire seagoing fleet of the Coast Guard together with the necessary personnel to man it will hereafter operate as a part of the Navy under the Chief of Naval Operations.

The normal operation and maintenance costs of the vessels of the Coast Guard which are to operate as a part of the Navy will be defrayed from Coast Guard appropriations. All major alterations and other unusual costs to fit the above ships for Navy service will be defrayed from Navy appropriations. If necessary, legislation is to be obtained to authorize this.

Together with the operation of the present seagoing fleet of the Coast Guard the Navy will take over responsibility for (1) off-shore rescue and assistance work; (2) weather observation patrol; (3) Bering sea and Alaskan patrol; (4) international ice patrol; (5) Greenland patrol; (6) transport and supply service to Pacific equatorial islands; (7) off-shore neutrality patrol.

With the above exceptions the Coast Guard will retain its present organization, functions and equipment.

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The functions which the Coast Guard will continue to perform include the following:

- (1) All in-shore assistance work.
- (2) All merchant ship control and other duties performed by Captains of the Ports.
- (3) Operation, maintenance, repair, construction and development of lighthouses and other aids to navigation.
- (4) All duties on the Great Lakes normally falling within the scope of operation of the Coast Guard.
- (5) Ice-breaking in interior and coastal waters of the United States, including the Great Lakes.
- (6) Training of merchant marine and Coast Guard personnel.

Equipment to be retained by the Coast Guard will include:

- (1) All present Coast Guard shore establishments.
- (2) All Coast Guard aircraft.
- (3) All other floating and shore equipment necessary to the performance of the functions listed above.

"Seagoing fleet" as used above, is understood to include the following: Seven 327-foot cutters; four 240-foot cutters; seventeen 165-foot patrol boats; twenty 125-foot patrol boats, and the following unclassified seagoing cutters: UNALGA, TALLAPOOSA, NORTHLAND, REDWING, SHAWNEE.

APPROVED:

April , 1941.

W. H. ...

April 11, 1941
3:00 p.m.

RE BANK HOLDING COMPANY LEGISLATION

Present: Mr. Delano
Mr. O'Connell
Mr. Upham
Mr. Williams
Mr. Sherbondy
Mr. Duffield
Mr. Foley
Mr. Bell
Mrs. Klotz
Mr. Kuhn

H.M.Jr: Where is one Foley?

O'Connell: He had to stop in Mr. Bell's office. I think they will both be in in a minute.

Kuhn: This is mostly a rearrangement, Mr. Secretary, rather than any new stuff. There is only one really new passage in it. (see attachment No. 1)

H.M.Jr: You don't think I am apologizing a little bit for coming up there, too much?

Upham: Yes.

H.M.Jr: That is what I think. I mean, I say it twice.

Upham: You mean the sentence, "That is my chief justification for being here"?

- 2 -

H.M.Jr: Yes, and "You may well ask why the Secretary of the Treasury chooses this" - I mean, why put that in their minds? I personally just wonder if that last paragraph - "The best of all moments to remove abuses and make improvements is the time when our boat is on an even keel."

"Our banking structure is stronger today than it has ever been."

Just make it, "The worst of all moments," and leave out the rest.

"The best of all moments to remove abuses and to make improvements is the time when our banking structure is as strong today as it ever has been."

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

H.M.Jr: You see? Then I would leave out that thing, "That, gentlemen, is my chief justification."

Has Mr. Bell got a copy?

Bell: Yes, sir. I have a copy.

H.M.Jr: On the top of page four, you might get the impression - "The bill under consideration simply carries out the President's recommendations. That was almost three years ago."

Does that mean the President's recommendation was almost three years ago?

Kuhn: Yes.

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

- 3 -

Foley: April '38, and this is April '41.

H.M.Jr: Then that is right.

Foley: Time passes.

H.M.Jr: At the bottom of page four, last sentence, "which has been strengthened during the past eight years by the patient efforts of the Government and the bankers."

Who the hell keeps putting the bankers first all the time? (Laughter) It sounds like the Association of Manufacturers.

Delano: The Comptroller's office didn't do that.

Foley: He caught that before.

Upham: Government should have a capital "G," also.

H.M.Jr: As long as the Government is in Washington. This is another one. You had bankers and depositors before.

Kuhn: That is on the next page.

Bell: They cut both of them out.

H.M.Jr: That is all right.

Foley: It doesn't read very well now, though. "Protect bank depositors and help bankers, especially in the small local banks."

H.M.Jr: You don't mean in small local banks. You mean in --

Bell: Small communities.

H.M.Jr: That is right.

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Kuhn: Small communities?

H.M.Jr: Yes. Banks in small communities. What?

Foley: Yes.

H.M.Jr: A lot of this which is new has to be smoothed up. From now on, is it the same?

Kuhn: The new stuff is on page seven.

O'Connell: All of page seven is new.

H.M.Jr: None of these reads smooth. Have you been on this with a planer, Ferdie?

Kuhn: Not a good one yet.

H.M.Jr: You had better sharpen it.

Foley: Ferdie did it.

H.M.Jr: He did?

Foley: Yes. It is his product.

H.M.Jr: That is a swell paragraph. I like that.

Kuhn: Ed did that.

H.M.Jr: Who did this one?

Foley: The lawyers. (Laughter) If it is good, the lawyers did it.

H.M.Jr: It is a damn good paragraph. That is a swell paragraph.

"No legitimate local enterprise should lack necessary credit at a rate made reasonable by free competition among free banks."

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I don't quite get that.

- Sherbondy: Reasonableness resulting from competition. Without competition the rate would not be reasonable.
- H.M.Jr: There is an awful lot packed into that. Do you think that is quite clear, Dan, at a rate made reasonable?
- Bell: Well, I think I know what the meaning is.
- Sherbondy: Reasonable credit resulting from free competition among free banks.
- H.M.Jr: Oh, reasonable rate of credit.
- Sherbondy: Reasonable rate of credit resulting from free competition among free banks.
- H.M.Jr: Something like that. What you mean is a reasonable rate of interest, don't you?
- Sherbondy: Credit at a reasonable rate of interest.
- H.M.Jr: It is a little bit --
- Foley: At a fair rate of interest resulting from free competition among free banks.
- H.M.Jr: That is a swell page.
- Bell: I don't know how far you can go with that, but I suppose it is a little inconsistent with the policy of the Comptroller's office of not granting charters and branches in communities where the community is already well banked, maybe with one bank and that is sufficient, but you wouldn't put another bank there if you couldn't make a go of it.
- Delano: I think the word "locality" is sufficiently

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broad to cover the point. You see, if you had just a little bit of a small area and had only one bank in it, that would be one condition, but the locality gives you a chance to get competition.

Bell: You are not afraid of that?

Delano: The Comptroller's office does not deny competition in localities. It only denies it where it would ruin both banks, and that is in very small communities.

Where a locality is sufficiently wide - we debated that question.

Upham: We hope that doesn't mean two banks in Podunk.

Delano: We don't think it does. We think the size and dimensions of the locality is sufficiently general.

Bell: To carry this out to its conclusion might mean over-banked.

Delano: We think the word is sufficiently broad to cover it.

Foley: Where is the next new place, Jo?

Kuhn: At the very end.

Sherbondy: Last page.

H.M.Jr: Page eight is not new?

O'Connell: No.

H.M.Jr: That page seven is a swell page. It packs

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a lot of stuff in it. You know who will love this page is Bob Jackson. That is his whole theme song. He makes these speeches about local enterprises.

Now where do we go to?

Kuhn: Page sixteen, middle of page sixteen.

H.M.Jr: I am not watching the clock without watching a certain gentleman's (Foley's) suit. The two things go together.

Foley: Both fast, are they? (Laughter)

H.M.Jr: The two things have a correlation. You don't get it? Look around the room.

Foley: I told the Secretary this meant the orders were "shoreward march."

Bell: It seems to have been lengthened a little, hasn't it?

Kuhn: There is a whole page added, at least.

Foley: It was fourteen before. It is sixteen now.

O'Connell: About two more pages.

H.M.Jr: Now, what you haven't said anywhere is this. A fellow by the name of Cyril Upham came to see me and said, "Mr. Morgenthau, here is a very dangerous situation. We insure the

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deposits of one institution for eight hundred million dollars, which is just twice the reserves of the Federal Deposit Insurance."

Now, I want it for this paragraph. Potentially dangerous. The thing that originally made it evident was that the danger was that in one institution we insured the depositor for twice the amount of the reserves of the Federal Deposit Insurance.

I don't know whether those figures are true any more, but they were true a few years ago.

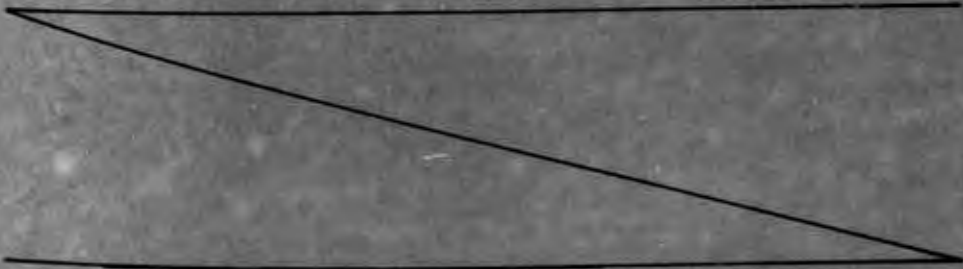
I wonder if you don't want to work that in?

Foley: Gene is outside.

H.M.Jr: Tell him to come in. You don't want to put it in?

Upham: I wouldn't.

(Mr. Duffield entered the conference.)



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H.M.Jr: Do you want a breath of fresh air? What page is this, eight?

O'Connell: Seven.

H.M.Jr: Read that for a breath of fresh air. That will cleanse you from the Wall Street grime.

(Laughter.)

I want to watch his face when he sees it.

Duffield: Yes, I saw this yesterday. This is good.

H.M.Jr: Did you see it yesterday?

Duffield: Yes. It is all right.

H.M.Jr: Isn't that good?

Duffield: You bet.

H.M.Jr: I like that page. What was the decision, do you want to put in something about the large banks? Do you want to put in that one bank has twice the amount of insurance - insured deposits represent twice the total reserve of FDIC.

Delano: We have many banks that do that, big banks, that are way over the resources. It would be a question of policy. It is undoubtedly true in the case of a great many of those big institutions.

H.M.Jr: How many do have eight million dollars worth of insured deposits? How many?

Delano: I would say - how many?

Upham: Not very many.

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- Bell: Chase and National City and Guaranty, would they carry deposits of that much insured?
- Delano: Yes. Well, the Chase certainly would, and the National City would.
- Bell: The National City carries small deposits.
- Foley: Well, the Bank of America has more deposits than any other bank, doesn't it?
- Bell: Oh, no.
- Foley: I don't mean in volume --
- Upham: More small depositors.
- Foley: That is what I mean, separate deposits that are insured, even though in volume, in amount they might not be first. But they are probably first insofar as number is concerned.
- H.M.Jr: Take a look at it.
- Delano: All right.
- H.M.Jr: It is just a suggestion. It may not be any good. But it is what started the whole thing. That is what started it. Take a look at it.
- Upham: That bank is first in volume of insured deposits, there is no question about that.
- Sherbondy: It has about eighty percent, doesn't it?
- Upham: It has a different class.
- H.M.Jr: Take a look at it just for fear somebody may not realize I have got the Bank of America in mind, just to make a hundred percent sure. I am not saying to put it in, you know.

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Now, in the middle of page 16, at the end of the first paragraph, I just wonder if you don't want to add this, "And we do not have that necessary authority today. Hence the bill. Hence the need of legislation. Hence the urgent need for legislation." What do you think? "We haven't got that authority. That is why I am up here. That is why I am pleading this case." What? This will only be the second time saying that I want this legislation. I only say it the once. I say it again now at the end.

That last, "I should like to urge you all in earnestness and sincerity." That is a little bit strong.

- Delano: Wonder if we couldn't change that word, elementary, to fundamental.
- H.M.Jr: Fundamental?
- Bell: Just say "this precaution."
- Foley: Take out the adjective.
- Delano: I don't like elementary there.
- H.M.Jr: "I should like to urge you --"
- Upham: "...to remove."
- Foley: "...to remove the menace of bank holding companies and to do it now." Strike out that whole clause. Strike out "with all the earnestness and sincerity at my command," just put, "I should like to urge you to remove and so forth."
- H.M.Jr: The other is like a prayer.
- Foley: They will begin calling you Senator, if you do that.

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- H.M.Jr: I will have to buy myself a different kind of suit.
- Upham: That is a Good Friday influence.
(Laughter.)
- H.M.Jr: I think it still needs a little polishing, a word here and a word there. What do you think, Dan?
- Bell: A very good statement.
- H.M.Jr: Have you seen it in its present form?
- Duffield: Yes, sir.
- H.M.Jr: What do you think would be the reaction on the Hill after I gave this?
- Duffield: Well, I don't know. It is awfully hard up there now to get them interested in anything that isn't defense.
- H.M.Jr: I know.
- Duffield: That is really true. I think if you keep after it -
(Mrs. Klotz entered the conference.)
....I think that is why it is important.
- H.M.Jr: Is there one chance in three of getting the bill through?
- Duffield: Yes, about that.
- H.M.Jr: Which is this page, eight?
- Upham: Seven.

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- H.M.Jr: This is a magnificent page. One in three?
- Duffield: Yes.
- H.M.Jr: Well, that is good enough. Now let me ask you this, Gene. Will we make the papers at all on this?
- Duffield: Yes. It depends a little bit, of course, on the kind of world we have today and what else happens on that particular day. I would say on an ordinary news day, yes, very definitely.
- H.M.Jr: How will the majority of the bank directors feel?
- Duffield: Well, I don't know as I know enough to answer that.
- H.M.Jr: Do you think it will make them sore?
- Duffield: I look around here at all these people who see the bankers every day, and I think they ought to know. I don't.
- Delano: I don't think so.
- H.M.Jr: Do you think it is a mistake for me to do this?
- Duffield: No, sir.
- H.M.Jr: Would you like to see me do it?
- Duffield: Yes, sir.
- Bell: I just wonder what effect it might have on our cooperation with the banks in our financing. I suppose you have thought of that. I wondered if you might want to discuss it with somebody outside.
- H.M.Jr: Oh, I think that - if I did it with anybody I

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would do it with the people who advise me, those three bankers.

Bell: I thought you might want to.

Foley: Charley Spencer is affected, isn't he?

H.M.Jr: No.

Upham: He has a holding company group.

Duffield: Isn't that the answer, that those bankers who will be affected won't like it, and won't it go well with the others?

Delano: That is right. As a matter of fact, Charley Spencer is antagonistic to it because it strikes him.

H.M.Jr: I will tell you, gentlemen, every so often I have got to do something for the good of my soul, and right now my soul needs it.

Delano: I don't think it will go too bad.

H.M.Jr: I need something distinctly New Deal-ish.

(Laughter.)

I think the fellows that elected Mr. Roosevelt will like it, all of them.

Delano: I think the small banks will be much in favor of this.

H.M.Jr: I am just afraid it will leak out and Willkie will get to it first.

(Laughter.)

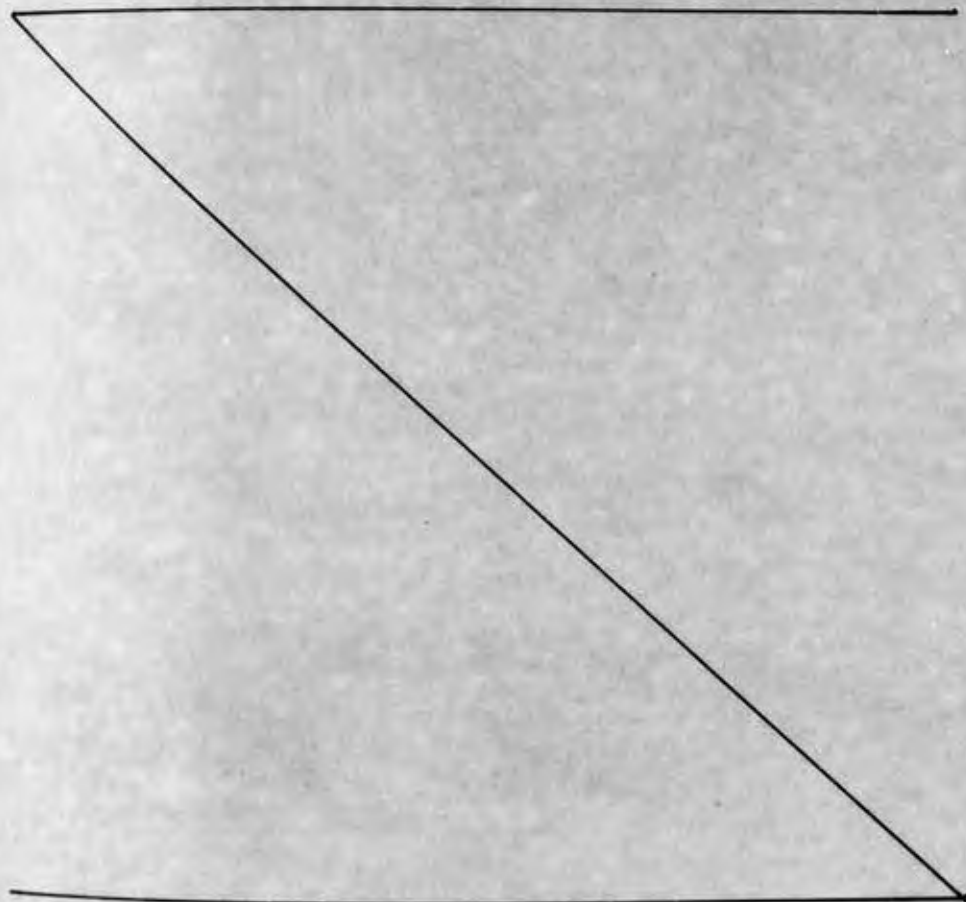
Is that good?

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Bell: It ought to help it.

H.M.Jr: Gene, your paper is getting so good these days I told somebody the other day that you can't be in the financial business and not read the Wall Street Journal, especially the Washington news.

Duffield: I am glad to hear that. I hope they all feel that way.



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H.M.Jr: I told that to Lauch Currie and he said he has it on his desk now regularly.

Duffield: So he told me.

H.M.Jr: It is getting very good.

Duffield: We are working.

H.M.Jr: I don't think there is anything - I don't think that they will go on a sit-down strike on us or something like that.

Foley: They can't.

H.M.Jr: Well, as far as I am concerned, it needs a little polishing. We will hear from Senator Glass Monday. When am I going up?

Delano: We have it in rough, and we would like to polish it a little bit.

H.M.Jr: How are you going to get it on the fairway? (Laughter)

Delano: We will be all teed up by Monday.

H.M.Jr: All right. You don't know how appreciative I am that I don't have to do it this afternoon, for Ed's sake. We have got to get Ed and that suit on the floor (of Congress).

Delano: I would like to--

Bell: I might as well read it this afternoon. It won't spoil my golf game.

Delano: The Undersecretary and I had a golf game and that is the reason why we are feeling a little bit--

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Bell: A little low.

H.M.Jr: How about tomorrow morning?

Bell: I think it can be arranged.

H.M.Jr: I will promise not to bother you. Well, gentlemen, I know you have helped a lot. I am ever so much obliged.

Duffield: I didn't help so much.

Bell: One other thing on it. Are we going to in any way discuss this program with the banking group, interdepartmental banking group?

H.M.Jr: No, Jones didn't want to come to the meeting and Eccles wanted to write his own bill--

Foley: He was going to write us a letter and give us the Board views, which we never received.

Bell: There was a little feeling, you remember, last time we met because of the fact that the bill was introduced without sort of--

Foley: But he didn't do what he said he would when he was here last, Dan.

Bell: I figured he hasn't got the Board views yet.

H.M.Jr: I will tell you what we will do. I will take an hour off, and I will call up Eccles (Laughter) and tell him that I am going up on the Hill, and he had better start in. We will wait until we get the green light from Glass, and I will call him up the night before. The same with Jones. But you remind me again. I will do it. I will call him up.

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Bell: I don't know if it is necessary. I just raised it.

H.M.Jr: I think we should.

Thanks for everybody's help.

April 10, 1941

I have come here today to discuss with you a problem which is essentially domestic but which seems to me to be a potential threat to our national strength. This is the problem of the domination of banks by bank holding companies -- a form of domination which, to my mind, is in some respects just as undemocratic and oppressive as domination by a totalitarian government. Events abroad have made it all too clear that a nation is as likely to collapse from internal weaknesses as from external forces. The survival of the democratic form of government depends to a large degree upon its ability, during national and international crises, to continue to protect the lives, the rights and the interests of its citizens, not only against oppression from abroad, but against oppression from within.

You may well ask why the Secretary of the Treasury chooses this, of all times, to come before the Congress on such a matter. The reason this is a good time is because our banking structure is stronger today than it has ever been. The best of all moments to remove abuses and to make improvements is the time when our best is on an even keel. The worst of all moments is in time of economic strain and trouble. It is our

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duty now to prepare for the day when there may be peace, when we shall not be spending these billions for the national defense, and when the strain of a readjustment period will again be weighing on our banking system. That, gentlemen, is my chief justification for being here now.

I have another reason for coming before you today on the bank holding company problem. Seven years have gone by since your committee made its exhaustive inquiry into the stock exchanges, the so-called Pecora investigation. The monumental report that followed your investigation called attention, among other things, to the abuses and the dangers inherent in the domination of banks by bank holding companies.

The Banking Act of 1935 conferred some power upon the Federal Reserve Board with respect to bank holding companies. That power has proved wholly ineffective. No additional legislation has been enacted to deal with the problem. Admittedly, as Secretary of the Treasury, I must assume part of the blame, if there is to be any blame, for the failure to press for further legislation.

Three years after the passage of the 1935 Banking Act, an interdepartmental committee composed of representatives of the Board of Governors of the Federal Reserve system, the Federal Deposit Insurance Corporation, the Reconstruction

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Finance Corporation, and the Treasury Department gave considerable attention to the bank holding company problem and reached the unanimous conclusion that the operations of bank holding companies should not be allowed to expand, that the principle of bank holding companies is not in the best interests of the country and that something should be done about them. The opinion of that committee was communicated to the President. Shortly, thereafter, in his message to Congress, on April 29, 1933, the President recommended the enactment of bank holding company legislation in the following language:

"We have seen the multiplied evils which have arisen from the holding company system in the case of public utilities, where a small minority ownership has been able to dominate a far-flung system.

"We do not want these evils repeated in the banking field, and we should take steps now to see that they are not.

"It is not a sufficient assurance against the future to say that no great evil has yet resulted from holding company operations in this field. The possibilities of great harm are inherent in the situation.

"I recommend that the Congress enact at this session legislation that will effectively control the operation of bank holding companies; prevent holding companies from acquiring control of any more banks, directly or indirectly; prevent banks controlled by holding companies from establishing any more branches; and make it illegal for a holding company, or any corporation or enterprise in which it is financially interested, to borrow from or sell securities to a bank in which it holds stock.

"I recommend that this bank legislation make provision for the gradual separation of banks from holding company control or ownership, allowing a reasonable time for this accomplishment -- time enough for it to be done in an orderly manner and without causing inconvenience to communities served by holding company banks."

- 4 -

That was almost three years ago. Congress has not yet taken any action to deal with the problem. The bill under consideration simply carries out the President's recommendations. It is a bill designed to curb the extent to which banks insured by the Federal Deposit Insurance Corporation may be controlled by holding companies. At present the activities of such holding companies are almost wholly unrestricted.

In brief the bill, which would be administered by the Federal Deposit Insurance Corporation, would make it unlawful, after June 30, 1944, for any company to own or control more than 10 percent of the voting stock of any bank insured by the Federal Deposit Insurance Corporation, or to control in any manner the management or policies of an insured bank. The bill also would confer upon the Comptroller of the Currency, with respect to national banks, and the Federal Deposit Insurance Corporation, with respect to other insured banks, the authority to veto the payment of excessive dividends by insured banks.

I favor the enactment of the measure. Its purpose is to protect and safeguard the banking structure which has been strengthened during the past eight years by the patient efforts of bankers and government alike. Today

- 5 -

bankers are cooperating wholeheartedly in the national defense program. It is because I want to protect bank depositors and help bankers, especially in the small local banks, that I favor legislation to deal with the bank holding company problem. To my mind, holding company domination is a serious menace to our banking structure.

I do not intend to burden you with an involved discussion of the evils inherent in holding company control of banks. A substantial part of the very excellent report of your committee at the close of its stock exchange investigation was devoted to the bank holding problem.

This morning, I want to discuss briefly some of the abuses in the operations of bank holding companies as disclosed by that report and, perhaps, bring to your attention further abuses not taken up at that time.

One of the greatest dangers involved in the expansion of bank holding companies is the resulting monopolistic trend in the banking field. Monopoly in banking is just as vicious and just as antagonistic to our free democratic order as it is in other fields. The small unit banker needs

- 6 -

protection against monopoly just as much as the small manufacturer.

Our records disclose several instances in which a holding company has threatened to establish a branch of one of its captive banks to compete with a small, independent institution, unless the independent bank sold out to the holding company.

In this connection the statement of the president of a small independent bank, taken from our files, is pertinent. He said, "... it now appears that a move is being made to attempt to scare us into selling out against our own wishes, or the alternative, to be obliged to compete with this bank in a branch to be established here if a charter can be procured."

A manufacturer in the same community wrote, "There is a feeling in all classes that the petition of the large branch banking institution for a branch in this city is a 'squeeze' play calculated to force the sale of our own independent bank."

- 7 -

Moreover, the absorption of a locally-owned bank by an outside holding company brings with it all the recognized evils inherent in absentee ownership of local enterprises. Such ownership can mean that banking and credit policies are dictated by persons ignorant of the needs of the community; that local citizens are unable to make direct contact with those ultimately responsible for the granting or denying of loans. Credit can be drained from the local community where credit may be needed, and turned to other sections where the return to the bank and the holding company is greater. The bank portfolio may be loaded with investments in enterprises wholly unrelated to the community, and bank officers and employees imported to direct the local banks' affairs. Such absentee ownership of banks amounts to financial domination without representation.

Free locally-owned banks are essential to a healthy banking structure. Even that is not enough. There must be competition among a number of such free locally-owned banks in a given locality if credit needs are to be met on a basis equitable to lender and borrower. No legitimate local enterprise should lack necessary credit at a rate made reasonable by free competition among free banks.

- 3 -

After a bank has been absorbed into a holding company system, it is exposed to the danger of intragroup deals at fictitious values. This is self-dealing. It is the typical holding company practice with which the public became familiar in the Insull and Associated Gas and Electric cases.

It is particularly important that banks and their depositors be protected against it. When a bank is in a holding company system it is frequently used to keep afloat the weak affiliated enterprises of the holding company. This is done by dumping into the captive bank depreciated real estate or other assets of affiliates. The bank is forced by the holding company to pay fictitious prices for these assets in order to bail out the affiliates.

The bank holding company tends to drain the resources of the banks in the system in order to maintain the dividend policy of the holding company. The maintenance of the market value of its stock is fundamental to the continued prestige and growth of a bank holding company. The value of that stock depends primarily upon the dividends

- 2 -

paid by the holding company, which in turn are made up from dividends paid to the holding company by its subsidiary banks. The result is that the bank holding company is frequently so much concerned with maintaining an undiminished flow of dividends from its controlled banks that it is unwilling to recognize the dangerous effect of an excessive dividend policy upon the soundness of the banks. The investigation of your Committee disclosed documentary evidence of the strong pressure by holding companies in Detroit to compel controlled banks to pay dividends in excess of the amounts deemed advisable by the bank directors. Ever since 1933 the office of the Comptroller of the Currency has endeavored to persuade one large national bank controlled by a holding company group to reduce its dividend rate. Instead the dividend rate has steadily increased from 6% to approximately 20% at the present time.

The complicated structure of a bank holding company system is a constant temptation to evasion and circumvention of the banking laws. Several years ago the national bank examiners directed a large national bank con-

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trolled by a holding company to charge off some \$85,000,000 of bad assets. Such a charge off by the bank would have necessitated suspension of dividends by the bank to the holding company. To avoid any such possibility the bank entered into a series of inter-company deals. Instead of charging off the \$85,000,000 of assets the bank turned them over to an affiliated company which promised to pay the bank \$85,000,000. Had the \$85,000,000 contracts been carried out in good faith the deal perhaps would not have been subject to criticism. But the deal left the affiliated company holding the bag. To rescue the affiliated company, the bank deliberately wrote up the value of its bonds by \$14,000,000 -- a purely paper transaction. The bank then credited this \$14,000,000 paper profit against the \$85,000,000 owed by the affiliate, in effect excusing that much of the debt. Thus the bank's assets were juggled and diverted to save the holding company affiliate from a heavy loss and to permit the holding company to continue draining the bank through dividends.

Your Committee reported that certain of the bank holding companies investigated deliberately prepared

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their statements and reports in such a form as to misrepresent the real condition of their controlled banks. The experience of the office of the Comptroller of the Currency has shown that the structure of some bank holding companies is so confusing that adequate examination and supervision of the national banks controlled by such companies is at times all but impossible.

One of the prevalent methods of misusing the funds of a bank controlled by a holding company is to force the bank to lend money to the holding company or to make loans on stock of the holding company. One of the easiest ways for the holding company to maintain the market price of its stock is to have the bank lend money to friendly persons so that they can buy the holding company's stock.

For example, the former National Bank of Kentucky loaned approximately \$5,800,000 of its funds on stock of the holding company which controlled the bank. When the holding company collapsed the bank suffered a loss of almost \$2,000,000 on such loans.

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Although existing law restricts loans by member banks of the Federal Reserve System to executive officers of such banks, the spirit of the law is frequently circumvented by loans made to officers and directors of bank holding companies or affiliated interests. I have in mind an officer of a corporation affiliated with a bank holding company who had inadequately secured loans of over \$7,000,000 outstanding at one time from a bank controlled by the holding company.

The fact that bank holding companies list their stocks on national exchanges is an ever-present menace to the banks controlled by the holding companies. Declines in the market price of the holding company stock affect the public confidence, not only in the holding company, "as a distinct entity but in each and every banking unit of the whole, regardless of its own inherent soundness." (page B34)

Strong banks in a holding company group are often endangered by weak banks. As your Committee succinctly expressed this criticism:

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"This most patent deficiency in group banking is that the group is only as strong as its weakest unit. . . . When the shock of adversity . . . dislodges confidence in any one of the units, the entire structure is destined to collapse. Unit banks which might otherwise have survived are doomed because of their affiliation in the public mind with the weaker units." (page 294)

After its careful investigation this Committee concluded that:

" . . . Little justification, economic or social, exists for the holding company as presently constituted and conducted. Holding companies, whether employed in the banking, public utility, or railroad field, have been catastrophic to the American public." (page 302)

The intensive investigation made by this Committee in 1934 and the very positive condemnation of holding companies by your Committee in its monumental report, show that legislation is needed to end the domination of insured banks by holding companies. And nothing has happened to diminish the need. In fact our experience in more recent years will, I believe, lend additional support to that proposition.

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The impelling necessity for bank holding company legislation was made increasingly clear as a result of recent difficulties which the office of the Comptroller of the Currency, in cooperation with the other Federal bank supervising agencies, encountered in the examination and supervision of one of the largest national banks, which is a unit in a complicated holding company system. In that case, the value of the holding company stock depended to a marked degree upon the dividends paid by the bank to the holding company and many of the financial transactions of the holding company group involved the questionable use of funds obtained from the bank.

The bank, under the domination of the holding company group, refused to follow recommendations and directions of the Comptroller of the Currency to reduce its excessive dividend rate, improve its capital position, charge off certain losses set up by the national bank examiners, drastically reduce excessive loans to the holding company and affiliated and allied interests, eliminate excessive real estate holdings, and take other steps considered by the Comptroller of the Currency

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as necessary to protect the soundness and stability of the bank.

Some of the sanctions given the Comptroller of the Currency under existing legislation are so weak that their use would have been ineffective, while others are so drastic that their use might have done excessive injury to the bank. Consequently, for approximately three years a tug of war went on between the bank on the one hand and the office of the Comptroller of the Currency and the other regulatory agencies on the other. Finally, as a result of constant pressure over those three years, the bank agreed to make a number of the changes insisted upon by the Comptroller of the Currency, although it did not agree to any reduction in its dividend rate. Thus far the bank has cooperated in carrying out most of the agreed changes with resulting benefits to the bank and its depositors. But it should not be necessary for the supervising agencies to struggle for years with a holding company dominated bank to obtain the adoption of sound banking practices which most free banks follow without argument.

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It is potentially dangerous, when the future of some of the largest banks in the country, as well as numerous small banks, is tied to the career of a few holding companies. Banks are established, not to nurture holding companies, but to serve the depositors and the general public. The Federal Government, as chartered, examiner, and supervisor of banks, has the responsibility of taking every possible step to assure the soundness of such banks. The various agencies intrusted by Congress with that responsibility cannot function effectively unless Congress enacts legislation conferring adequate powers upon such agencies.

I am convinced that this evil of bank holding companies needs to be corrected without delay. It may not look like a major problem if we judge it by the scale of the immense evils and dangers that are sweeping across the world. But it is a major problem, to my mind, if we judge it by what happened in this country before 1933. We shall never have a better opportunity to settle it than we have at this moment. We have it in our power to safeguard our banking structure and thus to strengthen one of the foundations of American democracy. We may yet reproach ourselves

if the next financial storm blows down upon us without our having taken this elementary precaution. I should like to urge you, with all the earnestness and sincerity at my command, to remove the menace of bank holding companies, and to do it now.

April 11, 1941
4:00 p.m.

Harold
Iokes: Say, Henry.

H.M.Jr: Yes.

I: You've heard us at Cabinet once or twice discuss this morale stuff. Have you any idea where the block is coming on that?

H.M.Jr: No, I never discussed it with the President. He never mentioned it to me.

I: Well, now, I just talked with Frank Knox a while ago and he went to bat on it again the last day or two and the President apparently hasn't the least interest in it.

H.M.Jr: Well, I think he's wrong.

I: Frank tried to arrange for a committee from New York, headed by Marshall Field, to come down and see him and you know of the obligations he's under to Field. "Oh," he said, "sometime later!"

H.M.Jr: I don't know. I can't tell you because

I: This home defense thing - seem to think that they've shunted it off into that. Now, that'll just kill it. Why, Henry, this is of tremendous importance.

H.M.Jr: I agree with you.

I: You know and he knows himself that that's what licked France and Belgium and all the rest, that it wasn't the armies of the Germans, it was Goebbel's propaganda. We're doing nothing to meet it.

H.M.Jr: Absolutely nothing. I just don't know. You remember I asked you to send me something on it and you were kind enough

I: Of course, Mellett has been against it.

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H.M.Jr: Oh, has he?

I: Now I hear that apparently he had Wayne McCoy and Bill Bullitt or somebody working on it.

H.M.Jr: I think that was on home defense.

I: Well, I know that was home defense but they also sent over here for some papers on the other while I was away on that trip. Burlew tells me that; he gave them the papers. Well, if you get any chance put in a few words.

H.M.Jr: I'll do that cheerfully.

I: Thanks, Henry.

H.M.Jr: Thank you.

April 11, 1941
4:06 p.m.

H.M.Jr: Hello.

Operator: Leon Henderson.

H.M.Jr: Hello, Leon.

Leon Henderson: Hello, Henry.

H.M.Jr: My congratulations.

H: Thank you very, very much.

H.M.Jr: All power to you.

H: I heard the thing was over there on the Boss' desk and I was going to call you and then I heard it was getting along all right and nobody interfering and it seemed to have gone through pretty well.

H.M.Jr: Wonderful.

H: And on this civilian supply thing, we've got authorization to suggest programs and so forth. What I'd like - you notice that they put you and Jesse and so forth on an advisory committee.

H.M.Jr: Didn't see that.

H: Yeah, that's right, and that's in line with a suggestion that Baruch made to me about the last war, seeing that the agencies directly concerned had an access, you know, and had a status. What I'd like to do is next week ask the committee if we couldn't have one meeting with the top boys, like yourself and Jesse, and then make sure that we've got somebody that would work pretty much full-time on it representing you. We've got this kind of a situation, Henry. Here's this steel wage question, and if they get what they're bargaining for now, it means an increase in steel prices. I talked to the Boss today and I went down and talked to Miss Perkins about it. Well, that's a very delicate situation.

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H.M.Jr: Yeah.

H: And I'm going to work on it over the weekend, but it's something that I'd like a little advice from the rest of you about.

H.M.Jr: Well, whenever you want it. Now, I talked to the President today - I was over there on taxes - and he said he'd like us to keep you posted and get your advice.

H: Yeah.

H.M.Jr: So John Sullivan is going to get in touch with you Monday.

H: All right, swell.

H.M.Jr: So that's that.

H: We need to go right down the line.

H.M.Jr: O.K.

H: All right. I've had my boys studying this British thing, by the way, and trying to keep up with your fellows and we'll be ready.

H.M.Jr: Fine. Good luck.

H: All right. Thanks for calling, Henry.

H.M.Jr: Right.

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 11, 1941

TO Secretary Morgenthau
FROM Mr. Cochran

Sir Frederick Phillips telephoned me at 3:45 this afternoon. He asked how the Brown and Williamson deal was coming along. He also stated that he would like an appointment with the Secretary to talk over some of his matters before the Canadians come down next week.

I brought the foregoing to the Secretary's attention at 4:10. He told me to let Sir Frederick know that Mr. Jones, with whom he had talked in regard to the Brown and Williamson transaction, would not be able to give us a report until Monday or Tuesday next. Mr. Jones did not come to the Treasury today as anticipated, since the Secretary was obliged to go to the White House. The Secretary asked me to take up with Lieutenant Stevens the question of an appointment for Sir Frederick. I telephoned the foregoing message to Sir Frederick at 4:20. I then indicated to Lieutenant Stevens the preference of Sir Frederick for a Tuesday morning appointment. Stevens will take this up with the Secretary and call me back.



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 11, 1941

TO Secretary Morgenthau
 FROM Mr. Cochran

for Mr. Cavanaugh

At 2:45 p.m. yesterday Mr. Playfair of the British Treasury Mission called on me. He stated that Mr. Gifford contemplated a substantial vesting of American securities on April 19. Among such securities there may be two or three lots which constitute 15 or 20 percent of outstanding voting stock of the issuing concerns. He asked my advice about complying with S. E. C. formalities in disposing of shares in which there is such an extensive interest concentrated in one seller. The British would like to have freedom to dispose of such securities up to a 30 percent interest without going through S. E. C. formalities.

In agreement with Mr. Playfair I telephoned Mr. Ganson Purcell at the S. E. C. and explained the question. Mr. Purcell said it would be impossible to fix any general limit such as 30 percent, since the test is that as to whether there is factual ability to control. It was the suggestion of Mr. Purcell that Mr. Playfair obtain such information as may be readily available with Mr. Gifford, and without calling upon the people from whom the securities were obtained, and then visit Mr. Purcell at the S.E.C. The latter would put Mr. Playfair in touch with the office of the General Counsel of the S. E. C. if this proved advisable. Mr. Purcell offered to be of all possible assistance. I recommended to Mr. Playfair that he follow Mr. Purcell's advice and call in the near future, since S. E. C. regulations are involved and it would be preferable to obtain a clear understanding at once rather than to go ahead without a definite knowledge of what should and can be done. I promised Mr. Playfair that I would bring this matter to the attention of the Secretary if any difficulties were experienced by the British in their negotiations with the S. E. C. Mr. Playfair seemed quite satisfied and promised to keep me informed.

TREASURY DEPARTMENT

FOR RELEASE, MORNING PAPERS
Friday, April 11, 1941.

The Secretary of the Treasury, by this public notice invites tenders for \$100,000,000, or thereabouts, of 91-day Treasury bills, to be issued on a discount basis under competitive bidding. The bills of this series will be dated April 16, 1941, and will mature July 16, 1941, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of \$1,000, \$5,000, \$10,000, \$100,000, \$500,000, and \$1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock p. m., Eastern Standard time, Monday, April 14, 1941. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of \$1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Secretary of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on April 16, 1941.

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

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

April 11, 1943

Dear Mr. McNary:

I think I need not tell you how pleased I was to learn of your appointment as Assistant Secretary of War. I send you my heartiest congratulations and good wishes as you assume the duties of this difficult and important post.

In looking forward to our further association during the days that are to come, I hope that you will call upon this office whenever it may be of service to you.

With cordial personal regards,

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable John J. McNary,
Assistant Secretary of War,
Washington, D. C.

622/jba

WAR DEPARTMENT
WASHINGTON

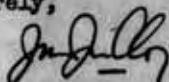
April 14, 1941

Dear Mr. Secretary:

I cannot tell you how much I appreciate your thoughtfulness in sending me your note. I know of no one whose esteem and good wishes I would rather have.

I feel that you and those who work with you have shown more insight and persistence in connection with the issues we face than any other group I have so far met in Washington. If ever I can be of the slightest help, I hope you will feel that you can call upon me any where and at any time.

Sincerely,



The Honorable
The Secretary of the Treasury

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 11, 1941

TO Secretary Morgenthau
FROM Mr. Pehle

I think you will be interested in the attached letter from Sumner Welles refusing to recommend the transfer of \$50,000 from frozen French Government funds to the American Friends Service Committee.

A handwritten signature or set of initials, possibly 'JAP', written in dark ink. The signature is somewhat stylized and appears to be written over a faint circular mark or stamp.

DEPARTMENT OF STATE
WASHINGTON

April 9, 1941

O
P
Y
In reply refer to
Re: 840.51 Frozen Credits/1456

My dear Mr. Secretary:

The receipt is acknowledged of your letter of March 21, 1941, with particular regard to the pending application No. NY 103767 permitting the transfer of \$50,000 from frozen French Government funds to the American Friends Service Committee.

The Committee states that the funds will be used for the purchase in Portugal of supplies to be shipped to France and distributed to French children. Inasmuch as the French Government has available in Portugal deposits amounting to a minimum of \$600,000 and inasmuch as the French Purchasing Commission is at present in Lisbon endeavoring to raise transportation of supplies to France, the Friends Service Committee has been informed that they should, in the first instance, communicate with this Commission to determine whether it would be possible to make

use

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury

- 2 -

use of its facilities in connection with the purchase of these supplies.

It is further understood from the British Embassy that the British authorities are reluctant to grant a navicert if these supplies are to be purchased from blocked accounts in this country as long as ample funds exist in Portugal for this purpose. Under these circumstances, this Department is not at the present time prepared to recommend this transfer.

Sincerely yours,

For the Secretary of State:

(Signed) Sumner Welles
Under Secretary

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE APR 11 1941

TO Secretary Morgenthau
FROM Mr. Pehle

On January 30, 1941, the French Government filed with the Foreign Funds Control an application to export to Indo-China certain military equipment which had been imported from France to the United States during 1939 and 1940 for the purpose of fitting such equipment to American built aircraft ordered by the French. Included in this military equipment, which is still in the United States, are 79 machine guns (7.5 mm) and ammunition, torpedos, bomb racks, bomb sights, etc., a list of which is attached.

The application was discussed at a meeting held at the State Department on March 6, 1941, at which time Mr. Acheson expressed the view that under no conditions should this material be allowed to go to Indo-China. Later the same day Acheson called me to say that he had discovered that the State Department had made a firm commitment that the armaments be allowed to be shipped to Indo-China in exchange for some quid which he did not specify. Subsequently we wrote to the State Department asking for its views and the attached letter from Dean Acheson was received in which he states:

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"When the French Government decided to export to Indochina the arms listed in the application enclosed with Mr. Bell's letter, the matter was taken up with the Department by the French Embassy. It was decided in the light of all the circumstances that the proposed exportation should be permitted, and export licenses were issued accordingly. The Department has not altered its views in regard to this proposed shipment."

If you agree, I will tell Dean Acheson orally that the Treasury Department is not prepared to license the export of this material to Indo-China in the absence of a written request to that effect from the Secretary of State.

A handwritten signature in black ink, appearing to be 'JAW', is located in the lower right quadrant of the page.

DEPARTMENT OF STATE
WASHINGTON

March 28, 1941

O
P
I
reply refer to

My dear Mr. Secretary:

The receipt is acknowledged of Mr. Bell's letter of March 13, 1941, in regard to an application filed by the French Government in connection with a proposed exportation of certain listed arms, ammunition, and accessories to Indochina.

In reply, I have to inform you that the items listed in the application of the French Government were imported into the United States by that Government in connection with the manufacture of arms ordered by the French Government before the conclusion of the Franco-German Armistice. When the French Government decided to export to Indochina the arms listed in the application enclosed with Mr. Bell's letter, the matter was taken up with the Department by the French Embassy. It was decided in the light of all the circumstances that the proposed exportation should be permitted, and export licenses were issued accordingly. The Department has not altered its views in regard to this proposed shipment.

Sincerely yours,

For the Secretary of State;
/s/ Dean Acheson
Assistant SecretaryThe Honorable
Henry Morgenthau Jr.,
Secretary of the Treasury.

LIST OF EQUIPMENT

20 Machine guns 7.5 mm	1 Machine gun 7.5. mm & access.
2 Machine guns 7.5 mm	2 Machine guns 7.5 mm
4 Machine guns 7.5 mm	2 Machine guns 7.5 mm
Machine gun (mockup) & Access.	2 Machine guns 7.5 mm & access.
2 Machine guns 7.5 mm	2 Machine guns 7.5 mm
2 Machine guns 7.5 mm	2 Machine guns 7.5 mm
2 Machine guns 7.5 mm	346 cartridges
1 Machine gun & access.	1980 cartridges
2 Machine guns 7.5 mm	1980 cartridges
2 Machine guns 7.5 mm	1980 cartridges
2 Machine guns 7.5 mm	1040 cartridges
2 Machine guns 7.5 mm	50 cartridges & links
8 Machine guns 7.5 mm	1980 cartridges
8 Machine guns 7.5 mm	1235 cartridges & links
2 Machine guns 7.5 mm	1200 cartridges & links
2 Machine guns 7.5 mm	1980 cartridges each (40 cases)
2 Machine guns 7.5 mm	2025 cartridges each (4 cases)
2 Machine guns 7.5 mm	780 cartridges

- 2 -

1100 Cartridges	Radio remote control (mockup)
1000 Cartridges	3 Parachutes
1500 Cartridges	2 Machine gun mounts
2000 Cartridges	Antenna support
1900 links	Gun sight (mockup)
Gauges for torpedos	7 Lamps for radio
Gauges for torpedos	Battery
Gauges for torpedos	Bomb hoist
Torpedo	Bomb rack
Cone for torpedo	Access. for bomb rack
16 air containers for torpedos	3 Intervalometres
17 liquid containers for torpedos	2 Bomb sight
Gauges for mines	4 Machine gun mounts
Gauges for mines	7 ammunition boxes
27 Electric storage batteries	Oxygen equipment
2 Parachutes	Gauge for machine gun support
1 Electric Plug	2 Camera remote control
1 Gun mount	Ammunition box
9 Oxygen containers	4 bomb racks
Access. for bomb racks	15 Gun sights
1 gun sight	Bomb rack access.
1 gun sight	Bomb rack

- 3 -

8 Batteries

Battery

Access. for bomb racks

Actuating mechanism for bomb racks

7 Ammunition boxes

4 Oxygen containers

8 Bomb racks

Bomb hoist & access.

2 Parachutes

1 Safety Belt

1 Parachute (mockup)

Bomb hoist gears & access.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE April 11, 1941

TO Secretary Morgenthau
FROM Mr. Wiley

ONI reports:

March 14 - Guatemala. The owner and operator of the leading tourist organization in Guatemala has deposited between January 2 and March 8, 1941, only \$200 in American money although his receipts for the period were \$34,567.60 in cash and \$14,435.42 in checks. (This would indicate that he is disposing of his currency elsewhere, and from prior reports it would seem that the Germans are buying up American dollars.) Guatemala has permitted Christian Zinsser, Charge d'Affaires at Honduras, who was expelled by the Honduran Government, to stay in Guatemala.

FBI reports:

April 7. Officials of the German Legation in Costa Rica called on the Secretary of the Treasury of Costa Rica, offering Costa Rica the German market for coffee and adding that Germany would be able to receive deliveries by July 1, 1941 (adding that the present war was already won by Germany).

April 8. Fritz Mandl*, the Austrian munitions magnate, is said to be acting as a go-between for the Nazis in organizing a revolution in Argentina. The leader of the Argentine group in question, whom Mandl is reported to have supplied with munitions and money, is an Argentine general who, in 1934, was a member of a military commission sent from Argentina to purchase arms from Mandl's factory in Holland.

* - First husband of Hedy Lamarr

JW

C.
O.
P.
Y

15 Broad Street, New York

Telephone Hanover 2-2460

BRITISH PURCHASING COMMISSION

April 11, 1941

Dear Cochran,

After our talk last Wednesday I promised to send a note on the various points touched upon, and I am enclosing it herewith. I hope you will find that it meets your requirements.

Gifford and I enjoyed our luncheon party very much and we both thought that the discussion was most helpful.

I look forward to having further talks from time to time.

Yours sincerely,

/s/ E. R. Peacock
Sir Edward Peacock

Mr. H. Merle Cochran
Treasury Department
Washington, D. C.

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MEMORANDUM FOR MR. COCHRAN
NOTES OF DISCUSSION ON APRIL 9th, 1941.

April 11, 1941

The details of the sale of Viscose Corporation were explained and the position of the negotiations of Brown & Williamson. The following matters were then discussed:-

1. I asked whether I might assume, in dealing with direct investments, that the first principle should be to raise as large a sum of dollars as I reasonably could and that I might do this in the way that would do the least damage to the British and American companies.
2. I asked if we could agree that companies that would produce less than some settled figure, say \$500,000, should not be further considered, at least for the present. These small companies have been much disturbed by my inquiries and are worried about what is to happen to their business, their staffs, etc. We would be relieved of much fruitless labor because each company, though small, requires a good deal of attention. Crosse & Blackwell was given as an illustration where Mr. Gifford had come to the conclusion that we could not raise \$50,000 by the sale.
3. There are many companies which are mere agencies or dependent on the activities of one or two people acting on behalf of an English company. They really have nothing salable. I gave as an illustration Charles Tennent Co., which deals in non-ferrous metals. Its success is dependent on the personal activities of Mr. Van Sinderen and his being able to maintain his connection with the British Metals Co. Others could not be sold because their business is dependent upon their parent company securing substantial Sterling credits to provide the goods which they sell - Hecht, Lewis & Kahn is a case in point.
4. There are companies like Burroughs Wellcome whose income is devoted entirely to scientific research under a charitable trust; the Oxford Press which is a company devoted to cultural activities.

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5. Many of the companies present special problems because they have grown up as part of a larger whole, never intended to be separated. As a result, most cases must be dealt with in the light of their special circumstances. The most important are those which are a link in a worldwide system where the breaking of the link would cause confusion, and where the use of a special name and trademark would raise difficulties and doubts. In some of these cases it would be extremely difficult to find a buyer even at a price far below anything reasonable, and a larger amount could be raised by way of loan.
6. A number of companies depend upon the use of a secret formula. The separate exploitation of this would be difficult to arrange without endangering the existence of the parent company. Control of the American company would probably be secured by one of the big combines and sales ruthlessly pushed everywhere. Examples are Yardleys, Gordons Gin and Lea & Perrins.
7. I enclose notes regarding the position of Levers and the Shell Union.

COPYING

LEVER BROTHERS & UNILEVER

April 11, 1941

1. There are two parent companies, one British and one Dutch, referred to hereafter as Limited and N. V. respectively. For the purpose of this memorandum the subsidiaries formed for trading or holding purposes can be ignored.
2. Limited holds no shares in N. V.
3. Shareholders of Limited are preponderatingly British, those of N. V. principally Dutch and Continental.
4. Lever Brothers, Boston, was a wholly owned subsidiary of Limited until 1935. In that year 25% of the American company was sold to N. V. in order to increase the earnings of that company which had fallen owing to the situation in Germany.
5. In 1936 it was proposed to rearrange the interests of Limited and N. V. so as to give Limited the whole of the British Empire as its sphere and N. V. the rest of the world. This was accomplished in 1937.
6. As part of the arrangement to achieve this, Limited sold to N. V. its remaining 75% interest in Lever Brothers. The American company thus became a wholly owned subsidiary of N. V.
7. In the Spring of 1940, alarmed at the German progress on the Continent, and to prevent possible seizure, N. V. registered a private company at Durban, South Africa, called Overseas Holdings (Proprietary) Ltd. To this company N. V. transferred the shares in Lever Brothers, Boston, and certain other subsidiaries as an emergency war measure with a view ultimately to re-transfer to the Dutch company. The position today, therefore, is that Lever, Boston, is owned by Overseas, a South African company, which in turn is wholly owned by N.V.

COPY

THE SHELL UNION INC. OF DELAWARE

April 11, 1941

The Batavian Petroleum Company, a Dutch company incorporated in The Netherlands, holds 64% of the shares of the Shell Union. The remaining 36% are held by the public.

The control of the Batavian Petroleum Company is held by the Royal Dutch company, which owns 60% of the stock.

Neither the Shell Transport nor the British Government has power to deal with the properties of the Royal Dutch or Shell Union in the U.S.A.

United Kingdom residents hold a certain number of shares of the Shell Union and these will be vested and sold in the ordinary way.

ESTABLISHING THE OFFICE OF PRICE ADMINISTRATION AND
CIVILIAN SUPPLY IN THE EXECUTIVE OFFICE OF THE PRESIDENT
AND DEFINING ITS FUNCTIONS AND DUTIES

By virtue of the authority vested in me by the Constitution and the statutes, and in order to define further the functions and duties of the Office for Emergency Management with respect to the national emergency as declared by the President on September 8, 1939, for the purpose of avoiding profiteering and unwarranted price rises, and of facilitating an adequate supply and the equitable distribution of materials and commodities for civilian use, and finding that the stabilization of prices is in the interest of national defense and that this Order is necessary to increase the efficiency of the defense program, it is hereby ordered:

1. There shall be in the Office for Emergency Management of the Executive Office of the President an Office of Price Administration and Civilian Supply, at the head of which shall be an Administrator appointed by the President. The Administrator shall receive compensation at such rate as the President shall determine and, in addition, shall be entitled to actual and necessary transportation, subsistence, and other expenses incidental to the performance of his duties.

2. Subject to such policies, regulations, and directions as the President may from time to time prescribe, and with such advice and assistance as may be necessary from the other departments and agencies of the Federal Government, and utilizing the services and facilities of such other departments and agencies to the fullest extent compatible with efficiency, the Administrator shall:

- a. Take all lawful steps necessary or appropriate in order (1) to prevent price spiraling, rising costs of living, profiteering, and inflation resulting from market conditions caused by the diversion of large segments of the Nation's resources to the defense program, by interruptions to normal sources of supply, or by other influences growing out of the emergency; (2) to prevent speculative accumulation, withholding, and hoarding of materials and commodities; (3) to stimulate provision of the necessary supply of materials and commodities required for civilian use, in such manner as not to conflict with the requirements of the War, Navy, and other departments and agencies of the Government, and of foreign governments, for materials, articles, and equipment needed for defense (such requirements are hereinafter referred to as "military defense needs"); and (4) after the satisfaction of military defense needs to provide, through the determination of policies and the formulation of plans and programs, for the equitable distribution of the residual supply of such materials and commodities among competing civilian demands.

- b. Make studies of the Nation's civilian requirements for materials and commodities, the supply of goods and services, the status and trend of prices and factors thereof, and the impact of the defense program upon civilian living standards; exercise the powers of the President in requesting such studies pursuant to Section 336(a) of Title III of the Tariff Act of 1950 (Title 19, U.S.C., Sec. 1536(a)); and conduct such investigations, hold such hearings, and obtain such reports as may be necessary or desirable to carry out this Order.
- c. Determine and publish, after proper investigation, such maximum prices, commissions, margins, fees, charges, or other elements of cost or price of materials or commodities, as the Administrator may from time to time deem fair and reasonable; and take all lawful and appropriate steps to facilitate their observance.
- d. Advise and make recommendations to other departments and agencies, whenever the Administrator deems it appropriate, in respect to the purchase or acquisition of materials and commodities by the Government, the prices to be paid therefor, and in respect to such of their other activities as may affect the price of materials and commodities.
- e. Inform the Office of Production Management of the amount, character, and relative importance of materials and commodities needed for civilian use; and advise and consult with the Office of Production Management with reference to its procurement, production planning, priority, and other actions the effect of which may be to diminish the supply of materials and commodities available for civilian use.
- f. Establish and maintain liaison with such departments and agencies of the Government and with such other public or private agencies and persons as the Administrator may deem necessary or desirable to carry out the provisions of this Order.
- g. Formulate programs designed to assure adequate standards for, and the most effective use of, consumer goods; stimulate the utilization of substitutes by civilians for consumer goods and commodities of limited supply; develop programs with the object of stabilizing rents; and promote civilian activities which will contribute to the purposes of this Order.
- h. Recommend to the President the exercise of the authority vested in him by the following named Acts, whenever, in the opinion of the Administrator, such action by the President will enable the Administrator to carry out and secure compliance with the provisions of Section 2a and 2c of this Order:

- (1) Section 9 of the Selective Training and Service Act of 1940 (Public No. 783, 76th Congress).
- (2) Section 120 of the National Defense Act (Title 50, U.S.C., Sec. 83).
- (3) Section 1 (15) of Title 49, U.S.C.
- (4) The Act of October 10, 1940 (Public No. 829, 76th Congress).

- i. Perform the functions and exercise the authority vested in the President by the following named Acts, in so far as and only to the extent that the authority conferred by such Acts will, in the opinion of the Administrator, enable him to carry out and secure compliance with the provisions of Section 2a and 2c of this Order: Section 713(a)-7 of Title 15, U.S.C., Supp. V; Section 4 of the Act approved June 7, 1939 (Title 50, U.S.C., Supp. V., Sec. 98e); and Section 5 of the Reconstruction Finance Corporation Act, as amended by the Act approved June 25, 1940 (Public No. 664, 76th Congress); subject to the disapproval by the Secretary of War or the Secretary of the Navy of each proposed action thereunder.
- j. Advise upon proposed or existing legislation, and recommend such additional legislation as may be necessary or desirable, relating to prices, rents, or the increase in supply and the equitable distribution of materials and commodities for civilian use.
- k. Keep the President informed in respect to progress made in carrying out this Order; and perform such other related duties as the President may from time to time assign or delegate to him.

3. The Administrator may provide for the internal organization and management of the Office of Price Administration and Civilian Supply, and may appoint such advisory committees as he finds necessary to the performance of his duties and responsibilities. The Administrator shall obtain the President's approval for the establishment of the principal subdivisions of the Office and the appointment of the heads thereof.

4. There shall be in the Office of Price Administration and Civilian Supply a Price Administration Committee consisting of the Administrator as Chairman, the Secretary of the Treasury, the Secretary of Agriculture, the Federal Loan Administrator, the Chairman of the Tariff Commission, the Chairman of the Federal Trade Commission, the Director General and Associate Director General of the Office of Production Management, or such alternate as each may designate, and such other members as the President may subsequently appoint. The Committee shall from time to time, upon request by the Administrator, make findings and submit recommendations to the Administrator in respect to

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the establishment of maximum prices, commissions, margins, fees, charges, and other elements of cost or price of materials or commodities as provided under paragraph 2c above.

5. Within the limits of such funds as may be appropriated to the Office of Price Administration and Civilian Supply or as may be allocated to it by the President through the Bureau of the Budget, the Administrator may employ necessary personnel and make provision for necessary supplies, facilities, and services. However, the Office of Price Administration and Civilian Supply shall use such statistical, informational, fiscal, personnel, and other general business services and facilities as may be made available to it through the Office for Emergency Management or other agencies of the Government.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE

April 11, 1941

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE April 11, 1941

TO Secretary Morgenthau
FROM Herbert Merillat

TAXES AND INFLATION

The upward trend of prices, demands of labor for increased wages, and the accelerated rate of government spending for defense have given rise to widespread talk of the dangers of inflation. Last month the savings bond program was applauded as a check on inflationary tendencies; now taxation is getting increased attention as a complementary method of fighting inflation. The newspapers carry stories of a four-point anti-inflation program calling for increased taxes, sale of bonds to tap private savings, price controls, and curbs on installment sales. Mr. Donald M. Nelson of the O. P. M., Dr. E. A. Goldenweiser, Director of the Federal Reserve Board's Division of Research and Statistics, Dr. L. R. Robinson of Columbia University, Dr. Edwin Kemmerer of Princeton University, and Mr. H. H. Heimann, Executive Manager of the National Association of Credit Men, are among the public figures and economists who have recently urged the use of taxation to check possible inflation. The emphasis by the press in all parts of the country on the importance of taxation as an anti-inflation measure has doubtless helped to prepare people to accept greater tax burdens. The statement of the

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British Chancellor of the Exchequer that the proposed tax increases in Britain are designed to cut purchasing power as well as to raise revenue has also helped to focus attention on the inflation-checking aspect of taxation.

Reaction to the British Budget

To date, the reaction of only a few Eastern papers to the new British budget is available. Already the proposal of a modified form of the Keynes compulsory savings plan has produced a crop of rumors that similar proposals will soon be forthcoming in this country. "Such a plan will be proposed," John T. Flynn predicts, "not merely for war effort, but as part of what is sometimes called the 'new order' in America." The Wall Street Journal, shocked at Keynes' suggestion of a capital levy at the end of the war to provide funds for repayment of the forced loans, concludes that the borrowed savings can be returned only by imposing additional taxes in the future and warns taxpayers not to believe that they can "save" anything under the Keynes plan. The New York Times also is skeptical about the repayment feature, but regards the check on the public's purchasing power through increased taxes as a measure vitally necessary to prevent inflation.

Tax Predictions

Although the press still reports that the Administration favors increases in existing taxes rather than new untried taxes,

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it is predicted that Congressional sentiment will be strong for a general manufacturers' excise tax, particularly if the Treasury insists on a revenue increase of more than $1\frac{1}{2}$ billions. Senators George and Taft are reported as agreed that it may be necessary to increase the individual normal tax rate to 8 per cent and the corporation tax rate to 30 per cent. The Wall Street Journal predicts that individual specific exemptions and credits for dependents will be disallowed in computing surtax net income. Some papers report that the Treasury is still plugging for elimination of the average earnings credit under the excess profits tax law, but stiff Congressional opposition to any such proposal is predicted.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE April 11, 1941

TO Secretary Horgensthan

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns £35,000
Purchased from commercial concerns £38,000

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

Sold to commercial concerns -0-
Purchased from commercial concerns £3,000

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

Candian dollar	12-11/16% discount
Swiss franc (commercial)	.2321-1/2
Swedish krona	.3384
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2325
Brazilian milreis (free)	.0505

There was a holiday in Shanghai today, and no quotations were received from that center.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

In London, spot silver was unchanged at 23-1/2d. The forward quotation was also 23-1/2d, up 1/16d. The U.S. equivalent of this price is 42.67¢.

Handy and Hartman'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 no purchases of silver today.

J. W. F.

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H. M. Goussard

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H. M. Goussard

CONFIDENTIAL

PARAPHRASE

A telegram (no. 49) of April 11, 1941 from General Hood at Hanoi reads substantially as follows:

Information received from persons in Hanoi indicates that in general under the economic agreement between Indochina and Japan, Japan is to receive in 1942 700,000 tons of rice at 12.20 piasters per hundred kilos; that payment will be made into a special account for monthly deliveries of this rice; that an equal payment will be made only in the corresponding month of 1942 into the general clearing account from this special account; that, except perhaps for rubber for which the French are trying to get American dollars, payment for other articles delivered to Japan and for deliveries to Indochina will be made to the general clearing account operated by and between the Yokohama Specie Bank and the Bank of Indochina; that at the end of each month settlement is theoretically to be made of the general clearing account in gold currency or in other currency selected by the creditor bank, but only the amount which exceeds five million piasters or yen, depending on the balance of trade, is to be settled in this way. It is understood that the operation of the general clearing account is similar to the agreement of December last between

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the Yokohama Specie Bank and the Java Bank.

According to information which Consul Reed has been able to obtain, Japan will take 25,000 tons of rubber. The Consul has not been able to learn whether any rubber will be designated for Germany, all of the production, one-half and nine-tenths respectively, of the tin and zinc production and 600,000 tons of coal at least. At first the Japanese asked for 800,000 tons of coal a year. The Japanese will be permitted to take part in the exploitation of such minerals as phosphates iron and manganese which in the past have played a prominent part in trade with the Far East. The general belief is that discussion of colonization rights as well as special treatment of Japanese merchants will be postponed until later and under a supplementary agreement, although there has been some talk of the Japanese making demands along these lines.

Copy: h; 4-16-41

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

EO 12812 DECLASSIFIED

RECEIVED

EH

GRAY

Bucharest

Dated April 11, 1941

Rec'd 2:35 p.m., 12th.

Secretary of State,
Washington.

336, April 11, 8 p.m.

A circular published in the official MONITOR by the Ministry of Finance on April 3 announces that the Rumanian Government has been compelled because of the disturbance of international economic relations and the decrease in its territory to suspend all foreign payments on the Rumanian public debt. The circular adds that the Rumanian Government is prepared to initiate negotiations with the interested governments concerning the resumption of foreign debt service as soon as the stability of the external situation permits.

FMR

GUNTHER

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 11, 1941

TO Secretary Morgenthau

FROM Mr. Kamarck

Subject: Weekly Military Report

1. Summary of information on army strengths in the Balkans
(as of approximately April 6)

Germany had a total of 45 - 59 divisions or about 1,000,000 men.

On the Austrian-Yugoslav frontier	10 - 12 divisions
Hungarian-Yugoslav frontier	3 - 6 divisions
Romanian-Yugoslav frontier	9 divisions
Bulgarian-Yugoslav frontier	12 divisions
Bulgarian-Greek frontier	6 divisions
In reserve in Bulgaria	<u>7 - 14</u> divisions
Total	45 - 59 divisions

Italy had 28 divisions or 450,000 men in Albania.

Yugoslavia had 30 divisions or 800,000 men.

Greece had 15 divisions (my estimate) or 400,000 - 450,000 men (my estimate).

Great Britain had parts of 3-1/2 divisions or perhaps 75,000 men.

The Germans at the beginning of hostilities on April 6, had, ready for the Yugoslav invasion, roughly the same number of men as the Yugoslav army at peak war strength (about 800,000 men). Back of this well-equipped striking force, the Germans have practically unlimited reserves (i.e., about 4 million men more under arms) so far as the needs of this campaign are concerned.

Against the approximately 500,000 Greeks and English, there were 450,000 Italians and 120,000 Germans originally allotted. In addition, some of the 150,000 to 300,000 immediate German reserves in Bulgaria have been probably thrown in against the Allies.

2. Summary of information on air strengths in the Balkans, at about April 6

German:	Total in the Balkans	780 planes
	(plus an unknown number in Austria)	
	Bombers	350
	Pursuit	430

Italian: No estimate available.

Yugoslavs: 400 - 500 combat planes (mostly obsolete).

Greeks: No estimate available, probably a negligible number.

English: Less than 100.

No comment is necessary on the overwhelming German air superiority indicated by the above figures.

3. Bulgaria is experiencing a shortage of food due to German military demands (March 28, Sofia report). Hungary cannot carry out an extensive mobilization due to a food shortage (April 7, Budapest report)

This information is a small indication of the supply difficulties the German Balkan army is going to experience if the Balkan war is prolonged. Even more important, it underscores the defeat Germany suffers from war going on in the Balkans, an important German source of food supplies.

BRITISH EMBASSY,
WASHINGTON, D.C.

April 11th, 1941.

Personal and Secret.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated April 9th.

1. Naval. Red Sea; morning of the 8th. About 11 ships left Massawa including a small warship. Swordfish aircraft were operating, a small destroyer was bombed in the harbour without definite result. Massawa occupied 1.00 p.m. harbour found blocked and extensive demolitions.
2. His Majesty's armed merchant cruiser Worcestershire torpedoed on the 3rd in port.
3. Military. Libya. Our forces concentrating in El Gazala - Tobruk area.
4. Yugoslavia. Germans occupied Skoplje, whence columns moving north towards Belgrade and west on Tetovo following the Yugoslav division advancing into Albania from Prisen. They have also occupied Veles and are advancing towards Prilep Bitolj. Armoured division advancing on Piroet. At noon April 7th Yugoslavs holding Koshirino Pass south of Strumica but later reported driven back.
5. Of seven Yugoslav armies only the 3rd advancing into Albania was fully mobilised and concentrated. The first army partly in Piroet area and the rest driven west of Skoplje. The second army reported in reserve Sarajevo area or distributed amongst other armies. The remaining four armies are in north.
6. Greece. Reports up to noon April 7th stated that the Greeks holding from the sea at the mouth of the Nestos River to Yugoslav-Bulgarian and Greek boundary (Metaxas Line); they were evacuating Alexandroupolis by sea. Their covering troops X area had withdrawn unmolested to the Metaxas Line but some forts near the frontier still holding out. The Germans attacked with tanks south of Nevrokop and suffered heavy casualties, Perithorion changing hands twice. The

Greek/

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Greek forts east of Rupel Pass twice attacked without success but west of the Pass Greeks forced back to east bank of the Struma, although some mountain forts still holding out. The Greeks and Serbs in touch in Lake Doiran area.

7. Air Ministry signal received early April 9th states that German forces entered Salonika at 4 p.m. April 8th.

8. Royal Air Force. Night of April 8th/9th. 100 military aircraft sent to Kiel (160) Bremenhafen, Rotterdam. The primary targets attacked in clear weather and very large fires started in Kiel. 5 aircraft missing.

9. Balkans. Night of April 6th/7th, heavy bombers attacked Sofia railway machine gunned transport in the Struma Valley where Blenheims also bombed Petrich Railway at Simitli, Gorna, Djukaya.

10. German Air Force. Night of April 8th/9th. About 180 operated against Coventry and a large attack on Portsmouth. Night fighters shot down six enemy aircraft (five in Coventry area) probably damaged one and damaged two more.

11. Home Security. Night of April 7th/8th. Casualties estimated at 72 killed and 428 seriously wounded throughout the country.

12. Night of April 8th/9th. Coventry. Owing to interrupted communications accurate estimate not yet possible. The attack was heavy but not to be compared with the one on November 14th/15th. One serious fire Daimler factory other industrial premises and key point factories damaged.

CONFIDENTIAL

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, April 11, 1941

TENTATIVE LESSONS BULLETIN
No. 90
G-2/2657-235

NOTICE

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

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

MISCELLANEOUS NOTES ON THE GERMAN ARMYSOURCE

Sections 1, 2, and 3 of these notes are based upon information compiled by a high British official source late in 1940. Section 4 is based upon information recently received from the intelligence division of a European army and Section 5 upon a recent report of an American official observer in France.

CONTENTS

1. METHOD OF ATTACK UPON A PORT
2. EFFECT OF REFUGEES UPON MILITARY OPERATIONS
3. DOGS IN THE GERMAN ARMY
4. ADDITIONAL NOTE ON REORGANIZATION OF PANZER DIVISIONS
5. COMMENT BY GENERAL RICARD

CONFIDENTIAL

CONFIDENTIALMISCELLANEOUS NOTES ON THE GERMAN ARMY1. METHOD OF ATTACK UPON A PORT

A competent observer who was in Norway at the time of the German invasion and who personally witnessed two German landings has given a description of the methods adopted. These methods were peculiarly successful against Norway, where no attack was expected and where the defense was not properly organized.

At each landing witnessed, the methods used and the sequence of events were precisely the same. Open beaches were never used except as a diversion, for in each case landings were made at a quay. The time chosen was between 2:00 and 2:30 A.M., the darkest part of the night.

The first intimation of landing was provided by a series of magnesium flares dropped from aircraft over permanent defenses. This action was followed within 20 or 30 seconds by heavy and accurate bombing of gun defenses, and simultaneously the first sea-borne flight arrived. This invariably consisted of light vessels of about the size of large fishing craft. No attempt was made to neutralize gun defenses by landing; complete reliance seemed to be placed upon neutralizing them by aircraft during the passage of the first and subsequent flights of ships.

The next event was the lighting of the quays of the port by magnesium flares. Immediately afterwards there were very heavy and accurate attacks by many dive bombing planes on the extremities of the quays, where machine gun posts would normally be located. Then the first ships arrived at the quay and made fast.

The first ship contained soldiers armed with grenades. These men jumped ashore, flinging their grenades in all directions and clearing a passage for the men disembarking from the vessels which followed. Subsequent vessels landed machine guns, light antiaircraft guns, and light tanks; these last were chocked up so as to be at the correct quay level for the state of the tide.

The object was to put the quay defenses out of action before material was landed. Reliance seems to have been placed almost entirely on the very heavy bombing and prolific and indiscriminate use of hand grenades by the first men ashore.

Having got men and material ashore, the Germans seemed content to advance into the town and wait for further reinforcements in heavier ships. They relied upon the presence of the

CONFIDENTIAL

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civilian population all around them to prevent air retaliation.

As these phases of action developed, it was the usual practice to organize diversions in the shape of beach landings on the immediate flanks and parachutists' descents behind the ports.

From the time the quays were first lit up by the flares it was reckoned that within 30 minutes the Germans would expect to land about 1,600 men.

2. EFFECTS OF REFUGEES UPON MILITARY OPERATIONS

Detailed reports have been received regarding evacuation of a large proportion of the population of Paris and the consequent effect upon the roads.

The exodus en masse began upon the sight of a vast pall of smoke upon the horizon heralding the approach of the Germans. Rumors also set in motion streams of refugees in quite remote back areas, with the result that when military traffic finally should have got clear of the refugees it encountered all the refugee difficulties over again. The refugees had such an effect on the roads that one military car took $1\frac{1}{2}$ hours to cover 25 miles.

Refugees paid no attention to black-out orders at night, and their lights attracted enemy bombing. This in turn increased the confusion, for even if no hits were registered, the refugees, upon the commencement of bombing, left their driverless cars to block the road and hid in the ditches.

On one occasion a direct hit on a road caused a delay of $2\frac{1}{2}$ hours while wounded and debris were moved. It was not possible to provide ambulances for refugee casualties as, coming from the rear, they were moving against the stream of traffic.

Two hundred miles from Paris another form of traffic jam set in; it was caused by refugees' running out of gasoline. These people simply abandoned their cars and continued their flight on foot.

In general, refugee traffic could be kept in motion and in some form of control only by a certain degree of ruthlessness and disregard of sentimental considerations. Any vehicle which broke down had to be got off the road at once. Any relaxation led to jams and attracted enemy aircraft.

It was fatal to delay any pre-arranged scheme of demolitions out of consideration for the refugees.

CONFIDENTIAL

CONFIDENTIAL3. DOGS IN THE GERMAN ARMY

Two kinds of dogs are used in the German Army - messenger dogs and tracking dogs. The two breeds best suited are the German sheepdog and the Doberman. These notes deal with the training of tracking dogs.

After a period of training at Dessau or Berlin, the dog is taken to its allotted company by its trainer. The trainer remains with the company for about three weeks until the dog has become familiar with its new master, who is chosen from volunteers that are dog lovers.

During this period the dog is also accustomed to all the men of the reconnaissance party with which he will have to work later. The period of adoption being over, the dog obeys its new master and takes part in the work of the reconnaissance party under his direction. The dog is considered satisfactory and sufficiently trained when it is able to work under the following conditions:

Precede the patrol silently at a distance of about 30 to 40 yards, assuring itself by turning its head that the rest of the patrol is following. When he scents the presence of people, strangers to the reconnaissance party, at a distance of 30 to 40 yards away, the dog must warn the reconnaissance party by returning silently to its master's side. A dog which barks or growls at any moment during a patrol is sent back as unsuitable. At the end of every reconnaissance, the dog returns with its master to company headquarters. It must never stay in the front line.

One company belonging to a regiment in the line on the Saar front had three of these dogs.

4. ADDITIONAL NOTE ON REORGANIZATION OF PANZER DIVISIONS

The reorganization of German Panzer divisions was outlined in TENTATIVE LESSONS BULLETIN No. 86. The following points may be added:

a. The Class VII tank is reported to weigh 90 tons and to have armament consisting of one 105-mm. gun, two 47-mm. guns, and four machine guns.

b. The Class VI tank is reported to weigh 45 tons and to have armament consisting of one 75-mm. gun and four machine guns.

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c. The Class V tank is reported to weigh 36 tons and to have armament of one 75-mm. gun and four machine guns.

d. The antiaircraft battalion, equipped with dual-purpose 15-mm., 20-mm., and 37-mm. antiaircraft and antitank guns, is reported using largely multiple mountings on its guns.

e. The armament of the divisional antitank regiment is said to consist of thirty-six 47-mm. antitank guns and eighteen 75-mm. or 88-mm. antitank guns.

5. COMMENT BY GENERAL RICARD

In a recent interview, General Ricard, French G-1 and G-3, admitted that the difference in the numbers of Allied and German divisions was not of great importance and stated the belief that, had this been the only factor to consider, the French and the English could have withstood the German attack.

General Ricard is convinced that one reason for the complete collapse of the French Army was the overwhelming support given German ground forces by bombing planes.

Almost all the preparations made by France for the War of 1939-40, General Ricard said, were based upon the 1914-1918 principles of infantry supported by artillery. Germany, with a more modern conception of war, prepared and trained a striking force of motorized and armored units closely supported by a strong air force.

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G-2/2657-220
No. 563

M.I.D., W.D.,
April 11, 1941
12:00 M.

SITUATION REPORTI. Western Theater of War.

Air; German. Normal night activity over England, particularly in the Midlands, where concentrations were made on Coventry and Birmingham.

British. Normal night attacks on the Ruhr, particularly on Dusseldorf. The "Scharnhorst" and "Gneisengu" were again attacked at Brest.

II. Balkan Theater of War.

Greek Front. German columns advancing from Skoplje and Salonika have reached Monastir and Jannitza. Fighting has begun between German and British troops.

Yugoslav Front. A German column moving northwest from Skoplje has captured Uresevac and is moving on Pristina.

The strong German mechanized army under General Oberst von Kleist which captured Nish on April 8, continues to advance in a north-westerly direction and has taken Cuprija and Paracin. This group has also taken Prokuplje to the southwest of Nish.

Northern Yugoslavia is being invaded at six points, including a Hungarian thrust, Szeged--Novi Said, and an Italian advance on Laibach. The Italians also claim to be on the offensive on the Albanian frontier.

Albania. Minor activity.

Air; German. Close support continued.

British. Attacks were made on troop columns in the Monastir area.

III. Mediterranean and African Theaters of War.

Ground; Libya. The British are hard pressed at Tobruk and their situation east of the town is difficult.

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Air: Considerable air fighting. The Germans bombed Tobruk. The R.A.F. attacked German formations.

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

Paraphrase of Code Cablegram
Received at the War Department
at 10:30, April 11, 1941

SECRET

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

Date APR 12 1941 (BPH))
Initials

Cairo, filed 12:15, April 10, 1941.

1. It is probable that British forces in Greece will soon see action as it is reported that an armored German force is moving on the city of Monastir from Veles. British plans were to establish a defensive line southeast of Monastir.
2. A second armored German force has left Skoplje in a northerly direction.
3. If German bombers attack Athens the Royal Air Force is planning to retaliate with attacks on Rome. The Vatican City will not be raided.
4. Salonika has fallen to two German armored divisions.
5. Three divisions of the Yugoslav Army have been captured by the German.

FELLES

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Air Corps

SECRET

Transmission of Code Cables
Received at the War Department
at 9:05, April 11, 1941.

London, filed 14:36, April 10, 1941.

1. British Air Activity Over the Continent.

a. Night of April 10. Two flights of British parent ships were in operation over Occupied France off the Dover Straits. One freighter was damaged in attacks on submarine traffic off Boulogne and Le Havre. Success was reported when a single plane bombed concentrations and troop structures on the Frisian Islands.

b. Night of April 9-10. Large scale damage was reported on a raid by six Heinkel bombers against the aluminum plant at Hagerup (Hagerup, Norway?). The Coastal Command scored a hit on an Arctic ship, and many fires were observed after attacks by 60 planes on Berlin, and 16 on Hahn and shipbuilding plants at Bremen. Success was also claimed in raids over Northern France where buildings were hit.

c. Nights of April 7-8 and 8-9. The scale of British attacks on Kiel was 348 planes. Ten Manchester dropped forty 1,000-lb. bombs in addition to many incendiaries. Three hundred and twenty tons of high explosive were utilized and more than 50,000 incendiaries. Seven bombs weighing 2,000 lbs., 11 of 1,500 lbs. and 91 of 1,000 lbs. were included in the high explosives dropped.

2. German Air Activity Over Britain.

a. Night of April 10-11. Attacks on the Midlands and airfields in Nottinghamshire, Yorkshire and Lincolnshire were heavier

then has been the case recently, with cities on the south coast from Seaford to the Lizard suffering damage, though no definite reports have been received.

2. Daylight, April 10. German activity was largely limited to sea patrols although 40 planes raided inland over Kent. There were scattered attacks on Cheriton, Gosport, Bursick, and Bedford.

3. Night of April 9-10. Important industrial plants at Birmingham and shipbuilding yards along the Tyne suffered considerable damage.

3. Air Losses, British Bombers.

2. British

(1) Daylight, April 10; none.

(2) Night of April 9-10; eight planes failed to return after raids over Gosport.

1. German

(1) Night of April 10-11; night pursuit planes accounted for six bombers (including one shot down by a Douglas Havoc). Artillery fire brought down a seventh.

(2) Daylight, April 10; two, and probably three, planes destroyed by pursuit ships and two damaged.

4. British Air Activity in Middle East Theater.

2. (Libya) April 5-8. Reported operations against motor convoys, airfields and ground troops took place in the El Agheila, El Mechili and Derna sectors. During the same period low-flying pursuit ships harassed troop columns and airfields with machine gun fire.

5. Axis Air Activity, Middle East Theatre.

a. (Libya) April 2-9. Operations were limited to support of mechanized troops.

b. (Italy) During the same period some activity took place over Malta.

6. Air Losses, Middle East Theatre.

a. (Libya) April 2-9. British aircraft destroyed 16 Axis planes in flight and 9 on the ground.

b. (Italian East Africa) The British took possession of 31 destroyed or damaged Italian planes at the Addis Ababa airfield.

7. Night of April 8-9. Casualties in the bombing of Coventry were under 150 with 200 severely injured. Forty-six fires were reported.

8. (Libya) It is reported by the British that in the withdrawal from West of Derna a few mechanized vehicles were cut off by the Germans and have not been heard from since. British mechanized units retreated from Nchili on April 8. There is evidence that the German advance is losing force and that their situation in regard to supplies is serious.

END

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-3-

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**Paraphrase of Code Radiogram
Received at the War Department
at 10:25, April 11, 1941**

Rome, filed 21:14, April 11, 1941.

It is reported that in Italian East Africa the Duke of Aosta who is at Dessie is trying to rally what remains of his troops but not with the idea of continuing to resist. A movement is in progress of British troops to Egypt from Eastern Africa. In order to provide quarters for German troops the estimated strength of which it is estimated will be 250,000, barracks are being built in Italy.

FISKE

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Paraphrase of Code Radiogram
Received at the War Department
at 20:44, April 11, 1941

Ambars, filed 20:11, April 11, 1941.

1. Reference is made to cable No. 95 dated the 11th of April sent by the Embassy.
2. The Turks are being assured by Von Papen that they are not threatened and that the Bulgars will attack neither Yugoslavia nor Greece.
3. Although not confirmed, it is reported that in the near future a nonaggression pact or some secret understanding will be suggested to the Turks by Germany.
4. Unsuccessful attempts have been made by Yugoslav Army representatives here for Turkey to enter the war. It is expected they will leave tomorrow.

KL685

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Paraphrase of Code Radiogram
Received at the War Department
10:00, April 11, 1941.

Sofia, filed 18:30, April 10, 1941.

I had a talk in Italian for half an hour, alone with the Minister of War today. He stated the following ideas: The Yugoslavs can last only 5 days. Greece will fall within a week. The Bulgarians will get a small section of Yugoslav territory and Bledogatch (Alexandropolis). The sector of Skoplje (Wahab) was captured by motorcycle troops followed by armored troops. The number of Yugoslav prisoners is 40,000. In Eastern Greece 6 divisions of the Greek army were taken prisoner. The Yugoslavs had received assurances that they would get Salonika if they were willing to let the Germans through. Today and yesterday a great deal of antitank equipment has been going through the Bulgarian capital, moving in a westerly direction. Reply to my cable No. 7 is requested.

JARVIN

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Secretary of Treasury
Under Secretary of War
Chief of Staff
War Plans Division
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Paraphrase of Code Cablegram
Received at the War Department
at 11:59, April 11, 1941.

London, filed 17:10, April 11, 1941.

The following information was released by the British War Office as of 7 A.M. today:

1. It is estimated that four Greek divisions were cut off in Thrace by the capture of Salonika.

2. German long range aircraft is assisting the supply of forward elements in the Mochili area of Libya. British are going into defensive positions based on the Italian lines about Tobruk.

3. A wireless communication purporting to be an order from General Simovitch was intercepted directing all Yugoslav commanders to act on their own responsibility.

4. Contact was gained between the Greeks and German motor-cycle troop at Nisena and small German forward elements advancing through the Monastir gap. Similarly light German advance forces attacked the British at Vene in the Florina area. In Northern Yugoslavia German columns advancing from Virovitica reached Diruvar. There are four principal columns operating in South Yugoslavia as follows:

- a. From Stinje southwest on Prizren.
- b. Nish northwest on Belgrade.
- c. Nish northeast on Hajosvac (?).
- d. Kvarinci west on Nitelj. (Monastir)

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TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE April 12, 1941

to ^{Secretary} ~~Chairman~~ Morgenthau
from Mr. Cochrane

At 4:25 yesterday afternoon Mr. Loy Henderson telephoned me from the Department of State. He reminded me that our Government is now requisitioning certain equipment purchased by Amtorg for shipment to Russia. Amtorg has heretofore refused to accept refunds from the American suppliers. Within the past two days, however, Amtorg has not only indicated to suppliers a willingness to accept refunds of advance payments, etc., which they have made for goods which are now requisitioned by the United States, but have been pressing these manufacturers to give them everything by April 14. Mr. Henderson, as head of the Russian Section in the Department of State, had discussed this with Under Secretary Welles. The latter had asked that the Treasury Department be consulted, lest the Russians might conceivably have in mind some move on or after April 14 which might be construed as cause for our freezing their assets in the United States.

I called the Federal Reserve Bank at New York at 4:30 yesterday evening. In Mr. Knoks's absence, I asked Mr. Cameron to let me know the status of the Russian account with the Federal, and also to ascertain from the Chase Bank whether there had been any unusual activity in the Russian accounts the past few days. Mr. Cameron told me that for the past year the Russian State Bank had maintained its dollar account at close to the present figure of \$3,200,000. The State Bank has no gold with the Federal. The dollar account has been fed by credits coming from Sweden, Switzerland and other countries and out payments have been made to Yugoslavia and other foreign countries, although principally to the account of the Russian State Bank with the Chase in New York. Within the past few days there had been no important changes in the Russian account with the Federal.

At 5:20 last night Mr. Cameron telephoned me back to let me know that there was no one available at the Chase to give the desired information. At 5:30 I telephoned Mr. Henderson and summarized the above report. At 9:30 this morning I telephoned Mr. Knoks in the Federal and explained my call to Mr. Cameron of last night. Mr. Knoks promised to look into the matter personally with the Chase and give me a report this morning. Just before I got Mr. Knoks, Mr. Henderson had called to see if I had anything further to give him, since he was then seeing Mr. Welles. I replied that New York had not yet given me anything to supplement last night's information. Yesterday evening I had mentioned this matter to Under Secretary Bell, and this morning I reported it to Secretary Morgenthau when he called me at 9:45 a.m. I had also informed Mr. Peble in the premises at 9:15 this morning.

At 11 o'clock Mr. Knoks telephoned me from New York. He said he had been in conversation with the Chase Bank. No one there had attached any importance to the date of April 14 in connection with Russian affairs. The Chase has no knowledge of Russia writing any immediate need for dollars. The Amtorg account with the Chase was \$2,900,000 at the beginning of 1941 and is now at the figure of \$2,200,000, and has been maintained

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between these limits the past three months. The Russian State Bank account with the Chase has been going up rather steadily, starting at \$4,000,000 at the beginning of the year, reaching as high as \$13,000,000 during the quarter, and now being at \$10,000,000. The letter of credit account of the State Bank of Russia with the Federal was around \$14,000,000 at the beginning of the year, until up to \$25,000,000 in March and is now at \$20,600,000. This is the account to which funds are transferred from the regular Russian account with the Chase when credits are opened to cover purchases from American suppliers. The slight diminution of the past two or three weeks might indicate expedited deliveries or cancellation of orders. The gains in the Russian State Bank account with the Chase resulted principally from imports of Russian gold.

In summary, New York knows nothing as to April 14 being a significant date; on their face the Russian accounts show no unusual transactions.

I gave the foregoing information to Mr. Henderson by telephone at 11:35 a.m.



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 12, 1941

TO Secretary Morgenthau
 FROM Mr. Cochran

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Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 3,000
Purchased from commercial concerns	£11,000

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

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

Canadian dollar	12-5/8% discount
Swiss franc (commercial)	.2321-1/2
Swedish krona	.2384
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2325
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	4-11/16% discount

There was a holiday in Shanghai today, and we received no quotations.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

The Bureau of Foreign and Domestic Commerce reported on April 11 an import of 410,000 ounces of refined silver bullion from Canada, consigned to the Chartered Bank of India, Australia and China, San Francisco, for trans-shipment to the Chartered Bank in Bombay, India. Including the above shipment, a total of 2,813,000 ounces of refined silver is now consigned to Bombay.

AIRPLANE ENGINES

Table 1. Disposition of Engines Inspected by the British Empire 1/
Week ended April 6, 1941

STRICTLY CONFIDENTIAL

Engine company and type of engine	Week ended April 6, 1941											Total to date		
	Inspected engines on hand beginning of week 2/	Engines inspected during week	Exports during week						Inspected engines on hand end of week	Engines inspected to date	Exports to date 2/			
			Total	Engines for British airframes	Engines for American airframes			Total			Engines for British airframes	Engines for American airframes		
					Installed engines	Spare engines	Company and type of airframe involved					Installed engines	Spare engines	
Allison Division, General Motors Corp.														
V-1710-G15.....1000 h.p.	211	96	10	-	10	-	-	Outline-Wright Hawk 51A pursuit	237	1,168	931	-	755	176
V-1710-B4.....1150 h.p.	3	-	-	-	-	-	-	-	3	3	-	-	-	-
V-1710-F3E.....1150 h.p.	-	1	-	-	-	-	-	-	1	1	-	-	-	-
Total Allison.....	214	97	10	-	10	-	-	-	241	1,172	931	-	755	176
Jacobs Aircraft Engine Co.														
L-480.....225 h.p.	40	8	8	-	8	-	-	Cessna V-50 2-engine trainer	32	140	108	-	108	-
L-640.....330 h.p.	-	12	12	12	-	-	-	-	-	310	310	310	-	-
Total Jacobs.....	40	12	20	12	8	-	-	-	32	450	418	310	108	-
Kiser Motors, Inc.														
B-5.....125 h.p.	-	-	-	-	-	-	-	-	-	509	509	509	-	-
Lycosing Division, Aviation Manufacturing Corp.														
R 680-BJ.....300 h.p.	-	-	-	-	-	-	-	-	-	3	3	3	-	-
Manasse Manufacturing Co.														
D 4.....125 h.p.	-	20	20	20	-	-	-	-	-	182	182	182	-	-
Pratt & Whitney Aircraft														
R395-BB2.....450 h.p.	40	-	-	-	-	-	-	-	40	46	6	2	4	-
R1340-B1E1-0.....600 h.p.	-	-	-	-	-	-	-	-	-	50	50	50	-	-
R1340-B3E1-0.....600 h.p.	172	-	30	-	30	-	-	North American NA 66 trainer	142	1,062	1,120	-	1,005	115
R1340-B3E1-0.....600 h.p.	-	-	-	-	-	-	-	-	-	2	2	2	-	-
R1535-BB4-0.....825 h.p.	58	-	-	-	-	-	-	-	58	810	752	752	-	-
R1630-B1E3-0.....875 h.p.	18	-	2	-	2	-	-	Lockheed 18 Lodestar transport	16	26	10	-	10	-
R1630-B6-0.....1050 h.p.	-	-	-	-	-	-	-	-	-	3	3	3	-	-
R1630-B03-0 (3:2).....1050 h.p.	26	-	-	-	-	-	-	-	26	328	302	-	260	42
R1630-B03-0 (16:9).....1050 h.p.	80	-	20	-	20	-	-	Martin 1677 2-engine bomber	60	528	464	-	364	100
R1630-B103-0 (16:9).....1200 h.p.	234	12	18	-	16	2	-	Consolidated 28-5M2 2-engine bomber	228	305	77	1	66	10
R1630-B103-0.....1200 h.p.	1,081	90	121	48	73	-	-	Lockheed 414-13 2-engine recon. bomber	1,010	2,607	1,597	1,032	427	138
R1630-B103-0.....1200 h.p.	-	-	-	-	-	-	-	Drummen 0-368 Navy fighter	8	28	20	-	20	-
R1630-B103-0.....1200 h.p.	12	-	4	-	4	-	-	Consolidated 12 30 4-engine bomber	-	14	14	-	14	-
R2800-B1A4-0 (9:2).....1850 h.p.	-	-	-	-	-	-	-	-	-	2	2	2	-	-
R2800-B1A4-0 (16:9).....1850 h.p.	2	-	-	-	-	-	-	-	2	2	-	-	-	-
Total Pratt & Whitney.....	1,723	62	195	48	145	2	-	-	1,990	6,009	4,419	1,804	2,170	409
Varner Aircraft Corp.														
165-0.....165 h.p.	1	9	-	-	-	-	-	-	10	52	82	82	-	-
Wright Aeronautical Corp.														
R760-B1.....300 h.p.	-	-	-	-	-	-	-	-	-	2	2	2	-	-
R975-B3.....450 h.p.	-	-	-	-	-	-	-	-	-	168	168	-	119	49
GR1820-0102A.....1100 h.p.	-	-	-	-	-	-	-	-	-	835	835	-	788	47
GR1820-0105A.....1100 h.p.	21	5	-	-	-	-	-	-	26	175	149	-	139	10
GR1820-0205A.....1200 h.p.	306	20	-	-	-	-	-	-	328	827	499	-	475	84
GR1820-73.....1200 h.p.	-	8	8	-	8	-	-	Beech B-170 4-engine bomber	-	8	8	-	8	-
GR2500-45B.....1600 h.p.	1,073	86	173	173	-	-	-	-	986	2,514	1,528	1,304	194	50
GR3350-3.....2800 h.p.	1	-	-	-	-	-	-	-	1	2	1	1	-	-
Total Wright.....	1,403	119	181	173	8	-	-	-	1,341	4,531	3,190	1,307	1,723	160
TOTAL ALL COMPANIES.....	3,381	299	426	253	171	2	-	-	3,214	12,948	9,734	4,257	4,756	741

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

Source: British Air Commission

Prepared April 12, 1941.

1/ Excludes spare parts but includes spare complete engines; excludes commutator engines.
2/ Adjusted to allow for revisions in records.

AIRCRAFT ENGINES

Table 2: Status of Inspected Engines of the British Empire on Hand in the United States 1/

As of April 8, 1941

STRICTLY CONFIDENTIAL

Engine company and type of engine	Airframe company and type of airframe involved	Total inspected engines on hand	Analysis of inspected engines on hand										Reason for excess engines	
			Engines awaiting export			Engines at engine factory			Engines at airframe factory (or engine thereof)					
			Engines for British airframes	Engines for American airframes	Engines for spare engines	Engines assigned to British airframes	Engines assigned for installation on American airframes	Engines assigned as spares	Engines awaiting installation	Engines in process of repair	Engines in stock	Engines in excess		
Allison Division.														
General Motors Corp.														
V-1710-C15.....1000 h.p.	Curtiss-Wright Hawk 81A pursuit	193	25	-	25	-	48	-	12	36	120	125	-	5
	Lockheed 322 2-engine pursuit	44	-	-	-	-	-	-	-	-	44	12	32	-
V-1710-BH.....1150 h.p.	Bell P-39 Airacobra pursuit	3	-	-	-	-	-	-	-	-	3	80	-	77
V-1710-F3A.....1150 h.p.	Curtiss-Wright Hawk 87A pursuit	1	-	-	-	-	-	-	-	-	1	20	-	19
Total Allison.....		241	25	-	25	-	48	-	12	36	164	237	32	101
Jacobs Aircraft Engine Co.														
L-4MB.....330 h.p.	Cessna T-50 2-engine trainer	32	-	-	-	-	-	-	-	-	32	100	-	68
Pratt & Whitney Aircraft														
R285-BKZ.....450 h.p.	Grumman G-21A amphibian bomber	40	-	-	-	-	-	-	-	-	40	-	40	-
R1340-B3H.....600 h.p.	North American NA 66 trainer	142	33	-	33	-	-	-	-	-	109	217	-	108
R1335-BH-0.....625 h.p.	Tough-Bikorsky T-155 dive bomber	58	3	-	3	-	-	-	-	-	55	22	33	Airframe deliveries 2 mos. late
R1690-B1K3-0.....875 h.p.	Lockheed 18 Lodestar transport	16	6	-	6	-	-	-	-	-	10	10	-	-
R1830-8C3-0 (3:2).....1050 h.p.	Lockheed 414-06 2-engine recon. bomber	26	26	-	-	26	-	-	-	-	-	-	-	-
R1830-8C3-0 (16:9).....1050 h.p.	Martin 167F 2-engine bomber	60	56	-	56	-	-	-	-	-	4	4	-	-
R1830-81C3-0 (16:9).....1200 h.p.	Consolidated 26-50B 2-engine bomber	208	15	-	12	3	16	-	16	-	197	61	116	-
R1830-81C3-0 (16:9).....1200 h.p.	Lockheed 414-13 2-engine recon. bomber	702	204	-	174	30	2	-	2	-	496	498	-	2
R1830-81C4-0.....1200 h.p.	Grumman G-30B Navy fighter	115	4	-	-	-	-	-	-	-	111	36	75	Airframe deliveries 3 mos. late
	Consolidated 18 30 1/2-engine bomber	193	-	-	-	-	34	-	34	-	155	100	55	Airframe deliveries 2 mos. late
R1830-33.....1200 h.p.	Consolidated 18 30 1/2-engine bomber	8	8	-	8	-	-	-	-	-	2	2	-	-
R2800-81A4-0 (16:9).....1850 h.p.	Lockheed 37 2-engine bomber	2	-	-	-	-	-	-	-	-	-	-	-	-
Total Pratt & Whitney.....		1,990	355	-	296	39	56	-	56	-	1,179	970	319	110
Versar Aircraft Corp.														
165-B.....165 h.p.	Separate engines	10	10	10	-	-	-	-	-	-	-	-	-	-
Wright Aeronautical Corp.														
GR1820-8105A.....1100 h.p.	Brewster 339 pursuit	26	21	-	21	-	-	-	-	-	5	43	-	38
GR1820-8205A.....1200 h.p.	Lockheed 414-56 2-engine recon. bomber	302	80	-	80	-	109	-	109	-	113	125	-	12
	Curtiss-Wright Hawk 75A-4 pursuit	19	4	-	4	15	-	-	-	15	-	-	-	-
	Grumman G-36A Navy fighter	7	7	-	-	7	-	-	-	-	-	-	-	-
GR2600-45B.....1600 h.p.	Fulcrum 72 dive bomber	89	4	-	4	-	-	-	-	-	80	80	-	Airframe deliveries 2 mos. late
	Martin 167 2-engine recon. bomber	64	4	-	-	-	-	-	-	-	60	60	-	Airframe deliveries 2 mos. late
	Boeing Douglas DB-7B 2-engine bomber	85	-	-	-	35	-	35	-	30	2	28	-	-
	Brewster 340 dive bomber	120	-	-	-	14	-	14	-	104	2	104	-	Airframe deliveries 6 mos. late
	Northrop 72 dive bomber	64	-	-	-	63	-	63	-	3	3	-	-	-
	Douglas DB-7 2-engine bomber	404	20	-	16	4	84	63	74	24	354	160	194	Airframe deliveries 2 mos. late
	Separate engines	138	75	75	-	-	63	63	-	-	-	-	-	-
GR3350-B.....2200 h.p.	Separate engines	1	1	1	-	-	-	-	-	-	-	-	-	-
Total Wright.....		1,341	412	76	121	15	390	63	294	29	739	381	408	50
Subtotal: engines assigned to British airframes		149	85	86	-	-	63	63	-	-	2,118	1,668	759	329
Subtotal: engines assigned for installation in American airframes		2,926	442	-	442	74	65	-	366	65	-	-	-	-
Subtotal: engines assigned as spares for American airframes		139	74	-	-	-	-	-	-	-	-	-	-	-
TOTAL ALL ENGINES.....		3,214	602	86	442	74	128	63	366	65	2,118	1,668	759	329

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

Source: British Air Commission.

Prepared April 12, 1941.

1/ Excludes spare parts but includes spare complete engines; excludes overhauled engines.

Regraded Unclassified

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AIRPLANE ENGINES 1/

Table 3: Location of Separate Engines Awaiting Export by the British Empire 2/

As of April 5, 1941

STRICTLY CONFIDENTIAL

Engine company and type of engine	Engines awaiting export	Analysis of engines awaiting export by location		
		At engine factory	In transit	At port of embarkation
		Paterson, N. J.		Port of New York
Engines for British airframes				
Warner Aircraft Corp.				
165-D.....165 h.p.	10	-	-	10
Wright Aeronautical Corp.				
GR2600-A5B.....1600 h.p.	75	18	2	-
GR3350-B.....2200 h.p.	1	1	-	55
Total Wright.....	76	19	2	55
Total engines for British airframes.....	86	19	2	65
Spare engines for American airframes				
Pratt & Whitney				
R1830-SC3-G (3:2).....1050 h.p.	26	-	-	26
R1830-S103-G (16:9).....1200 h.p.	3	-	-	3
R1830-S304-G (16:9).....1200 h.p.	30	-	-	30
Total Pratt & Whitney.....	59	-	-	59
Wright Aeronautical Corp.				
GR1820-G205A.....1200 h.p.	11	3	-	8
GR2600-A5B.....1600 h.p.	4	-	-	4
Total Wright.....	15	3	-	12
Total spare engines for American airframes	74	3	-	71
TOTAL SEPARATE ENGINES AWAITING EXPORT....	160	22	2	136

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

Prepared April 12, 1941.

Source: British Air Commission.

- 1/ Excludes spare parts but includes spare complete engines; excludes secondhand engines.
 2/ Excludes engines installed in American airframes, which are covered in Airframes Table 3.

Table 1: Disposition of Airframes Inspected by the British Empire 1/
Week ended April 8, 1941

STRICTLY CONFIDENTIAL

Airframe company and type of airframe	Week ended April 8, 1941						Total to date		
	Inspected airframes on hand beginning of week	Airframes inspected during week	Number of airframes	Exports during week		Inspected airframes on hand end of week	Airframes inspected	Airframes exported	
				Engine company and type of engine involved					
Bell Aircraft Corp. P-39 Airacobra pursuit.....	1	-	-			1	1	-	
Boeing Aircraft Co., Inc. B-17C 4-engine bomber.....	3	-	2	Wright.....	GR1820-73.....1200 h.p.	1	3	2	
Brewster Aeronautical Corp. 339 pursuit.....	13	8	-			21	127	106	
339 B fighter.....	-	-	-			-	33	33	
Total Brewster.....	13	8	-			21	160	139	
Cessna Aircraft Co., Inc. T-50 2-engine trainer.....	-	4	4	Jacobs.....	L-4MB.....225 h.p.	-	54	54	
Consolidated Aircraft Corp. 28-5MB 2-engine bomber.....	7	7	8	Pratt & Whitney....	R1830-S103-G (16:9)..1200 h.p.	6	46	40	
LB 30 4-engine bomber.....	3	3	1	Pratt & Whitney....	R1830-33.....1200 h.p.	5	10	5	
Total Consolidated.....	10	10	9			11	56	45	
Curtiss-Wright Corp. Naval 75A-4 pursuit.....	-	-	-			-	204	204	
Naval 81A pursuit.....	35	-	10	Allison.....	V-1710-C15.....1000 h.p.	25	780	755	
Total Curtiss-Wright.....	35	-	10			25	984	959	
Douglas Aircraft Co., Inc. B18A 2-engine bomber.....	-	-	-			-	24	24	
DB-7 2-engine bomber.....	-	-	-			-	138	138	
DB-7A 2-engine bomber.....	-	-	-			-	97	97	
DB-7B 2-engine bomber.....	-	8	-			8	8	-	
Total Douglas.....	-	8	-			8	267	259	
Grumman Aircraft Engineering Corp. G-21A amphibian bomber.....	-	-	-			-	2	2	
G-36A Navy fighter.....	-	-	-			-	81	81	
G-36B Navy fighter.....	9	-	5	Pratt & Whitney....	R1830-8304-G.....1200 h.p.	4	9	5	
Total Grumman.....	9	-	5			4	92	88	
Lockheed Aircraft Corp. 214-40 2-engine recon. bomber.....	-	-	-			-	100	100	
414-08 2-engine recon. bomber.....	-	-	-			-	30	30	
414-13 2-engine recon. bomber.....	98	23	34	Pratt & Whitney....	R1830-8304-G.....1200 h.p.	87	160	73	
414-40 2-engine recon. bomber.....	-	-	-			-	20	20	
414-56 2-engine recon. bomber.....	34	6	-			40	135	95 2/	
B-14 2-engine recon. bomber.....	-	-	-			-	350	350	
18 Lodestar transport.....	3	1	1	Pratt & Whitney....	R1690-8183-G.....875 h.p.	3	8	5	
Total Lockheed.....	135	30	35			130	803	673	
Glenn L. Martin Co. 167F 2-engine bomber.....	35	3	10	Pratt & Whitney....	R1830-803-G (16:9)...1050 h.p.	28	210	182	
North American Aviation, Inc. NA 49 trainer.....	-	-	-			-	430	430	
NA 64 trainer.....	-	-	-			-	119	119	
NA 66 trainer.....	55	8	30	Pratt & Whitney....	R1340-8381.....600 h.p.	33	608	575	
NA 73 pursuit.....	1	-	-			1	1	-	
Total North American.....	56	8	30			34	1,158	1,124	
Vought-Sikorsky Aircraft V-156 dive bomber.....	-	3	-			3	3	-	
TOTAL ALL COMPANIES.....	297	74	105			266	3,791	3,525	

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

Source: British Air Commission.

Prepared April 12, 1941.

1/ Excludes spare parts and secondhand airframes.

2/ Includes 29 airframes without engines.

AIRFRAMES

Table 2: Status of Inspected Airframes of the British Empire on Hand in the United States 1/
As of April 8, 1941

STRICTLY CONFIDENTIAL

Airframe company and type of airframe	Engine company and type of engine involved	Total inspected airframes on hand	Analysis of inspected airframes on hand					
			Airframes awaiting export	Airframes at factory				
				Total	Engines being installed	Awaiting engines	Awaiting tests	
Bell Aircraft Corp. P-39 Airacobra pursuit.....	Allison.....V-1710-B4.....	1150 h.p.	1	-	1	-	-	1
Boeing Aircraft Co., Inc. B-17C 4-engine bomber.....	Wright.....GR1820-73.....	1200 h.p.	1	1	-	-	-	-
Brewster Aeronautical Corp. 339 pursuit.....	Wright.....GR1820-G105A.....	1100 h.p.	21	21	-	-	-	-
Consolidated Aircraft Corp. 28-5ME 2-engine bomber..... LB 30 4-engine bomber.....	Pratt & Whitney....R1830-S103-G (16:9)..... Pratt & Whitney....R1830-33.....	1200 h.p. 1200 h.p.	6 5	6 5	- -	- -	- -	- -
Total Consolidated.....			11	11	-	-	-	-
Curtiss-Wright Corp. Hawk 51A pursuit.....	Allison.....V-1710-G15.....	1000 h.p.	25	25	-	-	-	-
Douglas Aircraft Co. DB-7B 2-engine bomber.....	Wright.....GR2600-A5B.....	1600 h.p.	8	8	-	-	-	-
Grumman Aircraft Engineering Corp. G-36B Navy fighter.....	Pratt & Whitney....R1830-S304-G.....	1200 h.p.	4	4	-	-	-	-
Lockheed Aircraft Corp. 414-13 2-engine recon. bomber..... 414-56 2-engine recon. bomber..... 18 Lodestar transport.....	Pratt & Whitney....R1830-S304-G..... Wright.....GR1820-G205A..... Pratt & Whitney....R1690-S183-G.....	1200 h.p. 1200 h.p. 875 h.p.	87 40 3	87 39 3	- 1 -	- - -	- - -	- 1 -
Total Lockheed.....			130	129	1	-	-	1
Glenn L. Martin Co. 167F 2-engine bomber.....	Pratt & Whitney....R1830-S03-G (16:9).....	1050 h.p.	28	28	-	-	-	-
North American Aviation, Inc. NA 66 trainer..... NA 73 pursuit.....	Pratt & Whitney....R1340-S3H1..... Allison.....V-1710-F3E.....	600 h.p. 1150 h.p.	33 1	33 -	- 1	- -	- 1	- -
Total North American.....			34	33	1	-	1	-
Vought-Sikorsky Aircraft V-156 dive bomber.....	Pratt & Whitney....R1535-SB4-G.....	825 h.p.	3	3	-	-	-	-
TOTAL ALL COMPANIES.....			266	263	3	-	1	2

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

Source: British Air Commission.

Prepared April 12, 1941.

1/ Excludes spare parts and secondhand airframes.

AIRFRAMES

Table 3: Location of Airframes with Installed Engines Awaiting Export by the British Empire 1/

As of April 5, 1941

STRICTLY CONFIDENTIAL

Airframe company and type of airframe	Airframes awaiting export	Held at airframe factory				In transit	At port of embarkation			
		Total	Los Angeles	Baltimore	Stratford (Conn.)		Total	New York	New Orleans	Los Angeles
Boeing Aircraft Co., Inc.										
B-17C 4-engine bomber.....	1	-	-	-	-	1	-	-	-	-
Brewster Aeronautical Corp.										
339 pursuit.....	21	-	-	-	-	-	21	21	-	-
Consolidated Aircraft Corp.										
28-5ME 2-engine bomber.....	6	-	-	-	-	6	-	-	-	-
LB 30 4-engine bomber.....	5	-	-	-	-	5	-	-	-	-
Total Consolidated.....	11	-	-	-	-	11	-	-	-	-
Curtiss-Wright Corp.										
Hawk 51A pursuit.....	25	-	-	-	-	-	25	25	-	-
Douglas Aircraft Co.										
DB-7B 2-engine bomber.....	8	-	-	-	-	3	5	5	-	-
Grumman Aircraft Engineering Corp.										
O-36B Navy fighter.....	4	-	-	-	-	-	4	4	-	-
Lockheed Aircraft Corp.										
414-13 2-engine recon. bomber.....	87	5	5	-	-	14	68	52	16	-
414-56 2-engine recon. bomber.....	39	29	29	-	-	-	10	-	-	10
16 Lodestar transport.....	3	1	1	-	-	1	1	1	-	-
Total Lockheed.....	129	35	35	-	-	15	79	53	16	10
Glenn L. Martin Co.										
167F 2-engine bomber.....	28	4	-	4	-	-	24	24	-	-
North American Aviation, Inc.										
NA 66 trainer.....	33	6	6	-	-	-	27	-	-	27
Vought-Sikorsky Aircraft										
V-156 dive bomber.....	3	2	-	-	2	-	1	1	-	-
TOTAL ALL COMPANIES.....	263	47	41	4	2	30	186	133	16	37

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

Source: British Air Commission.

Prepared April 12, 1941.

1/ Excludes spare parts and secondhand airframes.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 12, 1941.

TO Secretary Morgenthau
FROM Alan Barth

BATTLE SMOKEThe Mediterranean

The rapidity of the week's events has blurred their imprint on American opinion. With each new bulletin from the Balkans, the editorial analysts waver in their judgments, uncertain still as to the outcome of the battle.

The early news of a setback to British fortunes undoubtedly dealt a stunning blow to American hopes. How exalted, and perhaps unfounded, these hopes were is revealed in the degree of disappointment which has been felt.

But the reaction has been one only of disappointment, not one of despair. It has been possible thus far to examine only a limited number of editorial comments on the Balkan battle -- and these, for the most part, in the eastern metropolitan press; the smaller newspapers of the middle west may prove less resilient in their responses. Judging from those editorials now available, however, it may be said that the commentators have rolled with the punch and have hardened in their determination to hit back.

The British victories during March, in Africa and in the Ionian Sea, together with the Yugoslavian revolt, gave rise here to a buoyant

feeling that the war had reached a turning point. While they were restrained in the expression of their optimism, many commentators, as well as a large segment of the general public, permitted themselves the private hope that the Nazi war machine might crumble as readily as had the Italian. They clung tenaciously to the notion that the panzer divisions were no more than a papier-mache nightmare conjured up by Nazi bluff and bluster; and they daydreamed of popular uprisings inspired by the magic of America's Lend-Lease law.

In a sense, the dashing of these illusions has been healthful. It has brought home more effectively than anything that has gone before the reality and urgency of the dangers confronting the United States. It has shattered the American tendency to rely on mere legislation as a panacea. There is now genuine recognition that the Lend-Lease law must be powerfully implemented in order to make it meaningful. One moral commonly drawn in editorial comments is that the good will of the United States was of small avail to the Yugoslavs; real aid must be delivered to be of value.

Undoubtedly some degree of defeatism has been engendered by the Balkan reversal. The Scripps-Howard chain observed editorially that ". . . it may turn out that the German armies are literally invincible, however inhospitable the terrain and the people." The isolationists can be counted upon to spread this "wave of the future" doctrine. But the tone of most comments suggests that it is a doctrine unlikely to sit well with the American temperament.

The Atlantic

Three main fears haunt the editorial writers analyzing the trend of the war: (1) That the crushing of Yugoslavia will crush the morale of other weak nations which might have been encouraged to resist aggression; (2) That the Japanese may be sufficiently convinced of German strength to move against Dutch and British possessions in the Pacific; (3) That the German advance in Africa may succeed, not only in closing the Suez Canal, but also in securing Dakar and the west coast of Africa for German use in the Battle of the Atlantic.

The dismay over these possibilities is not because they are held to presage an ultimate Axis triumph, but because they seem to make American involvement more probable. A high percentage of commentators take it for granted that the United States Navy must thwart Japanese attempts to move farther to the south and that it must convoy aid to Britain if German sea raiding is intensified in the Atlantic.

There has been singularly slight consideration of methods other than convoying to overcome German sea power. The alternative which has received the liveliest attention is the transfer of additional units of the United States Navy to Britain; but this is held to have almost equal disadvantages. Rumors that the United States may convoy merchant vessels part way to England have been criticized as a subterfuge embracing most of the dangers of full convoying. Redefinition of the zones of belligerency to permit American ships to make deliveries

- 4 -

to Red Sea ports occasioned very little comment during the period since the President intimated that it might be done; it is regarded as a palliative at best. Extension of American protection to Greenland has been welcomed as a defensive measure, but it is not considered a solution to the main issue.

The main issue now taking shape in the American mind is one of peace or war. Hope is waning that a British victory can be purchased without full American participation. Events are prodding Americans to a grim choice which they have been reluctant, until now, to face. But the impression is beginning to prevail that the choice can no longer be evaded.

MEMORANDUM

April 12, 1941

To: Mr. Harry Hopkins
From: Oscar Cox
Subject: Neutrality Act Opinion

I think that it might be unwise, as a matter of both law and policy, to cover too much ground in one opinion. In this fast-changing situation, no one can predict with certainty just what problems are likely to arise. About the best thing that can be done is to put up a well-thought-out specific question at a time in such a way that the future will not be blocked.

On the basis of an opinion in answer to one specific question, it is also likely that the President will get the best public reaction as well as be on the firmest legal ground.

At this time, orally or in writing, the President might ask for an opinion somewhat along the following lines:

- 2 -

"By agreement with the British Government, the United States has acquired the right to lease and construct naval and air bases in Newfoundland and British Guiana and in the islands of Bermuda, the Bahamas, Jamaica, St. Lucia, Trinidad, and Antigua. By agreement with the Danish Government, the United States has acquired the right to lease and construct military bases in Greenland. To effectuate these agreements, it is necessary to ship arms, munitions and implements of war, as well as non-arms such as lumber, oil and food to these places. It is also necessary to send American citizens to work on the construction of these bases. If it is legally proper to do so, it is desired to transport these men and supplies by public vessels of the United States. I would appreciate your opinion on this question."

An opinion on this question might well cover the transfer of all kinds of articles to all ports of the world in public vessels: Because the Neutrality Act of 1939 does not apply to public vessels, they can go to any

- 3 -

port with anything, and, therefore, a public vessel can be used to transfer supplies and personnel to our bases.

(Sgt) Coy

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 12, 1941

TO Secretary Morgenthau
FROM Mr. Kamarck
Subject: Interview with Dr. Spencer

Summary

Observations on the German Diet.

1. The German army is well fed in every respect.
2. The German civil population receives an adequate quantity of food but the diet is not well balanced in that there is a shortage of fats and some vitamins.
3. The diet of the German civil population, while it does not result in serious ill effects, does affect the people somewhat adversely. The unbalanced diet causes lassitude, lack of ambition, increased susceptibility to disease, decreased vitality and stamina, and insomnia.

Other Observations

1. The civil population of Germany is very much afraid of air raids.
2. If the bombing by the Royal Air Force of important secret German installations is any criterion, the British Secret Service is most efficient.

Dr. Herbert Spencer is a senior surgeon at Ellis Island, New York. He has had considerable experience with war, having been in Spain during the Spanish Civil War and in Finland during the Russo-Finnish War. Dr. Spencer was sent to Germany in May, 1940 to inspect war prisoner camps and remained in Germany until February, 1941. In this work he was in close contact with the German army and its diet. He was also able to make some observations on the German civilian rations. The following summarizes his conclusions on the subject of the diet of the German population.

1. The German army is well fed in every respect. The military messes receive food which cannot be bought for any price by the civilian population. The ration is well balanced and there is enough of it. The blockade has not affected the German army at all in this vital matter.

2. The German civil population receives an adequate quantity of food but the diet is not well balanced. The diet does not include a sufficient amount of fat and, Dr. Spencer suspects, some of the vitamins are also lacking.

3. The unbalanced diet does not have any serious ill effects but it does decrease the efficiency of the population. Even though an individual may look perfectly healthy he will be deficient in vitality and stamina. Susceptibility to disease is increased. In general, there results a feeling of lassitude and of lack of ambition. (This may partly account for the general impression of apathy some observers notice in Germany.)

Dr. Spencer told a personal story illustrating the character of the diet. He would often eat in a restaurant and would order as much food as he wanted to eat. At the end of the meal a most peculiar feeling would be experienced: even though he was full and could not eat anymore, he still felt hungry.

Dr. Spenger had a number of observations on other features of life in Germany which might be of interest.

1. The German civil population is very frightened by air raids. Dr. Spencoer said that one had to be very quick to beat a Berliner to the air raid shelter when the alarm sounded. Last June when the first British air raid occurred,

the Berlin population was shocked because, as they remarked, Goering had promised that no British bombers could get through.

2. The efficiency of the British Secret Service was most impressive. For example, a new barracks was being erected in one town. On the second day after it had been built and was occupied by troops, the British came over and bombed it. Dr. Spencer saw a power line bottleneck that the British had knocked out of commission for some while. It was very plain to see that the British were after this power line, as a stick of bombs had been laid perpendicular to the line extending several hundred yards on both sides.

3. The Germans always attempt to conceal rapidly the results of the air raids. Repairs are made hurriedly. If the repair cannot be completed at once, the damage is hidden in some manner. Dr. Spencer told of a house which had been badly struck a few hundred yards from where he lived. The front of the house had been repaired and new windows put in, making the building appear completely normal from the street, whereas inside it was a shambles.

CORRECTED COPY

DES

GRAY

BERLIN

Dated April 12, 1941

Rec'd 7:04 p.m.

Secretary of State,
Washington.

1404, April 12, 1 p.m.

FROM HEATH FOR TREASURY AND DEPARTMENT'S INFORMATION.

Official German news service states that the April 15 coupons of the American tranche of the Dawes loan which have been stamped "United States of America domicile October 1, 1935" will be bought in the same manner as the coupons which fell due on October 15, 1940.

MORRIS

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Moscow, U.S.S.R.

DATE: April 12, 1941, 6 p.m.

NO. : 755

The following is strictly confidential.

I have received the following information from the General Manager of the Swiss Bank Corporation of Basle, Albert Mussbaumer. He arrived here yesterday for the purpose of arranging to finance the recent trade agreement between Switzerland and the U.S.S.R.

He said that at the moment Swiss banks are probably in a better position than any other agencies in the world to observe the amount of dollars being sold by the German Reichsbank; according to careful estimates of the Swiss banks, the Germans are selling to New York and Swiss banks from \$200,000 to \$300,000 each day. South America he said was the source of most of these dollars, which are being converted into Swiss francs for the most part.

Swiss banks, he said, refuse to purchase the securities which the Reichsbank had obtained from the occupied countries but dollars which the Reichsbank presented to the Swiss banks were readily converted into Swiss francs. With these funds, he said, it is possible for the Germans to finance their purchases outside Germany and the occupied countries, and they have besides a substantial surplus.

-2-

With this surplus Germany is buying up its dollar bonds in the United States at their depreciated value, and bonds of the French Government at from 40 to 60 percent of face value. I asked why the Germans should be buying bonds of the French Government, and he replied that bonds bought in this manner were tendered at their par value to the French holders of shares in important industries in France. In this way the Reichsbank is getting control of many of France's most important industrial concerns. Furthermore, according to Mussbaumer, the Reichsbank is pursuing this course in other countries too. He said he knows of instances in South American countries where with Swiss francs the Reichsbank is purchasing control of important companies.

I asked Mussbaumer whether it was possible for him to give me an estimate of the war's cost to Germany, and whether he knew how the war is being financed by Germany. He replied that there is substantial agreement on the part of the best-informed Swiss banks that the monthly expenses of the German Government amount to about 2,500,000,000 marks. Current income of the German Government takes care of about 45 percent of this amount, and loans, short term notes, etc., finance the remainder of about 55 percent. My informant remarked that the standard of living of the German people

-3-

has fallen commensurately with the mounting deficit over such a considerable period of time. He said that the purchasing power in Germany has become only a fraction of what it was before the war. It is the opinion of Mussbaumer and his associates in Switzerland that until the German standard of living has reached the irreducible minimum there will not be any serious inflation in Germany; and that it will be "one or two years more" before this happens, in the opinion of Swiss bankers.

STEINHARDT.

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