TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Tuesday, March 25, 1941.

Press Service
No. 24-19

The Secretary of the Treasury today announced the subscription figures and the basis of allotment for the cash offering of 2-1/2 percent Treasury Bonds of 1952-54.

Reports received from the Federal Reserve Banks show that subscriptions aggregate $6,145,000,000. Subscriptions in amounts up to and including $5,000, totaling about $37,000,000, where the subscribers specified that delivery be made in registered bonds 90 days after the issue date, were alloted in full. All other subscriptions were allotted 8 percent, on a straight percentage basis, with adjustments, where necessary, to the $100 denomination.

More than 95 percent of the Treasury notes maturing June 15, 1941, were exchanged, about $447,000,000 for the bonds and $33,000,000 for Treasury Notes of Series D-1943.

Details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve Banks.

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CONFIDENTIAL 210

WAR DEPARTMENT
OFFICE OF THE ASSISTANT SECRETARY
Washington, D.C.

Mar 25 1941

The Honorable

The Secretary of the Treasury

Dear Mr. Secretary:

In conformity with the instructions of the President, dated March 18, 1941, to initiate procurement contracts under the Act of March 11, 1941 (Lease-Lend Act), the War Department has received from Mr. Harry Hopkins several lists of supplies urgently needed by the British Government.

Attached hereto is a schedule extracted from these lists containing items which this Department believes can be best handled by the Procurement Division, Treasury Department, as the agent of the War Department. It is, therefore, requested that the procurement of these items be undertaken by the Treasury Department.

Arrangements will be made to supply funds, if and when Congress provides an appropriation, to implement the Lease-Lend Act.

The British Purchasing Commission has carried on negotiatios in connection with these items but has not placed orders because of lack of funds. Mr. J. M. Nicely, Director of Supply, British Purchasing Commission, Washington, D.C., is prepared to furnish to the Procurement Division details of the present status of the negotiations.

Sincerely yours,

(Signed) Robert P. Patterson

ROBERT P. PATTERSON
Under Secretary of War.

Enclosure:
Procurement Program No. 2
(British Government)

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PROCUREMENT PROGRAM NO. 2(British Government)

Urgent British Needs for Commerical Items

(As of March 18, 1941)

		Approximate Value
(a)	Road Building Equipment	$702,494.00
(b)	Agricultural Implements	117,302.00
(c)	69,871 Ball Bearings	36,798.97
(d)	900,000 ft. - 2 1/2" Single Jacket Cotton, Rubber Lined, Fire Hose (3 items)	315,000.00
(e)	Changes in quantities and Models of Tractors	46,463.70
(f)	50 Spring-tooth Harrows	650.00
(g)	Spare parts for Agricultural Machines (7 items)	83,969.83
(h)	Harvesters and attachments	74,716.12
(i)	Aniline Oil, 300,000 lb.	40,125.00

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 25, 1941

TO Mr. White

FROM Mr. Kamarck

Subject: Axis Influence in Bolivia
(Based on information supplied by the Office of the Coordinator of Commercial and Cultural Relations Between the American Republics)

Summary

The Germans dominate the commercial life of Bolivia and exercise an important role in the country.

1. Two-thirds (12 out of 18) of the important commercial firms in Bolivia are German controlled. There is only one important American firm. The German firms in some cases make most of the money they donate for Nazi propaganda from their representation of American goods.

2. The leading paper in the country, El Diario, receives from one-fifth to one-third of its income from a subsidy for publishing a daily page of Nazi propaganda. It is also heavily in debt to one of the leading Nazis in the country. C. F. Gundlach, an ardent Nazi, and the agent for General Motors is the leading advertiser in the country. J. von Bergen, another Nazi, the principal supplier of newsprint and ink to the newspapers, has used his strategic position, coupled with the extension of credit to papers, to influence their news policies.

3. The Chief of Protocol, Federico Metsen Reyes, in the Bolivian Foreign Office is a notorious Nazi sympathizer. Other information on the personnel of the government was not available in the reports.

4. While the majority of the stock of the Bolivian airline, Lloyd Aereo Boliviano, is in the hands of Bolivians, the company is German dominated. The management is German and close connections are maintained with the Condor Syndicate in Brazil and Lufthansa in Peru.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 25, 1941

TO Mr. White

FROM Mr. Kamarck

Subject: Axis Influence in Colombia
(Based on information supplied by the Office of the Coordinator of Commercial and Cultural Relations Between the American Republics)

Summary

Nazi agents are very active in Colombia. Considerable progress has been made in influencing some of the important political sectors of the country.

1. There are 4,000 Germans in Colombia who are scattered throughout the country.

The Nazis in Colombia are well organized with all the usual oraniza-tions: a youth movement, S.A., S.S., woman's organization. The regular means of propaganda are employed: free news from the Transocean news service, daily bulletins issued by the Embassy and sent to strategic individuals. In Colombia, in addition, cooperation is secured from several pro-Nazi clerical orders, notably the Soliciano Fathers.

Propaganda is centered on the Conservative Party (landowning interests, Catholic Church), which is one of the two major parties though still in a minority in the government. Some success has been achieved in influencing this party. El Siglo, the leading newspaper organ of the Conservative Party, uses a great deal of Transocean news.

The Nazis have been working intensively on the army with most success among the Conservative officers. Here the main method of operations has been the provision of entertainment: food, drink and women, furnished on credit with no bills ever presented.

2. The Italians (numbering 1,600) and the Japanese (numbering 300) are not regarded as dangerous as the Germans, nor are they as active.

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3. The government is officially anti-Nazi but takes extreme care not to irritate Nazi feelings. As a result, no effective governmental opposition is offered to the propagation of Nazi political thought in Colombia.

4. There are a number of American companies which are represented by German agencies in Colombia. Perhaps even more dangerous, however, is the employment by American companies of American fascist sympathizers. Here must be mentioned notably the Texas Company. The two companies managed by Texaco in Colombia, the Colombian Petroleum Company and the South American Gulf Oil Company, are each run by pro-Nazi Americans, Charles E. Williams and Charles S. Atwell, respectively. These two general managers employ active German Nazis and are personally intimate with Nazi leaders.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 26, 1941

TO Mr. White

FROM Mr. Kamarck

Subject: Axis Influence in Peru
(Based on information supplied by the Office of the Coordinator of Commercial and Cultural Relations Between the American Republics)

Summary

The influence of the axis powers in Peru while strong does not appear to be as important as that of England or the United States.

1. There are 3,500 Germans in Peru, the largest number of whom are located in Lima, the capital of Peru. It is estimated that one-third of the Germans are ardent Nazis, one-third are indifferent and one-third opposed to the present regime.

The Nazis have organized the German colony in the familiar pattern. The Nazi leader, Consul Dedering of the German Legation, directs the organization and propaganda activities. The usual organizations are present: a German school, several German clubs, a camp, classes in gymnastics and an Arbeitsfront.

The German airline, Deutsche Lufthansa, operates two Peruvian services.

Free news is provided by the German Transocean news service. The second most important newspaper in the country, La Prensa, (circulation 30,000) is reputed to receive a monthly subsidy for printing this news.

2. There are 7,000 Italians in Peru. Most of these, however, are more interested in Peru than in Fascist Italy. None of the Italian firms are on the British blacklist. While some American firms have discontinued business with the Banco Italiano, the British are maintaining their usual relationships. The Banco Italiano is much the largest bank in Peru, holding about half of the total deposits of the country. It is supposed to be only one-third Italian owned.

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The Italians have one of the largest and best schools in Peru, several clubs, one newspaper and one magazine. On the whole, Fascist activity is not as important as its Nazi counterpart.

3. Japan has the largest foreign colony in Peru totaling 25,000 residents. The Japanese lead an autonomous cultural life and make little attempt to influence Peruvian political thought in a fascist direction.

4. The economic life of the country appears to be in large part dominated by the British and Americans. The British operate two-thirds of the railways, the radio and wire telegraph system, the rural telephone system, part of the cable service, the most important radio station and supervise the postal service. Reuters provides free news to the Peruvian press and is quite influential. Its representative is a leading Peruvian pro-Ally senator.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 25, 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	£84,000
Purchased from commercial concerns	£ 7,000

Open market sterling was first quoted at 4.03-3/4. It remained at that level until late in the day, and closed at 4.03-1/2. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£1,000
Purchased from commercial concerns	£12,000

The Cuban peso reached a new current high of 4-13/16% discount this afternoon, compared with 5% yesterday.

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

Canadian dollar	15% discount
Swiss franc (commercial)	.2322
Swedish krona	.2384-1/2
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2315
Brazilian milreis (free)	.0505
Mexican peso	.2066

In Shanghai, the yuan in terms of our currency was quoted at 5-1/4¢, representing a gain of 1/32¢. Sterling advanced 1¢ to 3.92-1/2.

We sold $1,890,000 in gold to the Central Bank of Afghanistan, which was added to its earmarked account.

The Federal Reserve Bank of New York reported that the Central Reserve Bank of Peru shipped $630,000 in gold from Peru to the Federal for its own account, disposition unknown.

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

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

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We made no purchases of silver today.

The Federal Reserve Bank's report of March 19, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled $111,927,000, an increase of $6,740,000 since March 12. Most of the change in deposits took place on the books of the Yokohama Specie Bank's New York agency. The latter's principal dollar liabilities to and dollar claims on Japanese banks in Asia stood as follows on March 19:

		March 19	Change from March 12
Liabilities:	Deposits for Japan and Manchuria	$65,676,000	+ $5,793,000
	Deposits for China	37,718,000	+ 697,000
"	U.S. Treas. Bills, comm. paper, etc.	22,724,000	+ 938,000
Claims	Loans	$66,936,000	+ $2,314,000
"	Other - mainly Jap. import bills	8,714,000	- 1,303,000

The last three categories refer principally to Japanese banks in Japan and Manchuria. It will be observed that deposits for such banks rose $5,793,000. The greater part of this increase resulted from the sale of $3,123,000 worth of Japanese gold which arrived in San Francisco during the week of March 19. A net increase of $1,011,000 in the Agency's claims also contributed to the expansion of Japanese bank deposits.

The report of March 19 received from the Federal Reserve Bank of New York giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of $7,078,000, an increase of $227,000 in the short position. Net changes were as follows:

Country	Short Position March 12	Short Position March 19	Change in Short Position*
England**	$ 410,000	$ 464,000	+ $ 54,000
Europe	3,091,000	3,383,000	+ 292,000
Canada	245,000 (Long)	283,000 (Long)	- 38,000
Latin America	139,000	260,000	+ 121,000
Japan	2,273,000	1,883,000	- 390,000
Other Asia	1,243,000	1,339,000	+ 96,000
All others	60,000 (Long)	32,000	+ 92,000
Total	$6,851,000	$7,078,000	+ $227,000

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

**Combined position in registered and open market sterling.

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MEMORANDUM

March 25, 1941

To: Walter C. Louchheim, Jr.

From: Sigmund Timberg

Re: Valuation of British-Owned Fire, Marine and Casualty Insurance Companies.

General Summary:-

On the basis of the Annual Convention Statements for 1940 sent us by the New York State Insurance Department, and Best's Insurance Reports for 1940, thirty companies and branches, representing roughly a third of the British-owned business units doing an insurance business in this country, have been evaluated. Fourteen of these business units are companies incorporated within the United States and sixteen are branches of companies incorporated in Great Britain. Using a most conservative valuation technique, their assets roughly may be estimated at $215,000,000. (See Table 1, immediately following.)

The 1940 values were obtained by adding four items:

(1) Capital

(2) Surplus, based on market.

(3) Amounts set aside for voluntary reserves.

(4) Capitalization of average annual gain from underwriting over the five-year period, 1936-1940, inclusive. The capitalization rates were very conservative, being 20 per cent for the casualty and fire companies and 40 per cent for the marine companies.

The 1939 estimates, which were supplied by the Treasury, differ from our 1940 values not only in converting an earlier period, but in the following material respects as well:-

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(1) Surplus based on book value and not on market value, was used in the 1939 estimates. On the assumption, supported in more detail later in this memorandum, that the investment portfolio of the company is worth market, use of book values will result in considerable understatement.

(2) No account was taken, in the 1939 computations, of the fact that the British companies do a profitable underwriting business, representing a valuable investment over and above the companies' profits from their investments.

If the same understatement characterizes the valuation of the remaining British companies as was true of these thirty companies, i.e., approximately 50 per cent, the total value of the British-owned insurance industry in the United States will be approximately $450,000,000, instead of the $300,000,000 originally given out in the public press and in the initial Treasury estimates.

Mechanics of Transferring Ownership:-

Table 1 summarizes these valuations in terms of groups of companies (or individual companies) dominated by the same financial interest, rather than in terms of the type of insurance business transacted (marine, fire, casualty) or its form of legal organization (incorporation in the United States or the mere carrying on of business as a domestic branch of a foreign corporation). This was done on the theory that, if all the companies are not to be acquired at one time, it is advisable to purchase simultaneously all the companies under a unified ownership and control. At least two practical reasons recommend such a procedure:-

(a) The greater simplicity of carrying on negotiations with a particular ownership group, rather than dickering with several ownership groups at the same time.

(b) Since the agency forces of constituent members of a group usually work for other members of the group, the problems of impaired good-will, dislocation of agency force, and other operating problems will be reduced to a minimum.

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TABLE 1

Name of Group (or Company)	Form of Company Organization		Character of Business			Valuation (Millions of dollars)	
	U.S.Corp. 1/	U.S.Branch 2/	Marine 3/	Fire	Casualty	1939 Estimates	1940 Values
Royal-Liverpool	10	4	4	7	3	90	130
Commercial Union	4	5	-	7	2	30	48
Chubb & Son	-	3	3	-	-	7	11
Employers Liability Assurance, Ltd. of London 4/	-	1	-	-	1	13	24
Miscellaneous	-	3	3 5/	-	-	1.5	2.4
TOTAL	14	16	10	14	6	141.5	215.4

1/ Incorporated within the United States.

2/ A branch of a company incorporated in Great Britain. Most of the assets of these companies are trusteed for the protection of U.S. policyholders.

3/ Two of these companies also did some fire insurance business.

4/ While a United States branch of a foreign company, that company is owned by Employers Group Associates of Boston, a Massachusetts business trust. The Treasury has described it as 100 per cent British owned, but there may be some difficulty in establishing that Employers Group Associates is British-owned.

5/ Owned by the Scottish Union and the National Insurance Company of Edinburgh; North British and Mercantile Insurance Company of London and Edinburgh; and Guardian Assurance of London (?), respectively.

221

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The problem of transferring ownership of the American incorporated companies will reduce largely to the mechanics of transferring control of stock now held by British interests into American hands. The transferring of ownership of the United States branches is more complex. Alternative sclutions are possible, e.g., (a) the underwriting business of the branch may be reinsured with an American company; (b) the branch may incorporate under a state charger; (c) some holding company may be formed to take over all the United States branches, etc.

The difficulties in this respect will be primarily legal. I do not attribute much validity to the argument that the business of the American companies and branches will tend to diminish if their affiliation with British parents and home offices is severed. According to the public statements of the New York State Insurance Superintendent, the U. S. branches are on a much sounder footing than the British parent or the non-U.S. members of their group, since the business of the U. S. branches is not subject to the same war hazards. Furthermore, a much larger proportion of their assets is trusteed for the benefit of American policy holders than is held by domestic companies under legal reserve requirements, or is necessary under the law applicable to branches of foreign companies.

The fact that the underlying investment assets of the British companies furnish a much bigger protective cushion against prospective liabilities than is true of domestic companies is a competitive business feature, highly important to the British unit in procuring underwriting business within the United States. Even if, therefore, some of the securities owned by a company could be marketed independently of a sale of the underwriting business itself, it would probably be preferable not to do this, but to purchase all the investment and underwriting assets of the company in the same transaction.

Valuation of Investment Assets:-

The investment portfolios of these companies, on a surface examination, seem to be so well selected and to have such profitable yields, that it would appear well nigh impossible for other conservative investors to duplicate them in the present state of the investment market. The portfolios were therefore valued at market, rather than at book (including amortized values) or cost. These market valuations,

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as reported in the Annual Convention Statements, may be less or more than book, but in the majority of cases will be found to be higher than book or cost.

A more complete analysis of the investment situation of these companies should include the following:-

(a) Annual and average gains from investment operations for the five-year period, 1936-1940 (already computed for the 30 companies included in this survey). While capitalization of average annual gain is not as good a measure of the value of the companies' investment business as the figures which have been used, it would be a good comparison figure, as well as a cross-check on the efficiency of the investment managers of the British companies.

(b) The portfolios of the companies could be dissected. Amounts invested in railroads, public utility bonds and governmental obligations, and in common stock, preferred stock and bonds, could be indicated, together with the percentages invested in each classification and gains and losses on each class of business. This would indicate whether the portfolios were appropriately diversified, and would focus attention on any weaknesses in the companies' investment policies.

(c) Cost, amortized, and face amount values might be taken into consideration. For example, amortized values are permitted for securities which have received above a certain preferential rating from a fixed number of rating services. Where these amortized values are lower than market, the buyers of the securities may object to having to pay market values; where they are higher than market, the sellers, i.e., the insurance companies, may object to receiving only market values. The various rationalizations which may be advanced in defense of alternative methods of valuation should be looked into to forestall complications when bargaining actually begins and to cross-check the validity of our present valuations.

I lean, however, to the opinion that market values should remain our primary test.

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Valuation of Insurance Business:-

The problem of valuing the underwriting end of these companies' businesses is a difficult one. The approach adopted in this survey was to capitalize average annual earnings over the five-year period, 1936-1940, at a very conservative capitalization ratio, i.e., 20 per cent for fire and casualty companies and 40 per cent for marine companies. While this is the conservative investment banker's approach to the problem of valuation, it is not the conventional insurance man's approach. If a more extended investigation is called for, the following additional factors should be considered:-

(a) The capitalization rate could be put at 10 per cent for the fire and casualty companies and 20 per cent for the marine companies, and the value of the underwriting business would thereby be doubled. (This has been done for the 30 companies that have been surveyed.) The appropriate rate of capitalization for this type of business is a very debatable item.

(b) An item which is a useful comparative check on the value of the underwriting business is that of unearned premiums. Unearned premiums on the companies' books have already been subjected to deductions for commissions and the initial heavy selling expenses; and only about two per cent of the unearned premiums prove ultimately to be uncollectible. The only major prospective charge against them, therefore, is the payment of losses and minor servicing expenses. Best's Insurance Reports (Fire and Marine, 1940) indicates that even the liquidating value of a company must include the equity in unearned premiums, "uniformly computed at 40% in the case of direct writing and 35% in the case of reinsurance companies, these percentages being conservative." (p. XI) A liquidating value does not take into consideration some highly important operating factors, e.g., the fact that most of the business on the companies' books will be renewed without difficulty when its present term expires, the irreplaceability of the company's agency force, and other items of good-will that the company possesses. When, as has been done, here, 30 per cent of unearned premiums is taken and

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put down as the value of the underwriting business, we are practically certain to have a figure which will be challenged by the seller, i.e., the company, as woefully inadequate. This figure, however, as computed for 30 companies, is comparable with the figure obtained by conservative capitalization of the companies' earnings on their underwriting business.

(c) The percentage of loss and loss expenses to premiums earned has been computed both on an annual and on an average basis for 1936-1940, inclusive. This percentage is a check on the operating efficiency of the underwriting management. It is also an indication of how conservative 30 per cent of unearned premiums is as an estimate of the value of business at present on the companies' books, since it indicates that, in many cases, one might be justified in taking 50 or 55 per cent of the unearned premiums.

(d) The good-will item might be further appraised in terms of the extent of the agency force and the amount of money that it took to build that force up, the likelihood of renewal and expansion of business, etc. Such inquiries should be deferred until bargaining negotiations become imminent, however, and will primarily take the form of interviewing experts in the business, analyzing past reinsurance experience, etc.

I am attaching, for your information, a mimeographed form indicating the items which have been worked out for the 30 companies surveyed to date and their place in the Annual Convention Statements (the numbers in the parenthesis), filled in for the Globe Indemnity Co., the largest company thus far examined and a member of the Royal-Liverpool group.

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SECURITIES AND EXCHANGE COMMISSION
Trading and Exchange Division

Name Globe Indemnity Co., New York

Type (2) Casualty

Interest in Other Companies (8-16).....None

Interest by Other Companies (8-17).....24,875 shares owned by Liverpool and London & Globe Insurance Co., Ltd.

(1) Capital or Statutory Deposit (5-34).....$2,500,000

Surplus (Book) (5-35).....7,500,000

(2) Surplus (Market) (Feet)..... 7,500,000

(3) Voluntary Reserve (5-29 to 33) 7,499,000 (Book) 9,515,000 (Market) 1/ $19,515,000

Unearned Premiums (5-18).....7,102,000

30% of Unearned Premiums.....$2,131,000

Reinsurance Due Unauthorized in N.Y. (5-32b)....$ 63,000

Gain from Underwriting (10-34b)

	Thousands of Dollars
1940.....	1,733
1939.....	1,740
1938.....	2,541
1937.....	2,423
1936.....	1,175
Average.....	1,922

Capitalized at 10%..... 19,000,000
20% 9,500,000

Gain from Investments (11-61b)...

	Thousands of Dollars
1940.....	389
1939.....	1,552
1938.....	2,284
1937.....	- 2,736 (Loss)
1936.....	2,354
Average.....	769,000

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Per Cent of Loss and Loss Expense
to Premiums Earned

1940.....	49.1	
1939.....	49.9	
1938.....	47.5	
1937.....	44.7	
1936.....	55.2	(Grand Total
Average.....	49.3	1 - 4) 29,015,000

411565

1/ This represents the total of items 1, 2 and 3.

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(COPY)

Apr 7 1941

Dear Mr. Purcell:

Thank you for your letter of March 27, 1941, addressed to Mr. Harry D. White, transmitting a preliminary memorandum on the valuation of British insurance direct investments. We have found the results so far of much interest.

We should like to have the same type of analysis made of the remaining companies and I would appreciate the continuance of this work by your Division. In view of the present situation, a more detailed analysis on the lines outlined in the memorandum probably will not be necessary.

Very truly yours,

(Signed) H. MORGENTHAU JR

Secretary of the Treasury.

Mr. Ganson Purcell, Director,
Trading and Exchange Division,
Securities and Exchange Commission,
Washington, D. C.

HDW/dlm
4/3/41

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GRAY

Santos

Dated March 25, 1941

Rec'd 6:03 p.m.

Secretary of State,

Washington.

March 25, 2 p.m.

Brazilian coffee markets have been virtually paralyzed by a decision of the National Coffee Department to register no (repeat no) further sales of coffee destined to the United States because existing registered contracts have already exhausted current Brazilian quota under the Inter-American Coffee Convention. Regulations are to be published soon.

Santos exporters hope for an increase of quota. Shipments under registered contracts proceeding normally.

Inform Commerce.

HUBNER

NK

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RESTRICTED

G-2/2657-220
No. 348

M.I.D., W.D.
March 25, 1941
12:00 M.

SITUATION REPORT

I. Western Theater of War.

Air: No important offensive activity on either side.

II. Balkan Theater of War.

Ground: Bulgaria. The movement of German troops proceeded on schedule it was announced by the German High Command.

Albania. Local attacks in the Viosa River (central) area and artillery and mortar activity on various points of the front.

Air: Routine activity.

III. Mediterranean and African Theaters of War.

Ground: Eritrea. Heavy fighting continues in the Cheren area. The British claim they are making headway.

Libya. German and Italian motorized troops are operating on the eastern side of the Sirte Desert, and there is an unconfirmed report to the effect that El Agheila which is about 175 miles southwest of Bengasi and the westernmost point of advance of the British Army of the Nile in North Africa has been occupied by German troops.

G-2 Note. It is estimated that there are now between three and five German Divisions in Libya which include two or more armored divisions.

Air: German. Malta was again attacked. Considerable activity against shipping in the Mediterranean.

British. Continued support of ground operations in East Africa.

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

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Paraphrase of Code Cablegram
Received at the War Department
at 9:37, March 25, 1941.

London, filed March 25, 1941.

1. British Air Activity on Continent.

a. Daylight March 24. Shipping facilities at Le Havre and Cherbourg and coasting vessels off Netherlands were targets for British bombing.

b. Night March 23-24. Very successful results were reported by the Air Ministry from British raids on Emden, Kiel, Emden, Hanover, Rotterdam and Calais. Rail and other transport facilities as well as commercial plants were the target of bombing flights by 126 heavy and medium British bombers.

2. German Air Activity over Britain.

a. Night March 24-25. No aircraft attacks.

b. Daylight March 24. Swansea was subjected to one attack. Other activities limited chiefly to shore patrols.

3. Air Losses.

a. British. One bomber was shot down night, March 23-24.

b. German. British report their aircraft shot down three German planes and damaged 2 while 2 crashed, March 24.

4. British Air Activity in Middle Eastern Theater.

a. Durat airfield was the target of British attacks in Albania. Other activity in theater was limited to infantry and artillery support.

5. German air activity in Middle Eastern Theater.

a. Daylight March 24. Harbor facilities at Malta were attacked

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by 6 low-flying bombers at daybreak.

6. Air Losses in Middle Eastern Theater.

a. Losses inflicted by British on Axis planes in Albania, daylight, March 24, were 2 planes on ground, 4 in action with 2 more damaged.

7. One British cruiser and one destroyer were lightly hit and there was slight injury to port facilities in the bombing by Germn planes at Malta, March 25.

8. Major evacuation of civilians from Saloniki is expected when military activities take place despite more satisfactory morale among the people. Spirit of Hellenic troops is high.

SCANLON

Distribution:
Secretary of War
Asst. Secretary of War
Chief of Staff
Secretary of Treasury
State Department
War Plans Division
Office of Naval Intelligence
Air Corps
G-2

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Paraphrase of Code Radiogram
Received at the War Department
at 22:05, March 25, 1941.

Sofia, filed March 25, 1941.

The principal concentrations of German troops are in the Mesta Valley, Struma Valley, Kladjumbunaja, Maritza Valley. There are bridging materials and concentrations of the German Air Force at Petrich. At Tunbol (Jumboli) there are air centers. German divisional insignia have been noted here during March 21/22 as follows: cross in circle, key in shield, inverted T, vertical arrow. Is it desirable for me to send information of a military nature to the US attaches at Athens and at Ankara?

JAEGER

Distribution:
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps

Regraded Uclassified

CHINESE EMBASSY
WASHINGTON, D. C.

March 26, 1941

My dear Mr. Secretary:

I was greatly touched by your kind letter of March 19th. The day after receiving it, I called your office and found that you had gone for a well-earned vacation.

During all of these busy months, I have refrained from calling on you, knowing very well how busy you have been, and knowing equally well how hard you have been working to give aid to China. What you so kindly termed my cooperation really consisted in my solicitude not to intrude on your busy time.

I wish to take this occasion to express to you my deepest appreciation for all you have done for my country all these years. Ever since that memorable evening of October 25, 1938, when you first announced to K. P. Chen and me the first loan to China on the very day when both her power of resistance and her morale were at the lowest ebb, - ever since that memorable evening at your home, you have given timely and effective aid to my people whenever we were most disheartened and most hard-pressed. I have been most deeply touched by the way you managed to give China the third loan and the big hundred-million loan, and more recently by the tremendous effort you made in securing for China the one hundred planes. In all these cases, I have not even called to thank you. But, my dear Mr. Secretary, all these acts of statesmanship and friendship are deeply engraven in my heart and, I am sure, will be long remembered in the hearts of my people when the historic facts are known to them.

I want to raise a word of protest over one sentence in your letter where you say that you are "no longer advising and assisting" my Government in its purchases here. While I am sure Mr. Harry Hopkins will do everything possible to be helpful to us, I must insist that you, my dear Secretary, cannot possibly cease "advising and assisting" us, not merely in our purchases here,

Regraded Uclassified

but in all the larger policy-making concerning the world crisis of which China's war of resistance to aggression is now recognized as an integral part.

When you return from your vacation and are not too busy, I would like to call and have a little chat with you.

Yours very sincerely,

Hu Shih

Hu Shih

P.S.

I had a very good time last month with your son at Amherst. He drove me from Springfield to the College and, after the lecture, again drove me to the Springfield station. I have found him a very thoughtful and lovable young man.

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

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 26, 1941

TO Mr. White

FROM Mr. Kamarck

Subject: Axis influence in Guatemala
(Based on information supplied by the Office of the Coordinator of Commercial and Cultural Relations Between the American Republics)

Summary

Guatemala is the German propaganda center for Central America. The Germans are very important in the general economy of the country, controlling over 50 percent of the chief export commodity, coffee. The President is taking vigorous measures to suppress axis activities but is hampered by the Nazi sympathies of a small number of government officials.

1. There are 2,300 persons of German descent in Guatemala, but including those of partial German descent, the total comes to over 5,000. Because of their prominence in the business and social life in the country, the Germans are more important than the size of the German population would indicate.

Nazi activity was flagrantly open in 1938-39. As a result, the Guatemalan government decreed the dissolution of all Nazi organizations in May 24, 1939. Since then the Nazis have been forced to work illegally--which has somewhat restricted their effectiveness.

Nazi activity is closely linked with the German consular and diplomatic offices, the Nazi leader being the Commercial attache. Germany has a legation and four consulates in Guatemala whereas the United States has a lone consulate in Guatemala City.

The Germans are strongly entrenched in the economic life of the country. Over 50 percent of the main export crop of Guatemala, coffee, is controlled by Germans. There are four German directors out of eighteen in the partly government owned bank of issue, the Banco Central. Nottebohm Hermanos, one of the two other large banks in the country, is an important wheel in the Nazi machine. It is the local Chase National Bank and American Express representative. The firm also does an export and import business, handling around a quarter of the total coffee crop.

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None of the important papers are run by axis sympathizers. However, there are a few small papers which spread Nazi propaganda.

2. The Italians, of whom there are about 400 in Guatemala, are relatively harmless compared to the Germans. The main source of Italian propaganda is the Italian cultural center run by a professor sent from Italy.

Only two Japanese live in Guatemala and these have no political or cultural influence.

3. The President of Guatemala and the majority of the government officials are strongly opposed to axis activities. Several of the important officials are, however, pro-Nazi. This includes the Minister of Finance, Gonzalez Campo; the Minister of Agriculture, General Roderico Anzueto; the Minister of the Interior, Guillermo Saenz de Tejada; and several Deputies, including one who is the President's private secretary.

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ABOARD U. S. S. DESTROYER BENSON--PRESIDENT ROOSEVELT'S SIGNATURE OF THE $7,000,000,000 WAR-AID APPROPRIATION BILL WAS DELAYED TODAY WHEN POOR FLYING WEATHER FORCED A NAVY PLANE CARRYING THE MEASURE OUT TO THE PRESIDENTIAL YACHT AT SEA TO TURN BACK TO THE MAINLAND.

3/26--W0503P

ADD WAR-AID BILL, ABOARD U.S.S. BENSON.

THE PLANE HAD TAKEN OFF FROM THE DINNER KEY COAST GUARD AIR BASE AT MIAMI AND HEADED FOR THE PRESIDENTIAL YACHT POTOMAC WHEN THE BENSON ORDERED IT TO TURN BACK BECAUSE A CHOPPY SEA, RAIN SQUALL AND LIMITED VISIBILITY WOULD MAKE A LANDING HAZARDOUS.

THE PLANE HAD COVERED ABOUT HALF THE DISTANCE BETWEEN MIAMI AND THE PRESIDENTIAL YACHT WHEN IT WAS ORDERED BACK.

THE PRESIDENT, UPON LEARNING OF THE HAZARDOUS LANDING CONDITIONS, DECIDED THAT DELIVERY OF THE BILL SHOULD WAIT UNTIL THE WEATHER IMPROVED.

3/26--W0507P E20-0

Regraded Uclassified

RANCHO DE LA OSA
SASABE, ARIZONA

March 26, 1941

239

TELEPHONE—LONG DISTANCE
RANCHO DE LA OSA
TUCSON, ARIZONA

Memo for T. Kuhn:

My son Bob suggests that we should examine some of the Left Wing arguments against aid to Britain. Please have Barth look up what Norman Thomas has been saying. Also the H. Ickes vs. ~~Bob~~ Phil La Follette recent debate over the air. Have Barth prepare a brief. Bob says that Max Lerner has some of the best answers to N. Thomas.

Bob says look up William L. White son of William a. White.

Memo for Ed Foley

Please prepare statement for me to give before committee on Bank Holding Bill. (over)

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If we could get some good examples where BA. Hoe Co. have driven banks out of communities. I want the statement to be dramatic and colorful. Have Kuhn and Jean Sheffield help. Have this ready on my return Tues.

Memo for Mrs Klotz:

Please distribute above memos.

Thank you.

/s/ Morgenthau

March 26, 1941

Dear Mr. Lovett:

In the absence of the Secretary, I am acknowledging receipt of your confidential letter to him, dated March 24th, concerning the number of combat planes on hand.

I shall be glad to bring your letter to his attention as soon as he returns to Washington.

Yours sincerely,

H. S. Klots
Private Secretary

Honorable Robert A. Lovett,
Special Assistant to the
Secretary of War,
War Department,
Washington, D. C.

Lovett letter
signed H. S. Klots
4/16/41

Regraded Unclassified

March 26, 1941

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Yours sincerely,

H. S. Klotz
Private Secretary

Honorable Robert A. Lovett,
Special Assistant to the
Secretary of War,
War Department,
Washington, D. C.

Regraded Uclassified

March 26, 1941

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Yours sincerely,

H. S. Klein
Private Secretary

Honorable Robert A. Lovett,
Special Assistant to the
Secretary of War,
War Department,
Washington, D. C.

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243

WAR DEPARTMENT
WASHINGTON

March 24, 1941

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

Dear Mr. Secretary:

I attach a condensed schedule showing the situation of the Air Corps as of March 1 with respect to the number of combat planes on hand suitable for use against a modern air force.

You will observe in the schedule the results of the increased rate of production from which the Air Corps is now benefiting, but the most significant improvement lies in the fact that the planes now coming through are, for the most part, equipped with leakproof tanks and armor. All of the heavy bombers (B-17D's), light bombers (A-20A's) and the pursuits (P-39's and P-40's) are coming through with armor and leakproof tanks, and the situation is slowly improving with respect to fire power.

The Air Corps still faces a grave situation with respect to securing adequate modern equipment to complete the training of pilots.

Deliveries of combat aircraft have continued at an improved rate during March, notably in our bomber classifications, but serious delay has resulted in the P-39 type as a result of the failure to receive adequate deliveries of Allison E type engines.

The rate of progress in equipping the Air Corps will continue to be unsatisfactory for several months more, with the trend, however, improving.

Very sincerely yours,

ROBERT A. LOVETT,
Special Assistant to the
Secretary of War

Enclosure

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COMPARATIVE CONDITION OF COMBAT EQUIPMENT

FIT FOR USE AGAINST MODERN AIR FORCE

	Heavy Bombers	Medium Bombers	Light Bombers	Pursuit	Total
January 8	63	33	0	193	289
January 31	57	33	13	176	279
February 28	68*	33	39**	208***	348

Notes:

* None with armor; 5 with leakproof tanks. All now coming through with leakproof equipment.

** 26 with leakproof tanks and rear armor.

*** 23 with leakproof tanks and armor.

SECRET

Regraded Unclassified

March 26, 1941.

I phoned Justice Brandeis' home on March 25th and mentioned my name, that Mr. Istorik had indicated that Justice Brandeis would like to see me, and that I would be glad to come to the Justice's home at any time convenient to him. I was told to come at 9 a.m. on March 26th.

The meeting with Justice Brandeis lasted for more than an hour. I mentioned briefly the background of our discussions with Istorik and Pinsent, of the British Embassy, and why the Treasury had felt that it would be quite inappropriate for a government agency to make a loan to the Palestine Foundation Fund and to the Anglo Palestine Bank, as was suggested by Istorik. I also told him that Secretary Morgenthau felt that the approach to the solution of the Anglo Palestine Bank's problem was "through the heart" rather than through the usual channels of making a loan to a bank, and that Istorik's proposal, in linking the loan to the Palestine Fund with the loan to the Anglo Palestine Bank, complicated the problem. I also indicated that Secretary Morgenthau had asked Istorik to discuss the problem with me with a view to seeing if something could be worked out.

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I asked Justice Brandeis of the importance of, and the role played by, the bank in the Palestine picture. Justice Brandeis emphasized that the bank was the principal financial agency in Palestine, that it had done very important and valuable work in the building up of Palestine, that the bank was linked up with the spirit of Hertzl and that the Jews in Palestine felt very closely connected with the bank because of its importance and of its traditions, that therefore the Jews deposited their money with the bank, and that the bank continued to play a tremendous role in Palestine. At one time, he said, the bank's deposits included a lot of money that came from depositors outside of Palestine but that now practically all of the deposits were of Palestine funds.

Justice Brandeis said he had first become familiar with the Bank around 1918-1919 and has followed its affairs closely since that time. Around 1918-1919 he and others had some feeling that the bank had not been run quite as it should have been, but as he studied the problem further, he and the others realized that they were judging the bank by the standards of American banks and that this was not a proper basis of comparison.

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Justice Brandeis felt that the bank had been and was continuing to be well managed. He referred to a Dutchman named Hoofien, who had come to the bank as a young man around 1918 and who was very competent and reliable and who had done and was continuing to do an able job with the bank.

Justice Brandeis spoke very highly of the ability and reputation of Istorik. He had first met Istorik in connection with the reorganization of the Jewish Colonial Trust which at the time was in straitened circumstances. Justice Brandeis gave $12,500 to the Zionist organization to be invested in the Jewish Colonial Trust and he expected that the Zionist organization would never get anything back on this money. Due considerably to plans worked out by Istorik, the Zionist organization ultimately realized $115 on every $100 of the money which Brandeis gave them. Justice Brandeis also referred to this matter as an example of the success in Palestine; that money that he assumed would be lost was nevertheless more than fully recovered.

Justice Brandeis spoke at great length and in glowing terms of Palestine and the Jews who were there. He told of the success in changing swamp, or rocky, or barren land

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into fertile farm land; he spoke of the agricultural colonies; of the people, principally young people, who were not thinking of themselves or their children but of creating a new land; of the new industries that are being created to help in the prosecution of the war; and of the 40,000 men who are willing to join the British Army. He referred to the reaction of Mrs. Frankfurter when she visited Palestine a few years ago and after meeting the people and traveling about the country said, "These are the happiest Jews I have ever seen, " and then said, "These are the happiest people I have ever seen." Justice Brandeis referred to other agriculturalists who had visited him and who impressed him so favorably as to their ability, their selflessness, and their being completely wrapped up in the development of Palestine. He also said that the greatest luxury in Palestine was to have a room by yourself, yet the Jews there are willing to forego these and other comforts to bring more Jews to Palestine.

I asked Justice Brandeis what he thought would happen in Palestine if Britain were defeated and Germany got into Palestine. Justice Brandeis said that if Hitler controlled Palestine "he would drive the 500,000 Jews into the sea", that Hitler was ruthless enough to do this and that he

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had done as much in Europe. He felt that no one but Hitler could capture Palestine and that Hitler would not be able to capture Palestine because the Jews who are there know every inch of the land and know how to defend it much better than the Arabs. He felt that if the Jews were driven out of Palestine, as long as they were not all killed, through one method or another they would find their way back to Palestine. He emphasized that Palestine had been such a success and that the people were so attached to the land that nothing would keep them away from Palestine. In this connection Justice Brandeis said that the people in Palestine have a sense and appreciation of history that is unknown in this country, and that they celebrate the anniversaries of people who lived many hundreds of years ago and named a steamship company after the first man who crossed the Red Sea in the exodus from Egypt.

I asked Justice Brandeis what he thought of the practicability of getting a group of wealthy Jews to invest money in the Anglo Palestine Bank. At this point Justice Brandeis spoke very bitterly of the rich German Jews in this country. He said that not only had they not helped Palestine and not contributed money, but that

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they had actually hurt the movement. He said that if these Jews had supported Palestine, Palestine would now have 1,000,000 Jews rather than 550,000 Jews. He spoke disparagingly of the experiments at Santo Domingo, British Guiana, Philippines and elsewhere; he said that these could not succeed and were diverting efforts from Palestine. He said the lower middle class Jews would continue to contribute money to Palestine even if England was defeated.

Justice Brandeis spoke of his talk with Secretary Morgenthau a few weeks ago, when Secretary Morgenthau told him of the meeting he was going to have with a group of Jews. Justice Brandeis said that the reactions of the men whom the Secretary saw were precisely what he, Brandeis, expected. He seemed to feel very discouraged about the possibility of getting such rich Jews to contribute to Palestine and said he had heard that Lessing Rosenwald was not only refusing to contribute to Palestine but was also urging his family and his friends not to contribute to Palestine.

Justice Brandeis said several times that Secretary Morgenthau was the key man in the whole country to try to get the cooperation of such rich Jews in helping

Regraded Uclassified

Palestine, although he did not feel very hopeful of success. He spoke warmly of the Secretary's coming around to the point of view of supporting Palestine.

I asked Justice Brandeis if he thought there was any possibility of interesting private American banks in Istorik's proposal. He said that the trouble with banks in this country is that they do not take enough risks even though banks are supposed to take risks. He said that the private banks would probably respond to the Istorik proposal by saying, ask the Jewish bankers to lend the money, and if the Jewish bankers were asked to make the loan, they would say no.

I told Justice Brandeis that when Secretary Morgenthau returned from his vacation next week I would tell him of the discussion.

Regraded Uclassified

March 26, 1941

Mr. F. D. Houston,
President,
American Bankers Association,
22 East 40th Street,
New York, N. Y.

My dear Mr. Houston:

In the absence of the Secretary I acknowledge receipt of your letter of March 21, 1941, enclosing a copy of resolution passed at the Louisville Regional Conference of the American Bankers Association, held on March twenty-first, in which the members of the Association in attendance at that conference agree to support the plan announced by the Secretary for the sale of Defense Savings Bonds to the public.

We appreciate very much the action of the conference and also the splendid reception that you gave to Mr. Edwards and Mr. Johnston in their discussion of these plans.

With kind regards,

Sincerely yours,

(Signed) D. W. BELL

Under Secretary of the Treasury

DWB:HLE

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COPY

THE AMERICAN BANKERS ASSOCIATION

Louisville, Kentucky

March 21, 1941

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

Dear Mr. Morgenthau:

The officers and members of the American Bankers Association in attendance at our regional conference in Louisville were delighted with the opportunity of meeting with Mr. B. M. Edwards, your assistant, in connection with the defense savings bond program, and with Mr. Gale F. Johnston in charge of the sales of these bonds to the public.

Enclosed is a copy of the resolution passed by the conference after their addresses. This resolution expresses not only the feeling of the bankers in attendance at Louisville, but, in addition, of our members throughout the nation.

In conformity with the spirit of this resolution, my fellow officers join me in expressing the belief that in the Treasury program for the distribution of these savings defense bonds to the public those banks, which so desire, should become banks of issue for the bonds to the end that this important work may be facilitated throughout the country.

Sincerely yours,

/s/ P. D. Houston

President

Enclosure

Regraded Uclassified

COPY

Resolution Passed at Louisville
Regional Conference of the
American Bankers Association
March 21, 1941

Since the success of the national defense program now under way will rest upon the support of all the people,

Be it resolved that the members of the American Bankers Association in attendance at this conference support the plan announced by the Secretary of the Treasury today for the sale of defense savings bonds to the public at large and pledge their assistance and the use of their facilities in carrying out this plan.

Regraded Uclassified

March 26, 1941.

My dear Mr. Secretary:

I was glad to have your note of March 24.

I have talked at length this morning with Mr. Houghteling, and we will work him into our organization as you suggest. I believe that he is pleased at the opportunity.

As to Mr. Young, I am asking for information about him from Rockefeller's group.

We are exploring the matter of inducing postmasters generally to sell stamps or bonds to Governors and Mayors on May 1. Some of our group doubt the propriety of attempting this, but it would probably be feasible on a limited scale, at least. As matters stand, arrangements would, of course, have to be made by correspondence. We might be exposed to some embarrassment if we should attempt to circularize several thousand postmasters on such a subject.

I believe we are making some headway.

The bank meeting at Louisville was a complete success and I am sure that we can count on full cooperation from the bankers.

Our people are developing the details of plans for radio and motion picture publicity, beginning May 1 and continuing steadily thereafter. In this we are having the advice and help of Mr. Howard Dietz, the public relations man for M.G.M., sent us by the Will Hays organization.

We are attempting to organize immediately a small group of speakers whom we can use to contact the various national groups and organizations, to enlist their cooperation, and to make addresses before conventions and meetings of such organizations as occasion may arise. It is running in my mind that for the moment we might well use Mr. Houghteling in this phase of our work.

Regraded Uclassified

We are going to make the effort to establish local organizations in two or three States by May 1, on an experimental basis, along the lines of my conversations with you on this subject.

I believe that these are the high spots of the work that has gone on in your absence.

Hoping that you are having a good rest, and with kind regards, I am

Sincerely yours,

(Signed) Harold N. Graves

Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury,
Sasabe, Arizona.

HNG/mff

Regraded Uclassified

Will give this letter to Miss Klotz for my files.

March 14, 1941
257

RANCHO DE LA OSA
SASABE, ARIZONA

TELEPHONE-LONG DISTANCE
RANCHO DE LA OSA
TUCSON, ARIZONA

Dear Harold:

1. I suggest you try and get the postmasters on May 1st to sell every governor and every Mayor in U.S. either a savings stamp or $18.75 Bond and tie this up with local newspapers.

2. Please give L. Houghteling a chance to help on Defense Savings Bonds. You know he can write. Tell Houghteling that I have made this suggestion.

3. I understand that Nelson Rockefeller has with him a Mr. Young who was Professor of advertising at Chicago. Maybe he could be useful?

Sincerely. H.M.J.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 26, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£28,000
Purchased from commercial concerns	£ 5,000

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

Sold to commercial concerns	£2,000
Purchased from commercial concerns	£3,000

The Cuban peso moved to a new current high of 4-3/8% discount bid. The previous high point, reached yesterday, was 4-13/16%.

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

Canadian dollar	15-1/16% discount
Swiss franc (commercial)	.2322
Swedish krona	.2384-1/2
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2320
Brazilian milreis (free)	.0505
Mexican peso	.2066

In Shanghai, the yuan was unchanged at 5-1/4¢. Sterling was also unchanged at 3.92-1/2.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

In London, spot and forward silver were again fixed at 23-1/2d, equivalent to 42.67¢.

Handy and Harman's settlement price for foreign silver was unchanged at 34-3/4¢. The Treasury's purchase price for foreign silver was also unchanged at 35¢. One of the New York banks reported that it experienced some difficulty in obtaining silver for immediate delivery at the 35¢ level, and was compelled to pay 35-1/16¢ for such silver a few days ago. The bank stated that it was purchasing spot silver in execution of a Swiss order for 500,000 ounces. Although it had received this order three months ago, a navicert had only been made available this week.

We made no purchases of silver today.

Regraded Uclassified

March 26, 1941.

Mrs. Friedman

Mr. Dietrich

Will you please send the following cable to Spagent, Hong Kong for Seven:

"With reference to your cable of March 24 the Treasury, at the present time, is not purchasing silver for delivery outside of the United States. Nicholson"

FD:alm 3-26-41

Regraded Uclassified

Delivered to Treasury by Mr. Nicholson

Shanghai

March 26, 1941.

French official sources in Hongkong confidentially report that Japanese naval commander-in-chief is considering the construction of a small submarine base in Spratly Island. Yoshinoa staff officer has been sent to survey conditions there. Last week a military conference at Tokyo decided to send more troops to North Indo China. Some motorized units including armored cars and tanks belonging to 8th division of Japanese troops South China have arrived Hainan Island enroute North Indo China.

Regraded Uclassified

G-2/2657-200
No. 349

M.I.D., W.D.
March 26, 1941.
12:00 M.

SITUATION REPORT

I. Western Theater of War:

Air: No important activity and no night offensive operations over land by either side. The Luftwaffe claims additional successes against shipping.

II. Balkan Theater of War.

Ground: Bulgaria. No change.

Albania. Normal artillery activity reported by the Italians.

Air: Minor activity.

III. Mediterranean and African Theaters of War.

Ground: Abyssinia (Ethiopia). British forces are approaching Harrar, the second largest city in Ethiopia. The Italians report the repulse of a British attempt to force a passage across the Dabus River in west central Ethiopia.

Eritrea. The British claim the capture of further positions covering Cheren and the repulse of another heavy Italian counterattack.

Libya. It is now officially announced that El Agheila was occupied by Axis forces March 24.

Air: Axis. Troops were attacked in northern Libya.

British. Pressure maintained in the Cheren and Harrar areas. Tripoli was raided last night.

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.

Regraded Uclassified

Paraphrase of Code Radiogram
Received at the War Department
at 22:05, March 25, 1941.

Sofia, filed 19:00, March 25, 1941.

1. In a talk with the foreign minister, I was told that he expects Greece to get no aid from Turkey. However, he does think the Turks will offer resistance if the Germans actually attack them. He feels that the Greeks will make some kind of terms with the Germans. The Bulgarians have been told by the Germans that they have no intention of entering Turkey. The size of the German forces in Bulgaria was intended to compel the Yugoslavs to sign up. If they had been smaller, the Yugoslavs and the Turks would have joined forces against the Germans.

2. Sofia correspondents of Budapest newspapers here think that eventually the Russians will assume control of the territory east of the River Maritza and the Germans will take over the land lying to the west of it. Trustworthy information indicates that the bombing of the British diplomats in Istanbul was Russian handiwork. The argument is that this was meant to place Bulgaria and Germany in a bad light before the world, though the Russians themselves provoked Bulgaria into signing the pact. The Russians despise and fear Germany.

END

Distribution:
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence

Regraded Uclassified

CONFIDENTIAL

Paraphrase of Code Radiogram
Received at the War Department
at 9:54, March 26, 1941.

London, filed 14:35, March 26, 1941.

1. British air activity on continent.

a. Daylight, March 25: Eighteen escorted Axis vessels, as well as other sea-borne traffic, were targets of British bombing off the Netherlands coast. No hits reported.

b. There was no British aviation activity night March 24-25 on account of adverse weather conditions.

2. German air activity against Britain.

a. There were no German air operations over Britain during the night of March 25-26. London enjoyed the longest period of freedom from bombing since beginning of hostilities (180 hours).

b. Daylight, March 25. German operations limited to off-shore raids on merchant vessels and action against fighters escorting same.

3. Air losses British theater.

British. Daylight, March 25, no losses. Daylight, March 24. Three British airfields bombed at daybreak resulted in destruction of 1 hangar and 4 Hurricanes.

German. Two German planes were injured in attacks on shipping daylight, March 25. Daylight, March 24; in attacks on R.A.F. fields 8 German planes were shot down, 2 others probably injured.

4. British air activity in Middle Eastern theater.

a. Night, March 24-25, activity was limited to infantry and

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artillery support.

5. Axis air activity in Middle Eastern theatre.

a. The harbor of Malta was again subjected to high altitude bombing by German planes in the night of March 24-25. Scale of attacks 10 bombers with double that number escorting planes. Raid successful.

b. Italian air forces are more active in eastern Mediterranean with light reinforcement in fighters and distance bombers.

6. Air losses Middle Eastern theatre.

German. Night, March 24-25. Three German planes reported damaged.

7. Military and Naval activities.

a. Military

A very trustworthy source reports that large shipments of Axis military armament and supplies continue to be sent to the Canary Islas from a southwestern Spanish port, including large amounts of rice, intrenching tools and barbed wire, estimated 35,000 gas masks, 100 - 75mm. field pieces (perhaps more), 1,000 sub-machine guns, 135mm. howitzers (quantity not reported), 7mm. Mauser rifles and Hotchkiss machine guns with ample supplies of ammunition. Three hundred and fifty troops are reported ready to sail to follow 500 already reported landing in the islands this month and 160 in February.

British authorities report parts of 21 German divisions are now in Bulgaria (16 of them with full complements) and not less than 35 Bulgarian and Rumanian. Heavy traffic on railroads foreshadows further reinforcement shortly. More than two-thirds of the 30 Yugoslav divisions are in service.

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b. [redacted]

Losses of sea tonnage by Britain in the seven days beginning March 9, were 73,773 tons. This is a diminution of two merchantmen and 27,099 tons over the preceding week.

The German escapade fleet is operating more actively about shores of Britain. Counter measures seem to be relatively ineffective.

[redacted]

Distribution:
Secretary of War
Asst. Secretary of War
Chief of Staff
State Department
Office of Naval Intelligence
War Plans Division
Secretary of Treasury
Air Corps
G-2

Regraded Uclassified

Transference of Code Telegram
Received at the War Department
at 8:36, March 27, 1941.

London, filed 1:30, March 27, 1941.

1. British Air Activity over the Continent.

a. Daylight of March 26. Axis merchant shipping along the coast of Holland was attacked by British bombardment planes. An aerial torpedo from one of the British planes caused some damage to a German traveler and a 6,000-ton cargo boat was sunk. In addition, these British planes attacked other travelers and cargo boats with machine gun fire.

b. Night of March 25-26. Adverse weather caused the cancellation of all flights of British planes.

2. German Air Activity over England.

a. Night of March 26-27. Only five German planes were plotted over Britain during this night and their activities resulted in no damage.

b. Daylight of March 26. A total of 45 German planes were engaged in reconnaissance on British merchant shipping. Twenty other German planes penetrated the coastline of England. The extent of the damage done has not yet been determined.

3. Aircraft losses in the Battle of Britain.

a. British. Daylight of March 26 - 1 bomber.

b. German. Daylight of March 26 - 3 planes.

4. British Activities in Middle Eastern Theaters.

The following areas and targets were attacked by British bombardment planes: The Keren region of Eritrea; airfields on the Dodecanese islands of Calato and Scarpanto; the Libyan city of Tripoli; and the railroad in the vicinity of Addis Ababa, Ethiopia.

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5. Axis Air Activity in Middle Eastern Theaters.

A British airfield on the island of Crete was attacked by machine-gun fire from three Italian planes.

6. Aircraft Losses in Middle Eastern Theaters.

There are no reports of planes shot down in these theaters but five German planes were damaged during the British raids on the Calato and Scarpanto airfields.

7. Military Activity in the Middle East.

During the afternoon of March 31, the Libyan town of El Agheila was occupied by a force of German tanks which proceeded beyond this town for a distance of almost twenty miles. At this point the column changed its direction and set off to the southeast. The British War Office was somewhat upset over the report that another column of German armored fighting vehicles is in the vicinity of Hrub, Libya. There is only a small number of British troops in this area, which is about 375 miles due south of Tripoli.

8. The German attacks on Plymouth on March 30th and 31st have necessitated the demolition of all structures within one-fourth mile of the City Hall.

9. Naval Activities.

At 10 o'clock on the morning of March 29 a German warship raider attacked a British cargo vessel 450 miles south of the Cape Verde Islands. British naval units have been unable to locate the two German warships SCHARNHORST and GNEISENAU which were sighted in the Atlantic a few days ago.

BONESTEEL

Distribution:
Secretary of War
Asst. Secretary of War
Chief of Staff
Office of Naval Intelligence
Air Corps
G-2
State Department
Secretary of Treasury
War Plans Division

Regraded Uclassified

Paraphrase of Code Telegram
Received at the War Department
at 11:07, March 27, 1941.

Helsinki, filed March 27, 1941.

A few months ago a rumor circulated of an agreement between the Soviets and Germans. The Finns and the Germans are now working together and German soldiers en route to Norway still pass through Finland. Consultations between the staffs of the two countries have occurred in Berlin as well as in Helsinki.

[redacted]

Distribution:
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
War Plans Division
Office of Naval Intelligence

Regraded Uclassified

RESTRICTED

G-2/2657-200
No. 350

M.I.D., W.D.
March 27, 1941
12:00 M.

SITUATION REPORT

I. Western Theater of War:

Air: Minor activity only.

II. Balkan Theater of War:

Ground: Bulgaria. No change.

Yugoslavia. According to press reports Jugoslav army leaders have by a coup d'etat overthrown the regency and cabinet and have installed the boy King Peter as Monarch and General Dushan Simovil, Chief of Staff for air, as Premier.

Albania. Local infantry and artillery actions.

III. Mediterranean and African Theaters of War:

Ground: No change.

Air: German. Malta was attacked.

British. Support continued of operations in Ethiopia and Eritrea. The Dodecanese Islands were raided.

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

Regraded Uclassified

March 27, 1941
10:53 a.m.

Operator: Schwarz is out of town and Mayl is coming in in his place, and if he wants Mr. Haas, he is at home and I can reach him there.

D.W. Bell: O.K.

Operator: I think that covers them all, doesn't it? Is there anybody else you want?

B: I think all the others are here.

Operator: O.K., and your recorder is working now. I'll call you in a minute.

(Pause).

B: ..... and we didn't have to consult you.

H.M.Jr: (In Sasabe, Arizona.) Well, as I say, I was both pleased and surprised.

B: Well, that's fine. What happened, the President sent a cable saying that he didn't want any transactions to go through without his approval, so then I had some conferences with the State Department and, in view of the situation over there, they cabled an Executive Order to the President which they retyped on board the boat and he signed it and cabled us that he signed it. So it was gotten out within a few hours.

H.M.Jr: Was that freezing orders?

B: How's that?

H.M.Jr: Was that a different order?

B: No, it was the same kind of an order as the other cases.

H.M.Jr: I see.

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B: Just an amendment of the original order to include Yugoslavia.

H.M.Jr: I see. Well, have there been some special transactions that made him do that?

B: Well, I don't know what made him do that. I suppose he had in mind the gold transaction and I think the State Department was keeping him currently informed of the situation over there, and it looked as though it was getting worse and I assume that he thought he'd put that stop order in against any transactions going through.

H.M.Jr: I see. Well, now, do they know yet whether - has it come over on the ticker yet whether they have been able to keep order, I mean, have they got the Army under control so that they can fight if they want to?

B: It isn't clear. It just says that King Peter in a manifesto to his people announced that he had taken the leadership in his own right and was appealing to the people for support, and Churchill announced at the same time that they would give them all the help that they could.

H.M.Jr' Well, I wish that around, say, 4:30 this afternoon you would have Cochran and Ferdi Kuhn send me a telegram of whatever the latest news is, you see.

B: All right.

H.M.Jr: And then if Cochran can go over to the State Department and if there is anything secret, we have a very secret code here with us and he could send me that, you see.

B: Yes. Just a moment until I get this note here. (Pause). Huntington Cairns just came in and said that there was a new report on the ticker that all reserve officers in Yugoslavia were to report today at 4:00 p.m.

Regraded Uclassified

H.M.Jr: Good.

B: So it looks as though they are getting the army behind the government.

H.M.Jr: Well, don't be afraid to send any telegrams. Remember it is two hours' difference.

B: All right. Is there anyone here you want to talk to?

H.M.Jr: No, I just wanted to talk about this because this is the most significant thing that has happened since September, 1939.

B: That's right.

H.M.Jr: And I'd like to be informed. I want Cochran to go over to the State Department; I'd like him to go over and see the cables after lunch. You see?

B: All right.

H.M.Jr: And then if there is anything, he can send it either in the clear or we have two codes; one is just ordinary and one is a very confidential one.

B: All right. We'll fix it up.

H.M.Jr: And anything that happens on this Yugoslav thing, I'm really terribly interested, and I wouldn't mind being called on the phone.

B: All right. We'll give you a full report and keep you advised.

H.M.Jr: Because there is nothing that has happened which is as good as this. Now, what I want to find out while I'm here, if Young has anything to report on what Donovan has been doing. (Pause).

B: Phil says he hasn't a thing and he hasn't seen Donovan. This thing has happened in that connection. As the bill was sent to the President, the Bureau of the Budget

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made up a list of allocations for the President's signature and they did that at his request.

H.M.Jr: Yes.

B: And they are allotting to the War Department $2 billion for aircraft, ordnance, tanks, facilities, et cetera; to the Navy, $500 million; Maritime Commission, $400 million; Procurement Division of the Treasury Department, for steel and other industrial products, $375 million; and Agriculture for food and tobacco, $125 million; making a total of $3 billion, 400 million. Now on the Procurement, we didn't have any advance notice of that, but the Budget said they did it because they wanted to get started on it and they knew that the Procurement Division was the only office in the Government that had authority to delegate - authority to purchase, so they just gave it to Procurement and I told them that while we'd go ahead and work on the procedure, we'd have to wait until you came back to see whether or not you wanted to take that over. There was some indication that Forrestal of the Navy would like to do the purchasing, but there seemed to be a difference of opinion because Mack talked to Admiral Spear and he intimated that they had all they could do and they'd be glad to get rid of these interim orders.

H.M.Jr: Who wants to do it?

B: Well, Forrestal talked to me and he seemed to think that they ought to do it because they were already in the picture and already buying steel, but I think Spear feels that they've got enough to do and would be glad to be relieved of it, but we're trying to find out about it.

H.M.Jr: Well, I don't want you to wait. If that's what they want, I'd show them what we could do. I'd just go ahead and do it.

B: Well, Mack is in touch with them over there and going ahead and getting everything in readiness, so he'll .....

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H.M.Jr: I wouldn't hesitate to go in and do it if you know what they want.

B: Well, we don't know yet and the allocations haven't come back so we can't do anything until we get the letter from the President. The procedure is being worked out.

H.M.Jr: Are we buying this for ourselves or for the use of the English?

B: This is a British matter.

H.M.Jr: Well, now, the British have got very good people over here on steel.

B: Yes, I understand.

H.M.Jr: And I certainly would let Phil Young get in on this with both feet.

B: Phil is in on it.

H.M.Jr: And I'd show them what we could do. I mean, I'd give them instantaneous service. I think you'll find that it's just a question of signing the contracts as far as the British are concerned.

B: Well, the Navy has already had under consideration some contracts during the time, you know, the bill was pending .....

H.M.Jr: Yeah.

B: ..... they let a few contracts for ordnance and steel and other items and I think the Navy is considering some and I think that is the reason they were raising the question as to whether or not they should do it or the Procurement should do it under this $375 million allocation.

H.M.Jr: I wouldn't delegate it to the Navy.

B: How's that?

H.M.Jr: I wouldn't delegate it to the Navy.

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B: Well, I don't think they want it. Down the line I don't think they want it. I think they'd like to get rid of it; they've got too much to do as it is. But anyhow, we're looking into it and we'll let you know.

H.M.Jr: Yeah, but if it's for the English, I think you'll find that the contracts are all ready and that the price is fair and all you've got to do is to buy the stuff.

B: I'm not so sure.

H.M.Jr: What?

B: I'm not so sure, but we'll have to check into that.

H.M.Jr: Well, if you want any advice, I'm here.

B: O.K.

H.M.Jr: But I wouldn't - well, anyway, you say Phil is in on it?

B: Yes, sir. He's familiar with the whole thing; he's been in right along, and he's been in touch with Mack.

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

B: Everything else is rather quiet, bond market is good, new bonds are selling close to 102. One sale yesterday at 102 and this morning it's 30-31, and the whole market has a very good tone.

H.M.Jr: Let me ask you this on this stuff for the English. Is Phil there? Could I talk to him for a minute?

B: Yes, he's right here.

Philip Young: Hello.

H.M.Jr: Hello, Phil.

Y: Yes, sir.

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H.M.Jr: Have you been talking with the English on this?

Y: On this buying, yes, sir, every day.

H.M.Jr: Well, I mean, how far along have they got their negotiations for the money that we have?

Y: Well, they're in all stages. They have some contracts that are ready to sign.

H.M.Jr: They have.

Y: Right.

H.M.Jr: Well, I mean, have you been in contact with Purvis?

Y: Yes, I've been talking with Purvis and with the Army and Navy and with Cliff Mack.

H.M.Jr: Well, now, what I'd like you to do is to arrange a meeting in Bell's office with Purvis and Mack.

Y: Right.

H.M.Jr: Hello?

Y: Yes, sir.

H.M.Jr: So that Bell can get the feel of the thing.

Y: Right.

H.M.Jr: I say, get Purvis and whoever is doing their steel buying - who is buying their steel?

Y: Elliot.

H.M.Jr: Well, bring Elliot and Purvis over to Bell's office and have Mack over there and let Harold Graves sit in too.

Y: Yes, sir. I think that they are all pretty familiar with this picture already.

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H.M.Jr: Well, do it anyway, Phil. Get them all in the same room.

Y: Yes, sir.

H.M.Jr: I say, there'd be Mack and Harold Graves and you and Bell there and Purvis and Elliot.

Y: Right.

H.M.Jr: I'd do that this morning.

Y: I'd have to get Elliot down from New York; it may take a day to do it.

H.M.Jr: What?

Y: It may take a day to do it - to get the people together.

H.M.Jr: Well, that's a day longer than necessary.

Y: The immediate difficulty on it is the question of authority of Procurement to actually go ahead and sign the contracts.....

H.M.Jr: Oh.

Y: .....because .....

H.M.Jr: Here out West, you know, we shoot from the hip.

Y: Yes, sir.

H.M.Jr: We shoot on sight, you know.

Y: Yes. Well, maybe we ought to move out there too.

H.M.Jr: Come on.

Y: (Laughs). That all?

H.M.Jr: That's all I've got.

Y: Right.

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H.M.Jr: What else?

Y: I'll turn you back to Danny.

B: That's all I have Mr. Secretary.

H.M.Jr: You don't mind my arranging a meeting for you in your office.

B: No, that's fine, as long as it's held .....

H.M.Jr: But I think it'll bring it to a head.

B: But I'm going to insist on its being held this afternoon. As you know I'm going away over Friday and Saturday.

H.M.Jr: Good for you.

B: The only other thing that I've got is to tell you that the revenue receipts are coming in with a bang. It looks as though we might get as much as $175 million over our estimate.

H.M.Jr: Wonderful.

B: So that the year might run up pretty well in excess of the estimate. They really are looking good.

H.M.Jr: I might speak with John Sullivan if he's there.

B: How's that?

H.M.Jr: Is John Sullivan there?

B: Yes, sitting right here.

H.M.Jr: Let me talk to him a minute.

B: O.K.

John Sullivan: Hello, Mr. Secretary.

H.M.Jr: Hello, John.

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S: How are you, sir?

H.M.Jr: Fine. I've got an idea that may not be worth anything but I wish you'd think about it, and that is the thought of you and me, or one or both of us, possibly going to some of these camps and getting off a speech on the taxes particularly along the line of state tax exempts and try to interest these million boys in this whole picture and then get the reaction through them to their homes to the Congressmen.

S: Yes.

H.M.Jr: I wish you'd be thinking about it.

S: Right.

H.M.Jr: I mean, the idea, you know. Here they are working at a dollar a day and here people could invest in these Arkansas bonds which couldn't have been sold if it wasn't for the tax exempt privilege and continuing to permit certain groups to put their money into tax exempts without making any contribution towards national defense.

S: Right.

H.M.Jr: And I was thinking as a background that we might go and talk to some one of these large cantonments. Will you think about it?

S: I will, sir.

H.M.Jr: How does it strike you at first blush.

S: Good.

H.M.Jr: What?

S: Good.

H.M.Jr: And we could try it and if it works we could go to one-half a dozen of these

Regraded Uclassified

different cantonments and make this speech about this whole question of taxation and see if we can't build a bonfire under some of our friends on the Hill.

S: I think the bonfire is being built right now and I think this would help and would accelerate it.

H.M.Jr: I'd like to do it through the soldiers.

S: Right.

H.M.Jr: And as I say you might think about it and, oh, outline what .....

S: I'll prepare a talk. I will prepare a talk, I say.

H.M.Jr: Good.

S: Right.

H.M.Jr: Well, it has been pleasant to talk to all of you. Anybody want to volunteer anything?

S: You might be interested to know that Dano instead of ousting Gaston from his chair is now working on the Undersecretary.

H.M.Jr: Wonderful. My money is on Dano.

S: We're all betting on Dano. Just a minute, Mrs. Klotz is going into her room to talk to you.

H.M.Jr: Right. (Pause). Hello.

S: Hello. I'm just waiting for Mrs. Klotz to take the phone.

Operator: Hello.

H.M.Jr: Yes.

Operator: Do you want Mrs. Klotz now?

H.M.Jr: If you please.

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ABOARD U. S. S. DESTROYER BENSON.--PRESIDENT ROOSEVELT TODAY SIGNED THE $7,000,000,000 WAR-AID APPROPRIATION BILL AT 10:50 A.M. EST.

3/27--RS1126A

ADD BILL SIGNED, ABOARD BENSON.

PRESIDENT ROOSEVELT SIGNED THE BILL LESS THAN AN HOUR AFTER IT HAD BEEN DELIVERED TO HIM ABOARD THE YACHT POTOMAC.

A NAVY BOMBING PLANE WHICH BROUGHT THE BILL FROM MIAMI LANDED IN THE SEA NEAR THE POTOMAC AT 10 A. M. FIFTY MINUTES LATER THE PRESIDENT SIGNED IT IN THE POTOMAC WARDROOM, SURROUNDED BY HIS ADVISERS, HARRY L. HOPKINS, ATTORNEY GENERAL JACKSON, SECRETARY ICKES, REAR ADMIRAL ROSS T. MCINTIRE, HIS PERSONAL PHYSICIAN, AND SECRETARIES MAJ. GEN. WATSON AND EARLY.

THE PRESIDENT THEN PRESENTED THE HISTORIC PEN WITH WHICH HE SIGNED THE MEASURE TO HOPKINS.

THE BILL WAS BROUGHT TO THE POTOMAC BY LEO DE WAARD, POSTAL INSPECTOR ATTACHED TO THE PRESIDENTIAL PARTY, WHO FLEW FROM MIAMI TO THE YACHT ABOARD NAVY BOMBER 33-P-4, PILOTED BY ENSIGN J. F. BUNDY, STATIONED AT KEY WEST, FLA.

THE POTOMAC WAS ROCKING GENTLY IN A SUNNY, SUB-TROPIC SEA. MR. ROOSEVELT INDICATED AFTER SIGNING THE BILL THAT HE WOULD CONTINUE HIS FISHING CRUISE.

3/27--RS149P

Regraded Uclassified

CONFIDENTIAL (To Keep You Posted)

March 27, 1941

To: The Secretary

From: Mr. Young

Re: British Aircraft Shipments

Attached herewith is the latest statement of aircraft shipped to the United Kingdom and other points. This statement gives figures showing the number of planes which have been received at the assembly points during the past week.

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STRICTLY CONFIDENTIAL

STATEMENT NO. 7

AIRCRAFT SHIPPED TO U. K. & OVERSEAS COMMANDS

TYPE	DESTINATION	ASSEMBLY POINT	By Sea During Week Ending March 1, '41	By Air During Week Ending March 22, '41
Brewster				
Buffalo	Far East	Singapore (via Panama)	22	
Glenn Martin				
Maryland I	S. Africa	Capetown	5	
Lockheed				
Hudson III	U. K.	U. K.	4	
	U. K.	U. K. (via Gander)		1
Hudson V	U. K.	U. K.	7	
Consolidated				
Catalina	U. K.	U. K. (via Bermuda)		2
T O T A L			38	3

British Air Commission
March 24, 1941

RECEIVED
MAR 25 1941
Treasury Department
Office of Philip Young

Regraded Uclassified

284

TO:

Mrs. Klotz

Mr. Young sent you a copy of this memorandum last week, but he thought you might like to have the original for the Secretary's files.

bj
4/1/41

From: MR. YOUNG

Regraded Uclassified

Lend Lease

285

WAR DEPARTMENT

WASHINGTON

March 27, 1941.

MEMORANDUM FOR THE SECRETARY OF THE TREASURY.

Subject: Procurement Program under allotments recommended from Lend-Lease Appropriation.

1. On March 25, 1941, recommendations were forwarded to the President with reference to immediate allotments to start procurements under the Lend-Lease appropriation. These included $375,000,000 to the Treasury Department.

2. It is desired that there be available to Mr. Harry Hopkins upon his return to Washington a summary of the procurement programs involved in the recommended allotments.

3. It would be appreciated if you would submit to the undersigned by noon, Saturday, March 29, 1941, the proposed Treasury Department procurement program under its allotment, together with information as to the extent to which the program conforms to official British requirements.

For and in behalf of Mr. Harry Hopkins:

J. H. BURNS,
Major General, U. S. Army.

RECEIVED
MAR 27
Treasury Department
Office of Philip Young

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286

Mrs. Klotz

Mr. Young is returning this for your files.

bj
4/1/41

From: MR. YOUNG

Regraded Uclassified

OSW
JJMcC/jhs

287

March 27, 1941

MEMORANDUM FOR: The Chief of Ordnance.

In accordance with instructions of the Secretary, I am sending you herewith a copy of a letter, dated March 19, 1941, from the Administrator of the Federal Loan Agency to the Secretary of War relating to certain articles to be manufactured through the Federal Loan Agency for the War Department. The enclosed letter is in response to the letter sent by the Secretary of War on March 10 to the Federal Loan Administrator, a copy of which you already have.

JOHN J. McCLOY
Special Assistant to
the Secretary of War

Enc.
ltr. 3/19/41
Administrator Jones to
Secretary Stimson

Copy to
Secretary Knox ✓
Under Secretary of War
Chief of Staff
Colonel Greenbaum
Colonel Quinton
G. & R. - OSW

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FEDERAL LOAN AGENCY
WASHINGTON

March 19, 1941

Dear Mr. Secretary:

Receipt is acknowledged of your letter of March 10, 1941, requesting that the War Department be not limited to the various estimated costs set forth in the list of articles which was transmitted with your letter of January 25th, provided that the total cost of the articles to be manufactured does not exceed the total cost set forth in such list.

This request has my approval. Since the President's letter of January 23rd containing the statement of necessity required by the Act of June 25, 1940 (Public No. 664) made no provision for his approval of the estimated cost of the arms, ammunition and implements of war designated by you for manufacture, his approval of this modification is unnecessary. Needless to say, both Defense Supplies Corporation and the undersigned will be guided by your estimates as to the cost of the items to be manufactured.

Yours very truly,

/s/ Jesse H. Jones

Administrator

Honorable Henry L. Stimson
Secretary of War
Washington, D. C.

COPY

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Regraded Unclassified

For Miss Chauncey

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 27, 1941.

TO Secretary Morgenthau

CONFIDENTIAL

FROM Mr. Cochran

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£107,000
Purchased from commercial concerns	£ 5,000

The Federal Reserve Bank of New York sold £15,000 in registered sterling to the American Express Company.

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

Sold to commercial concerns	£ 5,000
Purchased from commercial concerns	-0-

Continuing its improvement, the Cuban peso advanced to a discount of 3-1/2%. A month ago, when the appreciation of the peso began, the quotation was 7%. The upward movement was first attributed to the seasonal movement of Cuban sugar to this country. More recently, the enactment of a measure authorizing the Cuban Government to negotiate for an $11,000,000 Export-Import Bank sugar loan, and a British inquiry for 200,000 tons of Cuban sugar have been mentioned as possible factors in the advance.

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

Canadian dollar	15-1/16% discount
Swiss franc (commercial)	.2322
Swedish krona	.2384-1/2
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2320
Brazilian milreis (free)	.0505
Mexican peso	.2066

In Shanghai, the yuan in terms of our currency advanced 1/32¢ to 5-9/32¢, and sterling was unchanged at 3.92-1/2.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

In London, the price fixed for spot silver was unchanged at 23-1/2d. The forward quotation was 23-7/16d, representing a decline of 1/16d. The U.S. equivalents were 42.67¢ and 42.56¢.

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

We made no purchases of silver today.

H.M.J.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 27, 1941

TO Mr. White

FROM Mr. Kamarck

Subject: Axis Influence in Costa Rica
(Based on information supplied by the Office of the Coordinator of Commercial and Cultural Relations Between the American Republics)

Summary

Axis influence is not important in the present Costa Rican government. Nazi propaganda through the medium of the Catholic clergy, a German school and a German club is important, however.

1. There are less than 1,000 Germans in Costa Rica. However, the Germans are important in the commercial and cultural life of the country beyond their numbers.

Nazi propaganda is carried on in Costa Rica most effectively through the Catholic Church. Most Costa Ricans are Catholics and ninety percent of the clergy are pro-Germans. The Seminario where priests are educated has predominantly German priests as teachers and turns out, therefore, fascist-minded clergy.

The German school in San Jose is also important. It is the best school in the country and its classes are attended by the children of government officials and of the wealthier business people. The children going to the school come out as thorough-going Nazis.

The German club in San Jose is the best club in the country. For a time, all the most prominent people belonged to it. Its popularity has diminished recently.

It is also important to mention that the Germans control the port of Puntarenas, the chief Pacific outlet of the country. While the Germans are not so entrenched in the commercial life of the country as they are in the state of Guatemala, they still control about one-fifth of the coffee crop (the second most important commodity of the country).

There are a number of suspected Nazis on the United Fruit Company payroll. The company is of the opinion that by means of its excellent intelligence service the activities of these people can be kept innocuous.

2. The Italians in Costa Rica are about as numerous as the Germans (less than a thousand) but are nowhere nearly as important. Most of the Italians are small shopkeepers and exercise little influence. The Costa Ricans have a tendency to look down on the Italians as lacking in military ability.

There are only about 40 Japanese in Costa Rica and these do not exercise any political influence.

Spanish fascism is also represented in Costa Rica in the form of The Colegio de Los Angeles, a school for boys which is taught by Spanish fascist priests.

3. British propaganda by means of generous subsidies has been much more effective in influencing the Costa Rican press than the axis powers have.

Regraded Uclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 27, 1941

TO Mr. White

FROM Mr. Kamarck

Subject: Axis Influence in Honduras
(Based on information supplied by the Office of the Coordinator of Commercial and Cultural Relations Between the American Republics)

Summary

Axis influence in Honduras is very small. The only factor of significance is the control by the Germans of the transportation and commercial facilities of Honduras' only Pacific port, Amapala.

1. There are 450 Germans in Honduras. These do not possess any dominant economic position aside from the control of the transportation and commercial facilities of the port of Amapala. Amapala has considerable importance because it is the only Pacific outlet for Honduras and, in addition, also serves El Salvador through the town of La Union.

One of the two most important newspapers in the country, El Cronista, is mildly pro-German (the other important newspaper is controlled by United Fruit Company).

While the Germans had a Nazi organization, it was suppressed by the government in 1939. Since then there have been few manifestations of Nazi propaganda.

2. The 200 Italians and 2 Japanese in the country are of little importance as far as the propagation of fascist ideology is concerned.

The Papal Nuncio who is pro-fascist wields a certain amount of influence.

3. The Honduran government is strongly opposed to the European and Japanese fascisms and only a few minor officials can be classed as pro-axis.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 27, 1941

TO Mr. White

FROM Mr. Kamarck

Subject: Axis Influence in Panama
(Based on information supplied by the Office of the Coordinator of Commercial and Cultural Relations Between the American Republics)

Summary

Axis influence in Panama is small. The present government administration is extremely nationalistic and is reputed by some to be semi-fascist.

1. Around 600 Germans live in Panama. There is no known Nazi party organization in the country. German commercial firms are known to contribute for the purpose of spreading Nazi propaganda. Propaganda distributed in Panama appears to originate from Guatemala.

2. There are 170 Italians and 250 Japanese living in the republic. The two nationalities do not appear to be making any important attempts to influence public opinion, though they may be active in espionage.

The French Vichy government has recently sent a military attache to Panama. In all the years prior to this, that France was a military power, she did not find such representation necessary.

3. The present administration of Dr. Arnulfo Arias has shown itself to be violently nationalistic. The private secretary of the President, Antonio Isaza, has the reputation of being pro-Nazi. It is reported that the government will try to influence the press to curb attacks on the axis powers. There are indications that the government while not possessing completely fascist tendencies may be classed as semi-fascist.

British Embassy,
Washington, D. C.
27th March 1941

Dear Cochran,

I enclose a copy of the letter from Sir Edward Peacock which I mentioned to you on the telephone today.

Yours sincerely,

R. W. Flagfair

Mr. H. Merle Cochran
U. S. Treasury
Washington, D. C.

CSF:lap

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[redacted]

BRITISH PURCHASING COMMISSION

15, Broad Street, New York.

March 26, 1941.

Dear Playfair,

I have your letter enclosing one sent to Mr. Cochran about property in the proposed Cumberland Gap National Historical Park.

If through Mr. Cochran we could get some further information as to the English syndicate which owns so much of the land, I shall be glad to follow it up in London, if you do not think it would be asking too much to request this.

Yours sincerely,

R. R. PEACOCK.

R. V. Playfair,
British Purchasing Commission
Willard Hotel
Washington, D. C.

GGPT:lap

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COPY

LONDON

Dated March 27, 1941

Rec'd 3:05 p.m.

Secretary of State,

Washington.

1208, March 27, 6 p.m.

CONFIDENTIAL.

British Treasury has supplied the Embassy with copies of the two agreements signed on March 19 with General de Gaulle and the Council of Defense of the French Empire together with an exchange of letters between de Gaulle and the Chancellor of the Exchequer by which half of the gold production of French equatorial Africa is to be put at the disposal of the British Government.

These documents which are confidential are being forwarded by mail. The financial agreement apart from fixing the rate of exchange at 176.625 francs to the pound and including in the sterling area the French colonies under the jurisdiction of the council (defined as comprising French Equatorial Africa, and French Cameroons, French Oceania and French Establishment in India) provides for machinery of exchange and import controls in the territories concerned and for sympathetic consideration by the British Treasury of application by the council for foreign exchange required temporarily for the efficient prosecution of the war.

The

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The secret agreement provides for the granting of credits to General de Gaulle by the British Government and for the procedure of submission of budgets and accounts of expenditure by the former and allows him to re-lend sums to colonies after agreement with the British Government.

The British official when handing these documents to the Embassy stated that the agreements are designed largely to supply the French territories concerned without the support of which their present status has deprived them. The British Government is taking considerable quantities of colonial products the bulk of which are being stored locally with a view to using them eventually in feeding post war Europe. It was also emphasized that no profit is being made out of these arrangements which are calculated to cost the British Government a good deal more than any considerations being received.

The British Treasury official also stated that Iceland and the Faroe Islands are being brought into the sterling area, the Iceland agreement having already been signed, and April 2 being the probable effective date for both agreements, which are also designed to provide the support of which the present status of these territories has derived them.

Please inform Treasury.

WINANT.

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Budapest, Hungary

DATE: March 27, 1941, 5 p.m.

NO.: 116

This morning I was asked by the Foreign Minister to express to the Department his regrets that Hungarian funds in the United States were frozen. The Minister told me that when Ghika got to New York the latter was informed that the United States would freeze Hungarian funds. However, the Minister either could not or would not tell me who gave that information to Ghika. The same information had been telegraphed by the Havas agency, he said.

Many rumors have been current here, it is true, that when the Lease-Lend Bill was passed the United States would freeze Hungarian funds. Efforts had been made by the Minister to be absolutely correct with the United States Government in withdrawing funds. For that reason the Chargé d'Affaires in Washington had been instructed by him to make advance explanation that Hungary might experience difficulty in obtaining money for financing legations and consulates in the United States, England, Canada and the countries of South America, and he had been instructed to explain to the Department that it was for that purpose the funds were being withdrawn. The Minister said that if the Chargé had been advised by the Department not to withdraw the funds, or if he had been told that funds for

the

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the upkeep of Hungarian diplomatic needs would be released in sufficient amount should the general funds be blocked, Hungary would not have withdrawn the funds.

The Minister evidently feels that the freezing of Hungarian funds was definitely a political act, and that such action regarding Hungary was meant to be an example to the Yugoslavs.

TRAVERS.

EA:LWW

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TREASURY DEPARTMENT

FOR RELEASE, MORNING NEWSPAPERS,
Friday, March 28, 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 2, 1941, and will mature July 2, 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, March 31, 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

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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 2, 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

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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.

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For Miss Chauncey

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 28, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£69,000
Purchased from commercial concerns	£17,000

Open market sterling held steady at 4.03-1/2. Transactions of the reporting banks were as follows:

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

The Cuban peso touched a new current high of 3-5/16% discount this morning. During the afternoon, however, it developed a weaker tendency and the closing rate was 3-7/8%.

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

Canadian dollar	15-1/8% discount
Swiss franc (commercial)	.2322
Swedish krona	.2384-1/2
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2318
Brazilian milreis (free)	.0505
Mexican peso	.2066

In Shanghai, the yuan in terms of our currency was quoted at 5-11/32¢, up 1/16¢. Sterling was 1/2¢ higher at 3.93.

We sold $1,000,000 in gold to the Central Bank of the Uruguayan Republic, which was added to its earmarked account.

No new gold engagements were reported.

In London, the spot and forward silver prices were unchanged at 23-1/2d and 23-7/16d, respectively. The U. S. equivalents were 42.67¢ and 42.56¢.

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

We made no purchases of silver today.

H. M. J.

March 28, 1941

CONFIDENTIAL

Dear Mr. Knoke:

Permit me to acknowledge, on behalf of the Secretary, the receipt of your letter of March 27, 1941, with which you enclosed your compilation for the week ended March 19, 1941, showing dollar disbursements out of the British Empire and French accounts at the Federal Reserve Bank of New York and the means by which these expenditures were financed.

Faithfully yours,

(Signed) H. Merle Cochran

H. Merle Cochran
Technical Assistant to the Secretary

L. W. Knoke, Esquire,
Vice President,
Federal Reserve Bank of New York,
New York, New York.

HMC:lap-3/28/41

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FEDERAL RESERVE BANK
OF NEW YORK

March 27, 1941.

CONFIDENTIAL

Dear Mr. Secretary: Attention: Mr. H. Merle Cochran

I am enclosing herewith our compilation for the week ended March 19, 1941, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which these expenditures were financed.

Faithfully yours,

L. W. Knoke,
Vice President.

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

Enclosure

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ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Week Ended March 19, 1941. Strictly Confidential

PERIOD	BANK OF ENGLAND (BRITISH GOVERNMENT) DEBITS: Total Debits	Gov't Expenditures (a)	Other Debits	CREDITS: Total Credits	Proceeds of Sales of Gold	Securities (Official) (b)	Other Credits (c)	Net Incr. (+) or Decr. (-) in Balance	BANK OF FRANCE DEBITS: Total Debits	Gov't Expenditures (d)	Other Debits	CREDITS: Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance
1939															
Aug. 31 - Sept. 27	94.3	3.6	90.7	207.8	185.4	-	22.4	+113.5	19.4	6.0	13.4	11.3	-	11.3	- 8.1
Sept. 28 - Nov. 1	106.7	5.8	100.9	142.0	3.2	-	138.8	+ 35.3	88.6	61.8	105.4	76.2	35.0	41.2	- 12.4
Nov. 2 - 29	191.7	8.9	182.8	105.8	57.8	-	48.0	- 85.9	78.6			82.9	55.1	27.8	+ 4.2
Nov. 30 - Jan. 3	97.7	8.7	89.0	75.2	50.6	-	24.6	- 22.5	86.8	28.1	58.7	109.2	93.9	15.3	+ 22.4
1940															
Jan. 4 - 31	54.8	16.8	38.0	43.4	20.6	-	22.8	- 11.4	61.5	31.5	30.0	55.9	50.1	5.8	- 5.6
Feb. 1 - 28	124.2	15.4	108.8	108.3	56.7	-	51.6	- 15.9	72.7	32.8	39.9	71.5	54.8	16.7	- 1.2
Feb. 29 - Apr. 3	115.5	14.5	101.0	94.0	60.9	14.0	19.1	- 21.5	99.6	35.9	63.7	105.0	75.4	29.6	+ 5.4
Apr. 4 - May 1	113.4	26.1	87.3	86.4	46.8	20.0	19.6	- 27.0	84.8	29.4	55.4	78.7	60.7	18.0	- 6.1
May 2 - 29	100.9	23.6	77.3	126.2	93.2	12.0	21.0	+ 25.3	101.4	57.0	44.4	145.4	126.2	19.2	+ 44.0
May 30 - July 3	293.2	145.3	137.9	319.3	301.3	3.0	15.0	+ 36.1	156.7(e)	127.3(e)	29.4	348.1(e)	335.6	5.5(e)	+186.4
July 5 - 31	249.7	156.7	93.0	225.0	212.2	2.0	10.8	- 24.7	7.3	6.3	1.0	3.2	3.0	0.2	- 4.1
Aug. 1 - 28	261.1	180.2	80.9	294.8	267.4	1.0	26.4	+ 33.7	8.9	0.5	8.4	10.9	10.4	0.5	+ 2.0
First year of war	1,798.2	605.6	1,167.6	1,828.2	1,256.1	52.0	420.1	+ 35.0	866.3	416.6	449.7	1085.3	900.2	185.1	+218.0
Aug. 29 - Oct. 2	316.8	244.5	72.5	308.9	271.5	6.0	31.4	- 7.9	8.6	4.4	4.2	1.3	-	1.3	- 7.3
Oct. 3 - 30	196.7	167.8	28.9	198.5	160.5	6.0	32.0	+ 1.8	0.5	0.3	0.2	0.5	-	0.5	-
Oct. 31 - Nov. 27	241.0	201.1	39.9	259.5	210.0	18.0	31.5	+ 18.5	0.8	0.1	0.7	0.7	-	0.7	- 0.1
Nov. 28 - Dec. 31	234.6	206.8	27.8	198.0	111.4	26.0	60.6	- 35.6	2.1	-	2.1	0.6	-	0.6	- 1.5
War period through Dec.	2,788.3	1,425.8	1,356.7	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.5	421.4	456.9	1088.4	900.2	198.2	+220.1
Jan. 2 - 29	197.4	163.7	34.7	259.9	176.2	52.0	31.7	+ 62.5	1.7	-	1.7	0.5	-	0.5	- 1.2
Jan. 30 - Feb. 26	164.6	137.8	26.8	101.4	26.6	26.0	48.8	- 63.2	0.2	-	0.2	0.2	-	0.2	-
Feb. 27 - Apr. 2															
Week Ended:															
Feb. 26	40.0	27.0	13.0	44.5	26.6	4.0	13.9	+ 4.5	-	-	-	-	-	-	-
March 5	56.7	49.0	7.7	50.1	24.8	19.0	6.3	- 6.6	-	-	-	-	-	-	-
12	44.6	41.6	3.0	95.4	76.8	12.0	6.6	+50.8	0.1	-	0.1	0.3	-	0.3	+0.2
19	45.5	37.1	8.4	32.3	-	14.0	18.3(f)	-13.2	-	-	-	-	-	-	-

Average Weekly Expenditures Since Outbreak of War

France (through June 19) $19.6 million

England (through June 19) 27.6 million

England (since June 19) 54.6 million

Transfers from British Purchasing Commission to Bank of Canada for French Account

Week ended March 19 $ 6.0 million

Cumulation from July 6 $150.9 million

(See footnotes on reverse side)

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(a) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control, and Ministry of Shipping.

(b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, which apparently represent the proceeds of official British sales of American securities, including those effected through direct negotiation. In addition to the official selling, substantial liquidation of securities for private British account occurred, particularly during the early months of the war, although the receipt of the proceeds at this Bank cannot be identified with any accuracy. According to data supplied by the British Treasury and released by Secretary Morgenthau, total official and private British liquidation of our securities through December 1940 amounted to $334 million.

(c) Includes about $85 million received during October from the accounts of British authorized banks with New York banks, presumably reflecting the requisitioning of private dollar balances. Other large transfers from such accounts during more recent months apparently represent the acquisition of proceeds of exports from the sterling area and other currently accruing dollar receipts.

(d) Includes payments for account of French Air Commission and French Purchasing Commission.

(e) Adjusted to eliminate the effect of $20 million paid out on June 26 and returned the following day.

(f) Includes about $10.5 million transferred from accounts of British authorized banks with New York banks.

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ANALYSIS OF CANADIAN AND AUSTRALIAN ACCOUNTS
(In Millions of Dollars)

Week Ended March 19, 1941. Confidential

PERIOD	BANK OF CANADA DEBITS Total Debits	Transfers to Official British A/C	Other Debits	CREDITS Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C For Own A/C	For French A/C	Other Credits	Net Incr. (+) or Decr. (-) in Balance	COMMONWEALTH BANK OF AUSTRALIA DEBITS Total Debits	Transfers to Official British A/C	Other Debits	CREDITS Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance
1939										-	-	-	-	-	-	-
Aug. 31 - Sept. 27	17.5	0.6	16.9	21.8	15.1	0.8	-	5.9	+ 4.3	-	-	-	-	-	-	-
Sept. 28 - Nov. 1	9.6	0.3	9.3	16.7	7.3	2.1	-	7.3	+ 7.1	-	-	-	-	-	-	-
Nov. 2 - 29	9.9	0.7	9.2	14.4	13.3	-	-	1.1	+ 4.5	-	-	-	1.9	1.9	-	+ 1.9
Nov. 30 - Jan. 3	30.0	-	30.0	22.8	13.3	3.0	-	6.5	- 7.2	2.5	-	2.5	5.8	5.8	-	+ 3.3
1940																
Jan. 4 - 31	23.5	-	23.5	25.7	21.1	-	-	4.6	+ 2.2	5.2	0.3	4.9	3.5	3.0	0.5	- 1.9
Feb. 1 - 28	23.1	-	23.1	17.0	16.1	-	-	0.9	- 6.1	3.3	0.1	3.2	2.4	2.2	0.2	- 0.9
Feb. 29 - Apr. 3	42.3	-	42.3	29.5	29.3	-	-	0.2	- 12.8	3.0	0.3	2.7	2.2	1.6	0.6	- 0.8
Apr. 4 - May 1	38.2	-	23.2	42.9	24.8	15.0	-	3.1	+ 4.7	2.3	-	2.3	2.0	1.8	0.2	- 0.3
May 2 - 29	37.9	15.0	37.9	50.2	50.0	-	-	0.2	+ 12.3	1.2	0.2	1.0	2.6	1.7	0.9	+ 1.4
May 30 - July 3	44.1	-	44.1	72.5	72.2	-	-	0.3	+ 28.4	2.3	-	2.3	5.9	4.4	1.5	+ 3.6
July 4 - 31	28.2	-	28.2	117.6	96.3	-	19.2	2.1	+ 89.4	4.6	-	4.6	5.0	4.2	0.8	+ 0.4
Aug. 1 - 28	18.7	-	18.7	73.6	53.9	-	19.5	0.2	+ 54.9	6.8	3.0	3.8	5.0	3.4	1.6	- 1.8
First year of war	325.0	16.6	306.4	504.7	412.7	20.9	38.7	32.4	+181.7	31.2	3.9	27.3	36.1	30.0	6.1	+ 4.9
Aug. 29 - Oct. 2	44.3	-	44.3	43.9	16.4	-	27.3	0.2	- 0.4	8.7	2.5	6.2	8.0	5.7	1.3	- 0.7
Oct. 3 - 30	26.7	-	26.7	28.6	14.0	-	14.3	0.3	+ 1.9	10.1	7.5	2.6	7.9	6.5	1.4	- 2.2
Oct. 31 - Nov. 27	35.3	-	35.3	69.6	49.2	-	16.7	3.7	+ 34.4	3.1	0.6	2.5	3.6	2.1	1.5	+ 0.5
Nov. 28 - Dec. 31	48.0	-	48.0	60.6	42.5	-	13.7	4.4	+ 12.6	4.8	-	4.8	6.8	4.8	2.0	+ 2.0
War period through Dec.	477.2	16.6	460.6	707.4	534.8	20.9	110.7	41.0	+230.2	57.9	14.5	43.4	62.4	50.1	12.3	+ 4.5
Jan. 2 - 29	33.7	-	33.7	33.9	16.9	-	15.0	2.0	+ 0.2	4.8	-	4.8	6.8	5.1	1.7	+ 2.0
Jan. 30 - Feb. 26	31.1	-	31.1	24.3	14.3	-	6.8	3.2	- 6.8	5.0	1.7	3.3	3.2	0.6	2.6	- 1.8
Feb. 27 - Apr. 2																
WEEK ENDED:																
Feb. 26	7.9	-	7.9	3.0	2.6	-	-	0.4	- 4.9	1.2	-	1.2	0.2	-	0.2	- 1.0
March 5	13.6	-	13.6	7.7	4.3	-	2.3	1.1	- 5.9	1.8	0.8	1.0	6.6	6.4	0.2	+ 4.8
12	8.5	-	8.5	14.4	2.6	-	10.1	1.7	+ 5.9	2.0	-	2.0	0.6	0.2	0.4	- 1.4
19	8.2	-	8.2	15.7	9.2	-	6.0	0.5	+ 7.5	0.6	-	0.6	0.1	-	0.1	- 0.5

Weekly Average of Total Debits Since Outbreak of War
Through March 19 $ 7.1 million

Regraded Uclassified

LS

PLAIN

LONDON

Dated March 28, 1941

Rec'd 1:50 p.m.

Secretary of State,

Washington.

1225, Twenty-eight.

FOR TREASURY.

Since the first press reaction on the Viscose deal reported in the Embassy's 1052 of March 18, numerous further comments have appeared along the same lines, some of which however are less philosophical in tone. There is no doubt that the city is finding it difficult to resign itself to the prospect of the sale of bulk of British direct investments in the United States which are regarded as of key importance in Britain's trade position. In two cases press commentators have noted that the Viscose sale doubtless played an important part politically as a gesture at a psychological moment when the appropriation bill for $7,000 million was under debate. For example, in the EVENING STANDARD of March 27, the Londoner's Diary included a chatty reference to Sir Edward Peacock's activities stating that he disappeared on arrival in New York and that when Congress was being asked to approve the appropriation the question went around "Where is Peacock?

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Peacock? Why should we foot the bill if England won't spend her dollars?" The diarist goes on to say that the Lease Lend Bill was signed, the Viscose deal was announced and two days later the appropriation was passed.

The WEEKLY TIME AND TIDE finance editor makes the following comment in the issue of March 29: "A gesture was wanted and something had to be done quickly ... the price obtained may not have been the right price and there seems no adequate reason for the ten percent profit to be made by the American interests who are to re-sell the shares to the American public ... I hope Americans will realize that all aid to Britain is only being given at a price and it is a price which will do America no good in the long run. It will accentuate the dollar famine later on. A s the New York HERALD TRIBUNE said, in commenting on the Viscose deal 'surely it is more than a little short-sighted to destroy Britain's economic health while giving all-out support to her battle for democracy.' That sentiment is welcome but we may not express it over here. President Roosevelt may be willing to 'abolish the pound and dollar sign' in the Anglo-American war bill but it looks as if Wall Street is out to abolish the pound as the price of American help."

The FINANCIAL NEWS seized upon the publication of

Mr. Harold

Regraded Uclassified

Mr. Harold Smith's figures which it analyzed in an editorial entitled "Bang goes Viscose" and concluded that if Canada has available dollar assets it would be highly desirable that the transfer from the remainder of the Empire should take the form not of gold but of a temporary hypothecation of United Kingdom direct investments which could thus be retained within the Empire for possible post-war re-purchase. Canada's gold reserve as well as Dutch gold in the United States were also mentioned in this editorial as assets which it would be more desirable to liquidate than Britain's direct investments.

The subsequent speech by the Canadian Finance Minister has evoked a further editorial in the FINANCIAL NEWS of March 27 referring to Canada's helpful attitude in war finance problems which is concluded as follows: "Owing to the severe depletion of our own exchange resources a point may be reached where it may be necessary to ask Canada not only to accept sterling in payment for our own deficit but actually to supply the Empire with dollars with which to pay the United States. The generous and loyal spirit which permeates Mr. Ilsley's speech gives little doubt that if and when the time comes Canada will gladly make this further sacrifice."

WINANT

CSB

Regraded Uclassified

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WINANT

CSB

Regraded Uclassified

TREASURY DEPARTMENT

WASHINGTON

March 28, 1941.

Dear Mr. Morgenthau:

I have your letter of the eighteenth advising me of my appointment as an Assistant to the Secretary of the Treasury. You have certainly done me a great honor by this appointment. I most certainly did not come to Washington expecting such magnanimous consideration, and I fully realize my lack of qualification, but I promise to do my very best.

With respect to the matter of compensation, I beg to advise that I will try to handle this in such a way that I will not be very expensive to the Treasury, but of course there are certain expenses that I will be put to, principally the expense of going back and forth to South Carolina each weekend. It will be necessary for me to do this in order to give some reasonable supervision to my duties there.

I was in Washington two days last week and then it required the better part of three days to make the trip to Louisville. I came back to Washington Monday morning and have been here since. I am trying as best I can to find my way around and in some measure to fit into the organization and program. It will make me very happy if some day I can have the feeling that maybe I have been of at least a little help to you in the great work which you are doing and the wonderful service that you are rendering the nation and, as a matter of fact, to the entire world.

With my best regards, I am

Sincerely yours,

B. M. Edwards

Honorable Henry Morgenthau, Jr.

Secretary of the Treasury

Copy to Mr. Graves 3/29/41

Regraded Uclassified

March 28, 1941

Mr. Young

Mr. Mullin and Mr. Kaufman

At a meeting in Mr. Foley's office, with Mr. Foley, Mr. O'Connell, Mr. Bernard, Mr. Kades, Mr. Mullin, and Mr. Kaufman, it was decided that the Procurement Division may accept the delegation of the Secretary of War to act as agent of the War Department. In that capacity, the Procurement Division may enter into contracts on a negotiated basis.

Mr. Foley has decided that it will be best to secure further legislation which will suspend the operation of Section 3709 of the Revised Statutes in regard to contracts entered into under the Lend-Lease program and allow those contracts to be made on a negotiated basis. It is understood that steps will immediately be taken to secure the necessary legislation.

FAK:aja

Regraded Uclassified

TREASURY

8523
314

EH

GRAY

Madrid

Dated March 28, 1941

Rec'd 5:46 p.m.

Secretary of State,

Washington.

252, March 28, 7 p.m.

My 100, February 9, noon.

Have now been informed by a reliable source that the Spanish Government has received and is studying a proposal submitted by the Argentine Ambassador under which Argentina would grant a ten year credit of approximately 160,000,000 Argentine pesos to cover the purchase of wheat, corn, cotton, linseed, meats, hides and other Argentine products which apparently would eventually be compensated, at least in part, by supplies of specified Spanish products; that no definite decision will be reached on this proposal until after the Easter holiday. As soon as official confirmation and further details can be obtained, the Department will be informed by cable.

WEDDELL

EMB

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EH

GRAY

Shanghai via N. R.

Dated March 28, 1941

Rec'd 5:25 p.m.

Secretary of State,

Washington.

359, March 28, 6 p.m.

Reference my 355, March 28.

Chinese financial circles, concerned over rising value of military scrip, express satisfaction over the statement of the Japanese military authorities warning against speculation in scrip. These circles interpret statement to mean Japanese authorities do not desire an artificially high value of scrip, wishing to avoid; firstly, resulting high prices of Japanese imported goods and Chinese export goods in F.A.P.I. in Central China; secondly, the bad psychological reaction should scrip fall sharply from unduly high speculative values.

INFORM COMMERCE.

Sent to the Department. Repeated to Chungking, Peiping. Code text by air mail to Tokyo.

LOCKHART

EMB

Copy:bj

Regraded Uclassified

RESTRICTED

G-2/2657-220
No. 351

M.I.D., W.D.
March 28, 1941
12:00 M.

SITUATION REPORT

I. Western Theater of War.

Air: German. Minor activity over England where weather was unfavorable. Further attacks on shipping reported.

British. Apparently normal operations with main effort on Cologne and Dusseldorf. Dunkirk, Calais and Brest also were raided.

II. Balkan Theater of War.

Ground: Bulgaria. It is probable that German troops are being moved to the Yugoslav border.

Yugoslavia. According to press reports Yugoslavia has proclaimed her full independence. Although understood to have been demanded by Germany, a definite statement by the new Government as to its attitude towards the Tri-power Pact has not yet been issued. Full mobilization is reported in progress.

Albania. Artillery activity reported.

Air: No reports of activity.

III. Mediterranean and African Theaters of War.

Ground: Eritrea. Cheren was occupied by the British March 27. The way is now open to the capital, Asmara, 45 miles to the southeast, and to the last and largest port in the territory, Massawa. The Italians have made a stout fight at Cheren since about the 4th of February.

Abyssinia (Ethiopia). Harrar, second largest city in Ethiopia and only about 25 miles from the Addis Ababa railroad, has been captured by the British. Gambela in west central Ethiopia has fallen to British forces.

Libya. Axis mechanized units which occupied El Agheila on March 24 are reported to have advanced 18 miles to the east and then turned southeast. An Axis mechanized column is reported to be operating in the vicinity of Brach which is about 375 miles southeast of Tripoli. Note, G-2: This latter

Regraded Uclassified

movement may be directed at Free French forces which were reported to have captured Murzuch and El Gatrun, south of Brach, the latter part of January.

Air: British. No reports available but normal supporting operations in East Africa are assumed.

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.

Regraded Uclassified

Paraphrase of Code Radiogram
Received at the War Department
at 15:12, March 28, 1941.

Belgrade, filed March 28, 1941.

"In gratitude for having lived a day like this, I shall be glad to die tomorrow," is the way Yugoslav Army officers say they feel today. The coup d'etat of the army has been perfectly executed. The planning as well as the execution are largely due to the younger officers. The state of affairs here has been completely altered. The new minister of war, Mr. Bogoljubilic, is a first class soldier with plenty of vigor. General Simovich has all the qualities of natural leadership, and has a strongly pro-American attitude. Pavlich and Kocich have been arrested.

FORTIER

Distribution:
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps

Regraded Uclassified

Paraphrase of Code Radiogram
Received at the War Department
at 22:02, March 28, 1941.

Sofia, filed 12:20, March 28, 1941.

The Bulgars have 300 bombers and fighters in the air force but not many of these are up to date. There are also 300 training planes. This makes a 600 total. Mobilization at present totals 400,000 to 500,000 troops. The Bulgars are receiving German encouragement to carry out more extensive mobilization and are acting on it. There is new reason to believe that the Germans are moving troops to the western boundary. There is a shortage of food here. German demands and extravagances have forced prices to rise.

JAEWIN

Distribution:
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps

Regraded Uclassified

CONFIDENTIAL

Paraphrase of Code Telegram
Received at the War Department
at 9:05, March 28, 1941.

London, filed March 28, 1941.

SECRET

1. British Estimate of the Present Strength and Disposition of the German Air Force in Middle Eastern Theatre.

	All Theatre	Rhodes	Italy	Sicily	Tripoli
All types	494	20	20	250	204
Bomber-Reconnaissance	80	--	--	10	10
Dive Bombers	200	--	--	80	120
Army Cooperation	12	--	--	--	12
Long Range Bombers	170	20	20	80	50
Fighters	32	--	--	80	12

2. Other changes in the distribution of the German Air Force are as follows: to the 80 German dive bombers stationed in Bulgaria have recently been added 40 additional dive bombers that were transferred from Rumania (all based in the southeastern part of Bulgaria); in order to provide fighter plane escorts for Italian convoys moving to Tripoli from Sicily, all German heavy fighter planes that were operationally serviceable in North Africa have been transferred to Sicily.

SECRET

Distribution:
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps
G-2

CONFIDENTIAL

Regraded Uclassified

[illegible] of Code Telegram
Received at the War Department
at 9:45, March 28, 1941.

London, filed March 28, 1941.

1. British Air Activity over the Continent.

a. Daylight of March 27. Axis merchant vessels along the coasts of France, Belgium, and Holland and in the vicinity of the Channel Islands were targets of British bombers. Observation of complete results was impossible in spite of the fact that targets were clearly visible. It is known, however, that a 6,000-ton cargo boat off the Dutch coast at Ijmuiden and another small merchant boat off the Channel Islands were sunk.

b. Night of March 26-27. British planes dropped propaganda pamphlets on Ostend and Flushing. No other British planes were active during this night.

2. German Air Activity over Britain.

a. Night of March 27-28. During this night no German planes were plotted over England.

b. Day of March 27. Lone German planes attacked targets in Norfolk, Suffolk, Bournemouth, Devon, the Thames Estuary, South Wales, Kent and Portsmouth. A total of 120 German planes maintained defensive patrols along the coast of Belgium, the Dover Straits and off the French coast at Brest. Two offensive sweeps were made by German fighter planes over Kent. Thirty German planes were engaged in reconnaissance on British merchant shipping in the Bristol Channel, the Thames Estuary and the English Channel.

3. Aircraft Losses.

a. British - no reports.

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b. German, day of March 27 - none shot down, but one Messerschmidt 110 was damaged by British fighter planes.

4. Royal Air Force Activities in Middle Eastern Theatre.

In Albania planes of the Royal Air Force supported Greek land forces. In Ethiopia British planes supported land troops in the capture of Harar. In Eritrea British planes assisted in bringing about the fall of Keren.

5. The Deputy Chief of the Imperial General Staff is very much encouraged by the overthrow of the Axis-inclined Yugoslav government. The Yugoslav army, according to most recent authoritative estimates, is well organized and is now composed of about 900,000 officers and men. It is thought that at least 14 days will be required for the Germans to realize their forces in Bulgaria if a large scale offensive is to be made on Yugoslavia. The most pressing need of the Yugoslav government is for arms for its civilian volunteers as well as for its regular army.

6. The new organization of the Yugoslav government is as follows: The Prime Minister is General Simkovitch, commanding officer of the Yugoslav Air Force, who is believed to have the support of both the civilian population and the army and who is considered to be a well qualified military man by the British War Office. The Military Governor of Belgrade is General Stefanovic. The Minister of War is General Ilich.

7. Naval and Shipping.

On March 26 a force of German bombers carried out an attack on a British merchant convoy southeast of the Island of Crete which resulted in the sinking of three small cargo boats. On the same day a British naval

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tanker and the 8,[illegible]-ton British cruiser [illegible] in Suda Bay on Crete suffered some damage from torpedoes.

[illegible]

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

Regraded Uclassified

For Miss Chauncey

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 29, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£ 9,000
Purchased from commercial concerns	£21,000

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

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

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

Canadian dollar	15-1/8% discount
Swiss franc (commercial)	.2322-1/2
Swedish krona	.2384-1/2
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2320
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	3-13/16% discount

In Shanghai, the yuan was unchanged at 5-11/32¢. Sterling was also unchanged at 3.93.

We purchased $350,000 in gold from the earmarked account of the Central Bank of Chile.

No new gold engagements were reported.

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Delivered to Treas. by Mr. Nicholson

Shanghai

March 29, 1941.

Information received from French Intelligence Hongkong to effect that consul for Salvador in Tokyo in 1936 received Yen 100,000 for Japanese propaganda work in Salvador and other Central American countries and that this consul is still in Japan and has dispensed additional Japanese sums for same purposes.

TO THE SECRETARY
TECHNICAL SECTION
OFFICE OF THE
MAY 1 1941 S 23
RECEIVED

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CONFIDENTIAL

CONFIDENTIAL

PARAPHRASE

A telegram (no. 362) of March 29, 1941 from the American Consul General at Shanghai reads substantially as follows:

The action taken by the Japanese concerning speculation in military scrip is considered by Chinese bankers in Shanghai as indicating that paradoxically the Japanese do not wish to bring on sharp depreciation of the F.A.P.I. immediately in central China and that the value of the F.A.P.I. in their economic aims is recognized by Japanese. The development is therefore looked upon by the Chinese as advantageous to Chinese currency. Some of the Chinese are of the opinion that this action practically assures that the Chinese Government's banks at Shanghai will for the time being at least continue to function. While admonishing speculators, the statement made by the Japanese attributes public spiritedness or unselfishness to the Chinese for their showing of confidence in the military yen. Nevertheless, it must have been fully realized when the statement was prepared, that the fact that the scrip had gradually increased in value since last summer evidenced Chinese hedging on the chance that finally F.A.P.I. would be eliminated

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CONFIDENTIAL

eliminated from Shanghai and in general from central China. It must have been realized also that the sharp advance during the past few days in the value of the scrip resulted from panic--the public being fearful lest Chinese Government banks would be (?) and exchange support for F.A.P.I. taken away from Shanghai following the terrorism which occurred between March 21 and 24. There are indications that on March 31 the Farmers Bank of China and the Central Bank of China will reopen. These banks have been closed since the March 24 bombings.

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Copy for Mrs. Klotz

March 29, 1941

MEMORANDUM

To: Mr. Lauchlin Currie

From: Mr. Philip Young

I am sending you 200 copies of Form 1, together with 400 copies of the continuation sheet for Form 1 which is used for additional information purposes.

I am also sending a few copies of Form 2 (PMR) which is used only for lend-lease countries which wish to place orders in the United States and pay for them with their own money. The purpose of Form 2 is to control the allocation of production capacity, and, until this form is approved, the foreign purchaser is not at liberty to sign a contract.

Form 1 is used both for requisitions which are paid for from United States appropriations and for requisitions where there is a direct cash reimbursement to the United States Treasury. (See Item 1.)

Ten copies of each Form 1 are filled out by the British, signed and transmitted to my office for recording, classification, and routing to the Departments of the United States Government which will be interested in the particular items listed and which may release the items from surplus stocks, divert them from current orders, or place new orders for production. My office represents the control point where individual case histories with respect to the handling of these items will be built up and become a part of the permanent lend-lease record.

These forms have been designed to fit all countries and all types of purchases, and it would seem to me desirable that a single form be used for all countries operating under the lend-lease act if it is possible to do so. If you wish any additional information or explanation with respect to this procedure, please do not hesitate to call on me.

(Initialed) P.Y.

PY:bj

Regraded Uclassified

Copy for the Secretary

March 29, 1941

MEMORANDUM

To: General J. N. Burns

From: Philip Young

Re: Operations of the Supply Division of the Office of Lend-Lease Control.

As you are already aware, my office has had drawn up and printed a Form 1 entitled "Requisition for Defense Articles (Under the Act of March 11, 1941)", and Form 2 entitled "Purchase Negotiation Report (Request for Clearance on Direct Purchase)". These forms have been examined and approved informally by representatives of the Treasury, Bureau of the Budget, War Department, Navy Department, Office of Production Management, and the British Supply Council in North America.

Copies of the forms have been distributed to the British purchasing missions, and it is expected that they will start to flow to the United States Government beginning today, March 29th. The procedure as it has been currently established is as follows: all copies of Form 1 will be filled out by the interested British purchasing missions, signed by duly authorized representatives of the British Government, and filed with my office for distribution to the agency of the United States Government which is involved. These forms may be routed to more than one agency if the particular item or items overlap.

After these requisitions are processed through the various departments, copies of the basic memoranda and directives issued within the department will be sent to the Supply Division for filing and control purposes. Each Form 1 forms the basic document for a case history of a particular item which is gradually built up after the requisition is filled out and presumably closed at the point where the actual goods are turned over and receipted for by an authorized representative of the British Government.

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Form 1 will be used both for orders placed by the U. S. Government and paid for from U. S. appropriations, and for orders placed by the U. S. Government which will be covered by direct cash reimbursement to the Treasury.

Form 2 will be used for direct purchase requisitions and will be routed by my office to CMP which, before approving or disapproving an allocation of production capacity, will coordinate with the War and Navy Departments. Form 2 is the counterpart of the present Preliminary Negotiation Report (PNR) and is used only in those instances where a country in the lend-lease area wishes to place an order for goods and pay for them itself. A filing and classification system, card control system, and follow-up system have been established and are ready to operate.

In addition to the foregoing, the Supply Division has been working closely with representatives of the Budget and the Treasury on accounting records and reports as well as with the Statistical Division in establishing the types of statistical controls and summaries that will be necessary.

Beginning next Monday my office will have seven persons designated to handle Forms 1 and 2 together with the files and controls. Arrangements have been made for assistance on this project from the Army, the Navy, and the Procurement Division of the Treasury. The British have been asked to designate those persons officially authorized to sign requisitions on behalf of His Majesty's Government. Formal notification of such designees will be furnished to the U. S. Government. Similarly, the British are investigating a method whereby representatives of the British Government will be designated at certain shipping points to receive and receipt for goods transferred by the U. S. Government.

(Initialed) P.T.

PT:bj

Regraded Uclassified

OFFICIAL COMMUNICATIONS TO THE SECRETARY OF STATE WASHINGTON, D. C.

DEPARTMENT OF STATE
WASHINGTON

reply refer to

March 20, 1941

My dear Mr. Secretary:

I have received your letter of March 20, 1941, referring to your letter to the President dated March 12, 1941, in which you recommended that all foreign countries outside the lend-lease area desiring to purchase military supplies in this country submit their needs to the Secretary of State.

In this connection, and in accordance with your understanding that Mr. Philip Young, the Treasury member of the President's Liaison Committee, has discussed this problem with Mr. Acheson, Assistant Secretary of State, in order that the transition with respect to both new and pending purchases by the foreign countries concerned may be consummated with as little difficulty as possible, you state that you have instructed Mr. Young to accept no new business from such countries beginning March 20.

The

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.

Regraded Uclassified

The Department of State is prepared to assume responsibility for dealing with this problem. May I request, therefore, that all files, records, papers, and other materials now in the possession of your Department and concerning the purchase of military supplies by foreign countries outside the lend-lease area be transferred to this Department on or before March 31, 1941? It is my understanding that the countries outside the lend-lease area include all those except Poland, Iceland, Greenland, the Netherlands, Greece, China, the British Empire, and Norway which, according to your information, are interpreted as being within the lend-lease area and under the supervision of Mr. Harry Hopkins.

Your kind offer of assistance by the members of your office experienced in foreign purchasing operations is greatly appreciated.

Sincerely yours,

Acting Secretary

Regraded Uclassified

Mr. Young has copy - 3/31/41

333 V

THE SECRETARY OF THE NAVY
WASHINGTON

March 29, 1941

MEMORANDUM FOR

SECRETARY OF THE TREASURY

For your information, I quote the following message which I received from the President today:

"Authorized cancellation previous allocation 30 Gruman planes to British and transfer these planes to Greece."

Frank Knox

Regraded Uclassified

TREASURY DEPARTMENT

WASHINGTON

March 29, 1941

In order that the defense financing program may be conducted with the greatest facility, it seems to me essential that the Treasury be provided with frequent detailed statistical information on the ownership, by classes of investors, of every outstanding security issued or guaranteed by the United States Government. I am writing you at this time, therefore, to ask if you would be kind enough to submit to me for my confidential use the data provided for on the attached schedule.

These data cannot be obtained from the present records of the Treasury Department because the securities covered have been issued, as you know, principally in coupon form. When combined with data secured from other investors they will give us a comprehensive picture of the ownership of the securities issued or guaranteed by the Federal Government.

The attached schedule, you will note, provides for the par amount of each security issued or guaranteed by the Federal Government owned by your institution on March 31, 1941, and the total par value of all such securities owned. Savings bonds should be included at their face (maturity) value.

Please forward the attached schedule in the enclosed envelope, which requires no postage, to Mr. George C. Haas, Director of Research and Statistics, Treasury Department, Washington, D. C., whom I have asked to arrange to obtain from you such subsequent figures as are necessary to bring the information up to date each month. I shall appreciate it if you will send your reply as soon as possible.

May I take this opportunity to thank you in advance for your cooperation.

Sincerely,

H Morgenthau Jr.

Enclosure

Regraded Uclassified

Name _____

Address _____ March 31, 1941

Issue	Amount (par value)	Code
Bills		
Maturing in:		
April 1941		01
May 1941		02
June 1941		03
Notes		
1-3/8% June 41		04
1-1/4 Dec. 41		05
1-3/4 Mar. 42		06
2 Sept. 42		07
1-3/4 Dec. 42		08
3/4 Mar. 43		09
1-1/8 June 43		10
1 Sept. 43		11
1-1/8 Dec. 43		12
1 Mar. 44		13
3/4 June 44		14
1 Sept. 44		15
3/4 Sept. 44		16
3/4 Mar. 45		17
3/4 Dec. 45		18

Issue	Amount (par value)	Code
Bonds		
3-1/4% - 41		19
3-3/8 - 43-47		20
3-1/4 - 43-45		21
3-1/4 - 44-46		22
4 - 44-54		23
2-3/4 - 45-47		24
2-1/2 - 45		25
3-3/4 - 46-56		26
3 - 46-48		27
3-1/8 - 46-49		28
4-1/4 - 47-52		29
2 - 47		30
2 - Mar. 48-50		31
2-3/4 - 48-51		32
2-1/2 - 48		33
2 - Dec. 48-50		34
3-1/8 - 49-52		35
2-1/2 - 49-53		36
2-1/2 - 50-52		37
2-3/4 - 51-54		38
3 - 51-55		39

Issue	Amount (par value)	Code
Bonds (Cont'd)		
2-1/4% - 51-53		40
2-1/2 - 52-54		41
2 - 53-55		42
2-1/4 - 54-56		43
2-7/8 - 55-60		44
2-3/4 - 56-59		45
2-3/4 - 58-63		46
2-3/4 - 60-65		47
U. S. Savings		48
Postal Savings		49
Panama Canal		50
Conversion		51
Guaranteed		
CCC		
5/8% - 41		52
1 - 41		53
3/4 - 43		54

Issue	Amount (par value)	Code
Guaranteed (Cont'd)		
FFMC		
3% - 42-47		55
2-3/4 - 42-47		56
3-1/4 - 44-64		57
3 - 44-49		58
HOLC		
5/8% - 41		59
2-1/4 - 42-44		60
3 - 44-52		61
1-1/2 - 45-47		62
RFC		
7/8% - July 41		63
7/8 - Nov. 41		64
7/8 - 42		65
1 - 42		66
USHA		
1/4% - 41		67
1-3/8 - 44		68
Total Par Value		

Instructions: Enter for each security listed above and for the total the par amount in your own portfolio on March 31, 1941. Include savings bonds at their face (maturity) value. If transactions are in process on March 31, show only the amount of those securities for which delivery has been taken at the close of business on that date. Include, however, any beneficial holdings of the new issue of 1952-54 irrespective of whether physical delivery has actually been taken.

Regraded Uclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 29, 1941

TO Secretary Morgenthau

FROM Herbert Merillat

TAX OPINION BEGINS TO TAKE SHAPE

Who Should Be Taxed for Defense?

Comment by the press and by public figures is agreed on three generalities:

the need and inevitability of greatly increased taxes;

the wisdom of paying-as-we-go in the defense program as much as possible;

the readiness of taxpayers to accept greater burdens in the interests of defense.

But disagreement on the method of raising new revenue is brought out by comments on three recent events; the President's speech of March 15th, calling for sacrifices from all, Senator Taft's talk on March 10th, and the publication of rumors that a 5 per cent wage tax is being considered in Washington. It is the old disagreement between those who would tax the workers but spare business, and those who would tax business but spare the workers.

Senator Taft, for example, said that if government spending annually amounts to 25 per cent of the national income, a like amount should be raised annually by taxation. Only 5 or 10 per cent of the national income could be obtained from the wealthy, he asserted, and

Regraded Uclassified

therefore the remaining 15 or 20 per cent must come from the rest of the people. "This means more income taxes, sales taxes, and payroll taxes."

About March 15, moreover, newspapers began to carry reports of a plan, suggested by "Congressional fiscal experts," to impose a gross income tax of 5 per cent on wages and salaries, to be withheld at source. In general, the press has been noncommittal on this proposal, but regards it as serving notice of heavy tax burdens to come. Some few papers favor the plan and express confidence in the willingness of wage earners to sacrifice. Others point out the inequities of a gross income tax and prefer a broadening of the income tax base.

Taking its cue from the Taft talk and the wage tax proposal, the conservative press has begun to warn the wage earner that he must expect great tax burdens in the interest of national defense. Familiar arguments, such as the following, appear again: Taxes on large incomes and corporations have reached a point of diminishing returns; further increases will destroy the profit motive and result in less, not more, revenue; small and middle incomes must bear the brunt of defense costs, through wider application of the income tax or sales taxes or both. Such was the burden of former Undersecretary Ballantine's address to the Finance Symposium of the New School of Social Research on March 25th. The National Association of Manufacturers and National Economy League urge a general sales tax, and the League

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adds a proposal of a 10 per cent gross income tax. Mr. Alfred Sloan, Jr., suggests increased special taxes on consumer goods. The Wall Street Journal, referring to the President's call for sacrifices, speaks of the shortage of sacrifices now available to any but recipients of comfortable incomes and property-owners, and suggests that farmers and wage earners be privileged to sacrifice.

Calls for drastic reductions in "non-defense" spending come from the same sources. The Journal asks, "Why continue to mouth phrases about social gains?" and others warn that although the public is ready to sacrifice for defense, it will not tolerate wasteful spending.

These proposals and comments form an easily recognized pattern. PM and the Chicago Times assail such talk and regard the Taft speech as the opening gun in a campaign to soak-the-poor.

Speculation on New Taxes

The most frequent prediction is that the Administration will recommend boosting the normal income tax rate to 6 per cent and the corporation income tax rate to 30 per cent, lowering personal exemptions, increasing surtax rates in the middle brackets, and imposing additional excise taxes.

The most ambitious attempt to forecast future Administration tax policy appeared in Business Week. First, it is said, an attempt will be made to prevent profiteering by increases in income and excess

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profits taxes; somewhat later, excises will be laid on various kinds of consumer goods; when full employment and production have been attained, a general rather than selective tax on consumer goods will be imposed.

Isolated reports have appeared to the effect that a gross income tax withheld at source is being considered by the Joint Committee on Internal Revenue Taxation and that some "influential tax experts of the Government" favor reviving the undistributed profits tax in modified form to replace the excess profits tax. The Wall Street Journal and New York Journal of Commerce report that surtaxes on corporations are being considered, to get at income from outstanding United States bonds.

Special Taxes for Aid to Britain

Senator Nye has received scant notice with his announcement that he will call for taxes to raise 3½ billions in each of the next two fiscal years to match the lend-lease appropriation. But his remarks indicate an attempt by isolationists to cool popular enthusiasm for aid to Britain by earmarking burdensome taxes for British aid. The same objective is apparent in Senator Taft's latest call for new taxes amounting to $5,000,000 and Senator Wiley's recommendation that all income above a certain level be taken in taxes.

Defense Bond Program

The Treasury savings bond program has been greeted with almost unanimous approval. Anti-administration papers and columnists are

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as loud as others in their tributes. Even John T. Flynn and Hugh Johnson have given the plan their blessing. The program is praised as having been devised with great skill to appeal to smaller investors and to provide proper safeguards against speculation in the bonds. It is pointed out everywhere that the program will give all sections of the American people a chance to contribute to national defense and will also serve to check inflation.

The financial journals do not regard the terms of the issues as especially attractive, and feel that success of the program must depend upon patriotic fervor rather than the desire for financial gain. A few papers take the occasion to say that heavy taxes, not borrowing, should be relied on to pay for defense. There are also occasional misstatements of fact which can be corrected before May 1st. For example, a few papers and commentators (notably John T. Flynn) persist in saying that the Treasury plans a high-pressure sales campaign rivalling the Liberty Loan drives, in spite of Treasury assurances to the contrary. One or two say that we intend to persuade employers to push the sale of bonds among employes. In the Cleveland area there has been a sudden withdrawal of cash from savings deposits, apparently for hoarding, as the result of a queer rumor that we intend to take a proportion of savings accounts for the forced purchase of bonds. These, however, are minor blemishes upon a picture which is uniformly friendly and favorable.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 29, 1941.

TO Secretary Morgenthau

FROM Alan Barth

LEND-LEASE TAKES HOLD

Revolt

The news of the revolt in Yugoslavia has had an electrifying effect on American thinking. It was hoped for, yet unexpected. Coming, as it did, when the hope for it had been virtually abandoned, it provided a dramatic vindication of the course in foreign policy which the President has set. Editorial commentators have accepted it as proof that there is a contagious quality about moral force.

Other factors than the Lend-Lease Law and the President's promise of aid to the Yugoslavs are acknowledged to have influenced the revolt; the example of the Greeks and the British pledge of assistance are recognized as potent causes. But there appears to be universal satisfaction here that the strength of the United States helped to forge the courage of a threatened people.

In their first enthusiasm over this sudden shift in the Balkans, the editorial writers have permitted themselves hopes -- perhaps unwarranted and naive -- that other victims of the Nazi war machine will also rise against aggression. But more significant than these hopes is the sense of identity, or community, with these

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victims which is now felt here. The common reaction has been that the fear of consequences can no longer deter the American people in implementing the policy on which they have determined.

Definition

As zealously as ecclesiastical scholars searching Holy Writ, the editorial writers have been combing President Roosevelt's most recent radio address for subtle and secret meanings. Their attention during the past week has been centered on one abstract and two concrete implications.

A great many of them called the speech an outright declaration of war. An appalling quantity of newsprint has been consumed in explaining the curious and special nature of our belligerency. Placed end to end the news columns devoted to this academic inquiry would no doubt curl clear around the earth -- winding up precisely where they started. The commentators found themselves confronted with a highly irregular and unconventional state of affairs -- and could not help being slightly peevish at the inconvenience it occasioned them.

Their prevailing opinion appears to be that we are in the war, all right, but that the Germans have not yet been quite bright enough to realize it. A decided majority predict that so improper a situation cannot long continue and that, in time, old-fashioned belligerency in the shooting sense must ensue.

This assumption that we are already in the war plainly colors editorial thinking in regard to the concrete problems raised by our

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anti-Axis program: (1) the problem of delivering aid for Britain in the face of the German blockade; (2) the problem of producing aid for Britain in the face of industrial unrest here.

Convoys

Both news and editorial columns during the past week have been replete with speculation and discussion on methods of sending American materiel across the Atlantic. The news stories on the subject have emanated, for the most part, from "informed sources close to the White House" -- possibly from Steve Vasilakos, the Greek peanut-vender stationed on East Executive Avenue -- or they have been acknowledged "think-pieces." Tribute should be paid to the ingenuity of the authors.

Although these "inside stories" differ widely as to the specific measures to be adopted, they are more or less uniform in predicting that some form of convoying is to be adopted. A considerable percentage of the editorials discussing them also assume that now or later the United States will undertake convoy duty. The wish may be father to the thought in this assumption; but as to the wisdom of the course, most of the editorial writers are curiously non-committal.

Editorials on convoys can be divided roughly into two classes; (1) those which state pontifically that we must see to it that our war materiel reaches the beleaguered British, but that convoys might cause shooting and shooting "comes awfully close to war"; (2) those

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which declare with equal sententiousness that the American people desire to remain at peace and have given the President no mandate for convoys, but that we must build a "bridge of ships" to Britain. Whether they start marching with the left foot or the right, they arrive at the same destination -- that convoying is inevitable. Comment on the subject of sending more of our destroyers overseas follows much the same pattern. The outstanding characteristic of all these editorials is prolixity, apparently a handmaiden of indecision.

Boomerang

The nub of the argument advanced by those opposing aid to Britain has been that it will involve us in the war. The argument has been interpreted so literally by some of the more impressionable commentators that they accept it already as an accomplished fact. But one is entitled to wonder if this thesis of the isolationists has not boomeranged against them.

For there is implicit in current comment the feeling that if this be war, its horrors have been overrated. Moreover, the very sense of inevitability which has been engendered has served to make Americans less fearful of the involvement which may ensue from forceful action. The example of Yugoslavia in particular has made it unlikely that fear will any longer serve as an effective restraint upon American conduct.

The insistence in the American press that we are now, or soon

Regraded Uclassified

will be, at war can scarcely have other than a disquieting effect if it is taken at all seriously by leaders of the Axis. The isolationists, by their overstatements, may have forged a valuable instrument for American diplomacy.

Labor

The applause which interrupted President Roosevelt's speech at the point when he warned against "unnecessary strikes" has been echoed and re-echoed by every conservative editorial page in the country. The newspapers are gleeful in anticipation of a federal crackdown on labor. Indeed, they are already caroling that all strikes are "unnecessary."

Public opinion as reflected in the Gallup Poll and in numerous letters to editors undoubtedly supports this editorial attitude. But public opinion is fashioned by headlines which have been designed to convey the view that all strikes are "unnecessary" and even treasonable. It might be recognized, in addition, that the Federal Government itself is in large measure responsible for the present popular feeling. For the Government awarded defense contracts to employers who had violated federal laws and against whom labor resentment was intense. And it did so without requiring these employers to reform their labor policies. Thus, in the public eye, the practices against which labor is now protesting were given Governmental sanction.

Regraded Unclassified

The public has been fanned into a dangerously inflammatory state respecting organized labor. Nowhere else could a cooling-off period be instituted with more salutary effects.

Regraded Uclassified

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.

DEPARTMENT OF STATE
WASHINGTON

March 29, 1941.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses one copy of paraphrase of telegram No. 81 of March 28 from Helsinki.

Regraded Uclassified

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Helsinki, Finland

DATE: March 28, 1941, 3 p.m.

NO.: 81

The following is confidential:

Information has come to the British Legation in Helsinki that certain Finnish dollar holdings are being converted into Swedish crowns because of the possibility that Finnish funds in the United States may eventually be frozen. However, as to the amounts involved or the owners of the holdings, the British Legation has not been able to secure confirmation. Any information which the Department could let me have as to the amount of such conversions, if in fact there have been any, I would welcome.

SCHOENFELD

EA:LWW

Regraded Uclassified

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.

DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA 848A.5151/39

March 29, 1941.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses 7 copies of paraphrase of telegram No. 30 of March 27, 1941 from the American Consulate General, Capetown, South Africa, with regard to the limitation on the disposal of currency balances held abroad by Americans in South Africa.

Regraded Uclassified

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Capetown, South Africa

DATE: March 27, 1941, 4 p.m.

NO.: 30

The Finance Minister addressed a letter to me on March 26, in which he clarifies the limitation on the disposal of currency balances held abroad by Americans in South Africa. I quote below the pertinent part of the Minister's letter:

> "The undertaking to be furnished by foreign nationals in respect of funds held abroad is merely intended to prevent such funds being used in a manner which would enable other residents in the Union to circumvent the control which is being exercised by the Treasury through the banks over all exchange transactions.
>
> "Cases have come to the knowledge of the Treasury where American nationals have quite innocently placed dollars at the disposal of Union residents by handing them checks on their American bankers in exchange for South African pounds. Whilst such transactions are not necessarily in conflict with the interests of the Union it is essential to make them subject to the approval of an authorized dealer in order to ensure that the persons concerned will not thereby be enabled to acquire foreign currency for unauthorized purposes".

The letter explains further, answering questions I had raised, that as for "personal and domestic expenditures", business transactions by American holders of currency balances abroad would not be excluded where the transaction did not involve the purchase or sale of foreign exchange within the Union, or where securities or other property outside the Union were acquired with those funds by the American resident in South Africa from persons to whom the

emergency

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emergency finance regulations did not apply.

Another paragraph in the letter is as follows:

"The banks will be suitably instructed regarding the intention of the undertaking to be furnished by holders of exempted balances and will gladly assist American nationals with advice in cases of doubt as to whether or not a particular transaction falls within the scope of their undertaking."

I have also been informed orally by the Secretary of the Treasury that Americans in South Africa will not have to give any details as to amount when they declare the currency balances held abroad. However, should they not file a declaration of the possession abroad of certain unspecified currency holdings, any letters which the censor intercepts which mention such possessions may be held up until investigation can be made.

END MESSAGE.

KEENA.

EA:LWW

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COPY

352

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Vichy

DATE: March 29, 1941, 6 p.m.

NO. : 277

Information has come to the Department that at present a general investigation is being carried on by the French authorities of foreign accounts which are blocked in France. The Department requests that you keep it informed about this reported investigation. You are also requested to report any decisions concerning the accounts of American citizens which may be taken by the French authorities.

WELLES (ACTING)

EA:LWW

eh:copy
4-31-41

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RESTRICTED

G-2/2657-220
No. 352

M.I.D., W.D.
March 29, 1941
12:00 M.

SITUATION REPORT

I. Western Theater of War.

Air: No activity over Great Britain or the Continent, presumably because of bad weather.

II. Balkan Theater of War.

Ground: Bulgaria. No change.

Yugoslavia. Armed resistance to Germany seems increasingly probable. The attitude of Croatia seems uncertain.

Albania. Artillery activity reported.

Air: No reports of activity.

III. Mediterranean and African Theaters of War.

Ground: Eritrea. British troops are pursuing the Italian forces withdrawing toward Asmara.

Abyssinia (Ethiopia). The British report favorable development of the situation in all sectors.

Libya. No change.

Air: Axis. Malta was again attacked. The Italians claim successes against British naval and merchant vessels.

British. The R.A.F. raided Lecce, Italy, on the 28th.

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

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CONFIDENTIAL

Paraphrase of Code Radiogram
Received at the War Department
at 13:06, March 29, 1941.

Belgrade, filed March 29, 1941.

1. The army is going ahead with its general mobilization with a view to the defense of Serbia. The feeling in military circles is that so far as Germany is concerned, the die is now definitely cast.

2. Colonel Rudolf Toussaint, the German military attache, has warned the War Ministry that hereafter all members of his staff will go about completely armed. This is because the assistant German military attache suffered injury at the hands of demonstrators on the 27th of March. The German tourist office and the office of the German consulate have been burned. They were completely gutted and their contents were burned.

3. Certain German forces, either in Bulgaria already or else just entering, are having their marching orders altered to swing them towards the Yugoslav frontier. There are no reports of further movements as yet and detailed information is not to be had since there has been no communication with the outside for 24 hours. The Yugoslav General Staff thinks it will be two weeks before the Germans can make an attack on their country.

4. Germans here are clearing out either by train or along the Danube River. Departure en masse is anticipated on the 31st.

5. It is requested that you send acknowledgment both of yesterday's cable and of this one.

FOSTER

Distribution:
Secretary of War;
State Department; Chief of Staff
Secretary of Treasury; War Plans Division
Asst. Sect. of War Office of Naval Intelligence
Air Corps

CONFIDENTIAL

Regraded Uclassified

Paraphrase of Code Cablegram
Received at War Department
10:10, March 29, 1941.

London, filed 15:35, March 29, 1941.

1. British Air Activity over the Continent.

a. Daylight of March 28. Axis merchant shipping off the coast of Holland was unsuccessfully attacked by a small number of British planes.

b. Night of March 27-28. A total of 97 British heavy bombers were active. Of these, 19 were dispatched to Brest, Calais, and Dunkirk, 39 more attacked Duesseldorf, and Cologne was visited by 39 others. The returning pilots maintain that the raids were successful but that observation was difficult.

2. German Air Activity over Britain.

a. Night of March 28-29. No German planes were plotted over England.

b. Daylight of March 29. Six German planes were over England. Merchant shipping off the southeastern tip of England was the target for three of these planes, and three German planes operating singly carried out raids on the Manly airfield and targets in the Estuary of the Thames and at Clacton.

c. Rate unreported. Four British merchant ships off the coast of Wales and Milford Haven were severely damaged during an attack by German planes.

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5. Aircraft losses.

a. British. Night of March 27-28 - three bombers.

b. German. Daylight of March 28 - one confirmed and one other probable.

4. British Air Operations in Middle Eastern Theaters.

Royal Air Force planes were used in support of land troops in Ethiopia and Eritrea. A force of British bombers carried out a raid on the airfield on the Dodecanese island of Calato.

5. It has been reported that defensive lines are being built by the French along the Turko-Syrian border.

6. The Yugoslav Army and civilian population are orderly and are showing loyalty to the present government. The recently mobilized Yugoslav Army is now composed of at least 25 complete divisions and will soon reach a total of 30 divisions since the mobilization of seven more is practically completed.

7. In the southern Albanian theater, preparations are being made by the Italians to establish a defensive line running from Tirana to Durazzo, which is manned by a total of 12,000 soldiers.

SEAMAN

Distribution:
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps
Aviation Section
G-2

-2-

Regraded Uclassified

Paraphrase of Code Radiogram
Received at the War Department
at 17:00, March 29, 1941.

Budapest, filed 12:30, March 29, 1941.

There is no evidence of a Hungarian mobilization at present nor for the immediate future. It is not believed that the Germans will bring pressure at present time. The Chief of Hungarian Intelligence states that German troop movements Hungary will be completed about April 1st. Hungarian supplies now being concentrated for use in Bulgaria and Rumania.

PARTRIDGE

Distribution:
- Secretary of War
- State Department
- Secretary of Treasury
- Asst. Secretary of War
- Chief of Staff
- War Plans Division
- Office of Naval Intelligence

Regraded Uclassified

Paraphrase of Code Radiogram
Received at the War Department
at 11:01, March 30, 1941.

Sofia, filed March 29, 1941.

A Bulgarian source which though unofficial is regarded as worthy of confidence, tells the American Minister here that the German C. O., Field Marshal General Liszt, says that German measures against Yugoslavia will be more ruthless than those they propose to take against Greece. Numerous forces are being shifted from Hungary to Rumania, from Rumania to Bulgaria, and so to the Yugoslav frontier. The Germans will make demands requiring Hungary to mobilize in order to take back the territory they lost to Yugoslavia in the last War. If the Germans ask them to, the Bulgarians will fight. The Bulgarians are becoming more pro-German. Please see the Minister's Dispatch No. 151 to the Secretary of State for further details. Please instruct whether in future I shall cable independently military information that the Minister also is sending, or whether I shall save money by referring to his messages.

[illegible]

Distribution:
- Secretary of State
- Secretary of War
- Secretary of Treasury
- Asst. Secretary of War
- Chief of Staff
- War Plans Division
- Office of Naval Intelligence

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Paraphrase of Code Radiogram
Received at the War Department
at 22:36, March 30, 1941.

Belgrade, filed 23:00, March 29, 1941.

The Assistant Chief of the Air Force, General Mirkovic, was the man who planned the recent coup d'etat. He explained to me today just how it was done. They used a carefully selected group of Serbian officers, small in number, and two battalions of the Royal Guards, Major Knejevic commanding, with tank re-enforcements. They captured the Prime Minister and the Ministers of War, Foreign Affairs, and Court, the Chief of Staff, Commanding General Danev, the division commandant, the Belgrade chief of police, and various others. All these were gathered in at the same time, about two o'clock in the morning of the 27th. Shortly before that, trucks picked up the police, under orders from the assistant chief of gendarmes. They also seized radio and other military and civilian centres of military communication in or near Belgrade. After taking over the War Department, they threw a defense cordon around it in a square of four blocks each way. They then broadcast the king's proclamation and orders in the name of the king. The rest of the country seems to be backing up these measures and public opinion approves. There was no military action outside Belgrade. It was a masterly job.

FOSTER

Distribution:
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps

CONFIDENTIAL

Regraded Uclassified

Paraphrase of Code Radiogram
Received at the War Department
at 8:57, March 30, 1941.

London, filed 14:00, March 30, 1941.

1. British Air Activity over the Continent.

a. Daylight of March 29. Three offensive sweeps were made by three flights of two British fighters each over the Continent, during which airfields in Belgium and France were machine gunned. In addition, nine merchant ships off the coasts of Belgium and Holland were attacked by a small formation of bombers from both the Coastal and Bomber Commands. A 5,000 ton cargo boat was hit directly.

b. Night of March 28-29. Adverse weather conditions caused the cancellation of all flights of British planes.

2. German Air Activity over Britain.

a. Night of March 29-30. Lone German planes carried out raids on Newport, the Northolt airfield at London, Birmingham, Cardiff, and Gloucester. Small forces of German planes were engaged in mining operations in the Humber River and in attacks on targets in the vicinity of Avonmouth.

b. Daylight of March 29. A total of 171 German planes were plotted over Britain and the Channel. Off the coasts of Lincolnshire and Yorkshire, British convoys were attacked by 35 German planes; a total of 80 planes maintained defensive patrols over the Dover Straits; Norfolk, Suffolk, and Lincolnshire were visited by the six German planes that penetrated the coast line during this day; and merchant shipping in the

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[redacted] and Bristol Channel areas was attacked by another 30 German planes. The extent of the damage done by these attacks has not yet been determined.

3. Aircraft Losses.

a. British. There are no reports of British aircraft losses.

b. German. Daylight of March 29 - one shot down off the coast of Belgium and seven grounded German planes at Belgian and French airfields were damaged.

4. British Air Activity in Middle Eastern Theatre.

In the afternoon of March 28 a formation of British planes dropped more than eight tons of bombs on an Italian naval force in the Mediterranean about 150 miles WNW of the Isle of Crete. The force was made up of three destroyers, three cruisers, and two battleships. Direct hits were scored on one destroyer and two cruisers, one of which is thought to have been sunk since it was observed that severe damage had been inflicted on her. Early in the morning of the same day, the airfield at Leros, Italy, was attacked by British planes and heavy damage was inflicted on Italian planes on the ground. In the Italian East African theater Royal Air Force planes gave very active support to ground forces by attacking the Italian troops retreating from Keren and Asmara, and in the Addis Ababa area.

5. German Air Activity in the Middle Eastern Theatre.

Slight damage to private property on the island of Malta was inflicted by 15 German planes.

6. Aircraft Losses in Middle Eastern Theatre.

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g. British. No planes were lost.

h. Italian. As a result of the British attack on the Asmara airdrome, one heavy bomber on the ground was destroyed, one other was probably destroyed, and 20 other Italian planes of various types were damaged.

7. In all areas of Africa at the present time, there are a total of 885,000 Italian troops, 339,000 of which are natives. In the Eritrean theater, there are 39,000 native Eritrean troops and 16,000 white troops. It is the opinion of the British War Office that if the Eritrean capital is taken, the Italians will try to move all of their forces into the highlands around Addis Ababa before the beginning of the rainy season.

8. On March 28 there was a large naval battle in the Mediterranean between the British and the Italian Navies. All the details of this operation can be found in the daily news reports.

SECRET

Distribution:
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
General Miles
Chief of Staff
Office of Naval Intelligence
Air Corps
G-2

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE March 31, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 2 p.m. yesterday, Sunday afternoon, March 30, Admiral Noyes telephoned me at my home to let me know that he had just received a message from the cruiser in South African waters saying "All loaded." He told me further that the cruiser had obtained the required oil supplies and should be expected in New York around April 18.

At 9 o'clock this morning I gave this information to Acting Secretary Bell and at 9:20 to Sir Frederick Phillips, Under Secretary of the British Treasury. At 10:20 this morning I succeeded in reaching Mr. Pinsent, Financial Counselor of the British Embassy, and also gave him the same information. I reminded him that we had not yet received from the British Government through his office a description of the gold cargo. I told him that as soon as he supplied this, together with an official letter from himself, as in the last instance, confirming the transaction, our 95 percent advance payment would be made. Pinsent said that he had not yet received the details of the shipment, but had telegraphed yesterday requesting them.

At 10:30 I telephoned Mr. Knoke at the Federal Reserve Bank in New York to advise him that within the next day or so he would probably have a telegram from the Treasury to make an advance payment on a gold shipment similar to the transaction made in favor of the British some weeks ago. He understood that I was giving him this information in strictest confidence.

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March 31, 1941.

Memorandum for the Secretary's Files

From: Mr. Gaston

At 10:05 P.M. Saturday, March 29, I got a telephone connection with the Secretary at Sasabe, Arizona, from my home and reported to him as follows: Through Naval Intelligence we received a report, between three and four o'clock Saturday afternoon, that there were reports of sabotage on Italian ships at Wilmington, Norfolk and Baltimore; that as a result our men at various ports had made inspections of these ships and on the ships at Philadelphia they found that there had been extensive damage, including the smashing of engines with sledges. Stark had strongly recommended that I send a message to the President asking permission to take possession of these ships and remove the crews and Knox had called me up during the evening to make the same plea. I asked his opinion whether we ought to consult the State Department and he demurred, saying that in his opinion we ought to act swiftly. Later Captain Allan Kirk, Chief of Naval Intelligence, called me up and Admiral Stark also came on the wire. They had prepared a draft of a message to the President for my signature. I told them the draft seemed all right and that I personally favored it, but that I wished to consult the Secretary. Kirk argued against it, but I told them flatly that I intended to do that. The Secretary on hearing this story said that he was glad I had called him up and that he approved our taking the action that Navy had requested.

Previously, after conversations with Waesche, I had authorized him to put guards on all the Italian vessels and on the two German vessels and I gave the Secretary that information.

The newspapers found out that we were putting guards on the vessels and there were lead stories in the late editions of all the morning papers, stating that we had "seized" Italian ships.

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Admiral Waesche, after again consulting with me, sent messages to all the Captains of Ports to prepare to take possession of all the Italian and German ships at 9:00 A.M., Eastern Standard Time, Sunday, but not to act until the message "Execute" had been received.

At 8:50 o'clock Sunday morning Captain Kirk called me to ask if I couldn't do something to expedite a reply from the President. He said the President's yacht was still tied up at Port Everglades and wanted to know if I couldn't contact someone by telephone. I said I would make the effort. I put in a call for either Steve Early or Pa Watson and I got Pa Watson on the phone about fifteen minutes later. Watson told me that he supposed what I was calling about was the ship matter and that he had just cleared a message containing the words "Proceed as outlined." He explained that my code message through Navy radio had not been decoded until two o'clock in the morning and he had not presented it to the President until he awoke in the morning. I immediately informed Waesche and we agreed that he would send a message substantially as follows: "Execute immediately as to Italian ships only." I gave this information to Kirk later and had word from Kirk of the receipt of the message by Navy and shortly afterwards word from the White House that a decoded message in a sealed envelope addressed to me had been received there. I authorized the White House operator to open the message and read it to me so as to make certain that it checked with my information from Pa Watson, which it did.

Shortly after noon on Sunday, Sumner Welles called me at home to say that they had been talking over the ship matter at the State Department and that he had also talked to Stark. He and Stark agreed that we ought to proceed to seizure of the Danish ships in the same manner as we had taken the Italian ships. He said he had reasons to fear the same sort of thing in the case of some Danish ships that had happened in the case of the Italian and suggested that if I agreed we ask the President for authority to act with respect to the Danish ships. I told him that I did agree and that I would get off a message to this effect. I prepared the following message and gave it by telephone to the White House communications officer: "State and Navy Departments concurring respectfully request authority to take possession Danish and German ships in American ports as well as Italian." Stark called me up just

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after I had sent this message and I read it to him. He said he agreed entirely. His particular object in calling up, however, was to ask that we remove the crews from the German ships at once without awaiting word from the President. I told him that I had just discussed the matter with Waesche and that we agreed that we could take a chance on doing this as a temporary precautionary action and that I had instructed Waesche to go ahead. Stark expressed entire satisfaction with this.

I was in my office at the Treasury at 4:55 P.M. Sunday when the reply to my second message to the President was received. I gave it to Waesche and informed Navy as soon as I could get rid of the newspaper men. The information was not given out to the newspapers until around ten in the evening, when they began to get their first reports locally that the Danish ships were being treated in the same fashion. Copies of the messages to and from the President are attached.

Earlier in the day I had sent a code message to the Secretary telling him of our request to the President with respect to the Danish and German ships. At 10:00 P.M. he called me on the telephone, having just received my message, and said that it had his approval.

Attachments

Regraded Uclassified

Form 9625
TREASURY DEPARTMENT
U. S. COAST GUARD
Ed. Sept. 1930

367

U. S. COAST GUARD

OFFICIAL DISPATCH

UNIT HEADQUARTERS

DATE 29 MAR 1941

INCOMING HEADING

RECEIVED FROM OPNAV VIA TELEPHONE 1522

FROM

TO (FOR ACTION)

ACKNOWLEDGE
PRIORITY
ROUTINE
NITE

TO (FOR INFORMATION)

ACKNOWLEDGE
PRIORITY
ROUTINE
NITE

TEXT

INFORMATION RECEIVED THAT ITALIAN VESSEL AT WILMINGTON NORTH CAR. BEING SABOTAGED BY OWN CREW. INSPECTION OF TWO ITALIAN VESSELS IN BALTIMORE THIS DATE BY CUSTOMS DISCLOSED THAT ENGINES WERE DISMANTLED AND PARTS ALL OVER ENGINEROOM EXPLANATION GIVEN WAS THAT ENGINES WERE BEING OVERHAULED AND THERE IS NO EVIDENCE THAT SUCH WAS NOT THE CASE BUT CUSTOMS OFFICIALS WERE AT FIRST BARRED FROM GOING BELOW BY SHIPS OFFICERS WHO STATED THAT THE ITALIAN CONSUL HAD FORBIDDEN ANYONE TO GO BELOW DECKS AND ENTRANCE WAS ONLY GAINED BY THREAT OF ARREST. CONDITION OF ENGINES OF SHIPS IN NORFOLK NOT KNOWN BUT WILL ASCERTAIN AS SOON AS POSSIBLE. NOT CERTAIN OF LEGALITY OF CUSTOMS INSPECTION SO TREAT SOURCE OF INFORMATION ON BALTIMORE SHIPS AS RECEIVED FROM COMFIDENTIAL INFORMANT. ABOVE REC'D BY NAVY FROM NORFOLK.(HAL)

Operator's Record.

Initials of "ACTION" officer.

CONFIDENTIAL

U.S. GOVERNMENT PRINTING OFFICE 3—15436

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U. S. COAST GUARD
Official Dispatch

Unit Headquarters 30 March, 1941.

NAVY MESSAGE

RELEASED: Capt. Kirk by direction Adm. Stark
(Not cleared thru White House)

From Radio Washington 300319
TO: PRESUS

FOLLOWING ADVICES THIS AFTERNOON FROM NAVAL INTELLIGENCE SERVICE INDICATING ATTEMPTS SABOTAGE ITALIAN MERCHANTMEN TWO AT BALTIMORE ONE NORFOLK ONE WILMINGTON NCAR X THE COAST GUARD AND ALL NAVAL DISTRICTS WARNED EXERCISE ESPECIAL VIGILANCE X CG DISTRICT COMMANDER PHILEADLPHIA NOW REPORTS MACHINERY PLANTS FOUR SHIPS THAT PORT EXTENSIVELY DAMAGED AND ADMIRAL WARSCHE AT MY DIRECTION HAS ORDERED GUARDS ON ALL ITALIAN VESSELS BUT NOT TO SEIZE X RECOMMEND YOU DIRECT ME SEIZE AT NINE HOURS EST SUNDAY MORNING ITALIAN MERCHANTMEN IN US PORTS CANAL ZONE AND PUERTO RICO IN ACCORDANCE EXECUTIVE ORDER 8677 of 11 FEBRUARY X SECNAV CONCURS X REQUEST IMMEDIATE REPLY AS ALL OPERATIONS MADE X SIGNED ACTING SECTREAS

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16 Originator 38..xxx . 10/11..12 NAVAID ONI OPNAV CG

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In reply refer to Initials and No.

NAVY DEPARTMENT
OFFICE OF CHIEF OF NAVAL OPERATIONS
WASHINGTON

FROM THE PRESIDENT

FOR ACTING SECRETARY OF TREASURY WHITE 86

PROCEED AS OUTLINED

SECRET

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Message from Mr. Gaston to the President, given to the White House Communications Officer by telephone, for transmission.

Sunday, March 30, 1941.

"State and Navy Departments concurring respectfully request authority to take possession Danish and German ships in American ports as well as Italian."

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TELEGRAM

The White House
Washington

6poki 22 Gov't Collect 3:47 p.m.

VERO BEACH, FLORIDA, Mar. 30, 1941

THE WHITE HOUSE:

For acting Secretary of the Treasury approve additional taking of ships as recommended by you with concurrence of State and Navy.

Roosevelt.

Phoned to Mr. Gaston.
3:56 p.m.

WO-8209

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,
Monday, March 31, 1941.

Press Service
No. 24-32

The Secretary of the Treasury today announced the final subscription and allotment figures with respect to the current offering of 2-1/2 percent Treasury Bonds of 1952-54 and 3/4 percent Treasury Notes of Series D-1943. Cash allotments on public subscriptions aggregated $526,213,750. This amount includes $37,337,500 allotted in full to subscribers for $5,000 or less who specified that delivery be made in registered bonds 90 days after the issue date. In addition to the amount allotted on public subscriptions, $28,940,200 of the bonds have been allotted to Government investment accounts, within the $50,000,000 reservation. Of the $503,877,500 of Treasury Notes of Series B-1941, maturing June 15, 1941, $480,037,500 have been exchanged for the new issues.

Subscriptions and allotments were divided among the several Federal Reserve Districts and the Treasury as follows:

2-1/2 PERCENT TREASURY BONDS OF 1952-54

Federal Reserve District	Total Cash Subscriptions Received	Total Cash Subscriptions Allotted	Total Exchange Subscriptions Received (Allotted in full)	Total Subscriptions Allotted
Boston	$ 479,191,750	$ 40,912,800	$ 17,951,700	$ 58,864,500
New York	3,043,206,550	251,649,950	316,632,600	568,282,550
Philadelphia	354,963,200	32,661,950	8,086,400	40,748,350
Cleveland	369,307,650	31,141,200	17,731,500	48,872,700
Richmond	201,579,400	17,915,500	18,074,900	35,990,400
Atlanta	236,579,450	19,970,000	8,372,000	28,342,000
Chicago	681,248,700	59,425,400	31,587,200	91,012,600
St. Louis	130,326,800	12,674,250	6,971,400	19,645,650
Minneapolis	84,341,150	8,916,800	2,866,000	11,782,800
Kansas City	101,665,850	10,817,200	9,327,800	20,145,000
Dallas	138,829,900	12,513,300	2,327,500	14,840,800
San Francisco	308,321,150	26,352,200	6,944,700	33,296,900
Treasury	15,224,600	1,263,200	584,500	1,847,700
TOTAL	$6,144,786,150	$526,213,750	$447,458,200	$973,671,950

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3/4 PERCENT TREASURY NOTES OF SERIES D-1943

Federal Reserve District	Total Subscriptions Received and Allotted
Boston	$ 160,000
New York	30,797,600
Philadelphia	65,500
Cleveland	155,900
Richmond	111,500
Atlanta	5,000
Chicago	582,300
St. Louis	135,500
Minneapolis	122,500
Kansas City	101,000
Dallas	197,000
San Francisco	105,500
Treasury	100,000
TOTAL	$32,639,300

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Delivered to Treas. by Mr. Nicholson

SHANGHAI

March 31 1941

From Y L Chang

To Nicholson

Announcement made by Japanese that military yen would be pegged to Chinese national currency at present level namely 423 military yen to $1000 national currency. Believe this action has following motives colon To check speculation on military yen. If military yen too expensive it will be difficult to acquire products. Do not desire to see collapse of Chinese currency to which military yen commands only value. Present circulation of Central Reserve Bank notes approximately $24,000,000 such circulation centered mostly in Nanking area where as Shanghai is still not noticeable. Exchange market remaining rather steady in spite of present trouble. Hongkong bank continues to give support. Speculators position not big.

mg

COPY

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Delivered to Treas. by Mr. Nicholson

Shanghai

March 31 1941

From Jacobson

To Nicholson

Full details of bombings and attempted bombings of Chungking Government banks and kidnapping of some hundred clerks of Bank of China at Shanghai were sent by all local news agencies to the United States As I assumed these happenings would make front page news of every newspaper in the United States I did not cable to you On March 22nd five Chinese clerks of Kiangsu Farmers Bank were killed in their sleep and six others wounded by a gang of six gunmen who entered the house in which they were all living On 23rd over 100 clerks of Bank of China were kidnapped and are still being held at 76 Jessfield Road On 24th time bombs were placed in premises of Farmers and Ningpo banks but no damage was done as police arrived in time to render bombs ineffective On same date bombs were delivered to both branches of Central Bank These bombs exploded causing the death of about six minor employees of bank and considerable damage was done to the new branch on Bubbling Well Road Central Bank has been closed ever since but will open tomorrow with promise of additional protection from U S Marines and police No important bank officials were killed or kidnapped in any of these outrages. It is believed the TNT used used in these bombs was of German origin Some quarters are of opinion Nanking Government is trying to get all Chungking Government banks out

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of Shanghai so they can promote their new notes as they have made very little progress in getting their notes in circulation Another quarter thinks that these bombings are retaliatory and further bombings will be carried out

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LONDON, March 31, 1941.

No. 185

SUBJECT: British Press Comment on the Viscose Deal and Canadian Dollar Assets.

The Honorable

The Secretary of State,

Washington.

Sir:

I have the honor to refer to the Embassy's telegrams No. 1052 of March 18 and No. 1225 of March 28, containing quotations from the British Press on the Viscose deal, the question of the sale of further British direct investments in the United States, and the bearing on this question of figures published showing dollar assets and payments by the British Empire to Canada.

The first reaction of the press indicated that the Viscose sale was a shock to the City, in spite of the knowledge that Sir Edward Peacock had been sent to the United States in January for the purpose of "exploring the possibilities" of liquidating British direct investments. That the announcement of the deal constituted a timely and potent gesture was recognized. Nevertheless, the prospect of further deals of a similar nature caused a degree of dismay which became evident in the endeavors made by financial writers to find some other way to meet the dollar requirements which, it seemed, were to continue to be a greater strain on British dollar resources than had been expected after the passage of the Lease-and-Lend Act.

Notable among such attempts was an editorial published in the Financial News of March 19. This journal had anticipated the possibility of a liquidation of direct investments, in an article published on March 14 in which it was argued that in the light of the estimates of Britain's dollar requirements for 1941 it was clear that the necessity for the realization of direct investments is closely bound up with the proposed payment of $620 million to Canada in settlement of the adverse balance of the rest of the Empire with that Dominion.

In the editorial of March 19, after mentioning the varied intangible advantages in the way of control, good-will etc. of such holdings, and conceding that "it is clear that the active cooperation of the American authorities has sufficed to ensure that we are not being forced to unload these industrial

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participations at sacrifice prices in a buyer's market", the question was put as to whether the foreign exchange position had already reached the degree of urgency which this sale might indicate and it was pointed out that "as it happens, the estimated loss (of dollar assets) for this year includes no less than $620 million required for the settlement of our obligations not to the United States but to Canada. On the face of it, therefore, the policy of liquidating direct investments would seem to be closely linked with this payment to Canada. Hence the necessity for this drastic step can be judged only in the light of Canada's own exchange position on which there is very little information". The editorial then went on to suggest that if Canada has available dollar assets it would be highly desirable that the transfer from the remainder of the Empire should take the form not of gold but of a temporary hypothecation of British direct investments in the United States which could thus be retained within the Empire for possible repurchase after the war".

A similar thought was expressed in the Economist of March 15 which, in a paragraph from which a quotation is given below, implied that Canada might well extend to the United Kingdom assistance similar to that rendered under the Lease-and-Lend Act, while in a further note on March 22, also quoted below, it was suggested that the difficulties of Canada's trade balance with the United States would disappear if Canada could obtain her required imports from the United States on lease and lend terms:

> "It is impossible to leave the subject of the supply of and demand for dollars without remarking what a relief would be secured if it were possible to make with Canada arrangements similar to the Lease and Lend Act. It is somewhat anomalous that a neutral should be providing munitions free of cash payment while gold or American dollars are still being paid to a belligerent. There is no reason to suppose that this is not appreciated in the most realistic and generous spirit in Ottawa."
> (Economist - March 15, 1941, page 329)

> "The appearance in the estimates of British dollar needs which have been published recently in the United States of substantial sums paid to Canada has naturally given rise to some discussion in this country. As was remarked in The Economist last week, 'it is somewhat anomalous that a neutral should be providing munitions free of cash payment while gold or American dollars are still being paid to a belligerent'. But it would be wrong to read into this anomaly, as is being done in some quarters, a suggestion that there is any hoarding of gold by Canada or any lack of financial cooperation at Ottawa.

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The gold or American dollars paid to Canada by the United Kingdom are needed to settle Canada's own adverse balance with the United States, a balance swollen by imports of raw materials and machinery for the rapidly growing Canadian armament programme. If Canada could obtain these commodities on lease-and-lend terms, the necessity would, of course, disappear. But the difficulties that have to be surmounted do not include any lack of cooperation on Canada's part, and it is a pity that the publication of partial statistics should have given rise to a false impression".
(Economist, March 22, page 372)

After the publication of the speech by the Canadian Minister of Finance there appeared comment of which the following, quoted from the City Column of the Daily Telegraph of March 28, was typical.

"Misconceptions have arisen, both here and in the United States, following the publication of official figures showing that the Empire would meet a deficit with Canada during the current year by payment of $620 million in gold. To many people it seemed odd that such a large gold transfer should be made when the United States was doing so much to relieve the pressure on Britain's financial resources. It is made clear, however, in a speech by Mr. Ilsley, the Canadian Finance Minister, that this figure of $620 million has been interpreted falsely.

"Mr. Ilsley gave chapter and verse to show that Canada's contribution to the Empire's financial effort has been much larger than was suggested by the estimates recently published. In the first 10 weeks of 1941 the Canadian Foreign Exchange Control placed at our disposal, against sterling, 150,000,000 Canadian dollars. It is clear that Canada regards the $620 million merely as a residual item in the Empire balance-sheet, for which payment solely in the form of gold is not anticipated."

The Financial News, however, in an editorial on March 27, which began by paying tribute to Canada's financial assitance and cooperation, expressed the opinion that in view of Canada's helpful attitude the British authorities would seem to have acted a little precipitously in disposing of American Viscose at so early a stage. The passing of the Lease-and-Lend Act, the editorial continued, was thought to demand a sweepinggesture but the value of the gesture must have been largely vitiated so long as pro-Nazi elements could claim that the dollar proceeds were required in settlement of British obligations not to the United States, but to Canada. "Had the authorities refrained from putting out estimates for Canada's dollar payments, which now seem to have little practical significance, the need for such a gesture might never have arisen".

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The editorial concluded by repeating the contention made in the earlier articles in the Financial News that in the long run, in spite of Canada's position as a dollar currency country, it may be necessary "to ask Canada not only to accept sterling in payment for our own deficit, but actually to supply the Empire with dollars with which to pay the United States".

Another aspect was stressed by the Financial Times which, in an editorial on March 30, after pointing out that the Lease and Lend Act will not absolve Great Britain from further realization of dollar assets, and that sales of both securities and businesses must be accepted as a necessary war sacrifice, stated:

> "Sacrifice is not confined to the individual, or necessarily to this nation. Britain relinquishes potential earning power with every asset that is sold, and it may be doubted whether it is an unmixed advantage to America to permit a serious disturbance to the economic set-up between the two countries. Far-sighted observers in the United States may well be disturbed at the prospect of Britain losing a considerable volume of future purchasing power. The United Kingdom is normally among the best customers of the United States, and for some years prior to the war there was a distinct tendency to regulate trade relations between the two countries with a view to preserving some sort of equilibrium."

This editorial concluded by emphasizing that, because of the importance of American sympathy and goodwill, British dollar assets must, if necessary, continue as an earnest of determination to venture all for the winning of the war, and

> "apart from any devices, such as pledges instead of sales of assets, that may be found possible, our post-war position, and our correlative ability to absorb U.S. exports, must be left to take care of themselves".

Though the above summary of the British press reaction to the Viscose deal and its bearing on the Canadian position is by no means exhaustive, it covers the more significant published comments, with one exception, which is quoted below from the weekly Time and Tide for March 29 (page 274):

> "From the long-term point of view, the sale of the Viscose Corporation is bad for Courtaulds' shareholders and bad for the nation. It represents the sale of the golden goose that lays a number of valuable dollars every year, and is likely to lay bigger eggs as American prosperity grows under the stimulus of defence expenditure on that side.

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'It may be that politics, and American politics at that, played a big part in determining the Viscose sale. A gesture was wanted in advance of the debate on the £1,750,000,000 appropriation for aid to Britain. Something had to be done, and done quickly. The Viscose undertaking was the easiest thing to sell and it was sold. But under these conditions the price obtained may not have been the right price, and there seems no adequate reason for the ten per cent profit to be made by American interests who are to re-sell the shares to the American public. The bargain is that the British Treasury will receive 90 per cent on the proceeds of such re-sale. I hope Americans will realize that 'all aid to Britain' is only being given at a price, and it is a price which will do America no good in the long run. It will accentuate the dollar famine later on. As the New York Herald-Tribune said, in commenting on the Viscose deal, 'surely it is more than a little short-sighted to destroy Britain's economic health while giving all-out support to her battle for democracy'. That sentiment is welcome, but we may not express it over here. President Roosevelt may be willing to 'abolish the pound and dollar sign' in the Anglo-American war bill, but it looks as if Wall Street is out to abolish the pound, as the price of American help.'

It may be as well to note that the sentiments expressed in the above quotation are doubtless not entirely absent in other quarters, though all but the more outspoken may refrain from giving any expression to them. So long as the liquidation of British assets was confined to the sale of gold and quoted market securities, no question arose as to the necessity for the sacrifice of valuable earning assets. But the prospect of parting with direct investments was met at first with a hope that such sacrifices would not really prove necessary, and after the first sale had been announced, with the reactions reviewed above, which may be summarized as indicating that this form of sacrifice is one which must be met with a stiff upper lip, if further resort to it cannot indeed be prevented.

Respectfully yours,

For the Ambassador:

Herschel V. Johnson
Counselor of Embassy

Enclosures:
1-4/ See page 6.

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Enclosures:

1. Article from the Financial News, March 14, 1941, entitled "U.K.'s Trade Interests in America".

2. Editorial from the Financial News, March 19, 1941, entitled "Bang Goes Viscose".

3. Editorial from the Financial News, March 27, 1941, entitled "Canada to the Rescue".

4. Extract from the Londoner's Diary, Evening Standard, March 27, 1941, entitled "Peacock Hunt".

NOTE: Owing to the paper shortage, it is impossible to obtain five copies of daily newspapers in most cases. The clippings quoted are, therefore, transmitted in one copy only, attached to the original of this despatch. For this reason extracts have been rather extensively quoted in the body of the despatch. It is assumed that copies of The Economist are available in any Departments in Washington where reference to the full text may be desired.

KAHR/JC

A true copy of the signed original

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Paraphrase of telegram no. 266, March 31,
7 p.m. from Madrid, Spain.

I have been informed by the Argentine Embassy that the Spanish Government is now studying the proposal which contemplates the extension of a 160,000,000 Argentine peso credit to be amortized over a period of 15 years at the maximum. The credit would be used entirely for the purchase of certain quantities of Argentine products described in my previous telegram, but the Argentine Embassy is not willing to specify them in detail at the present time as the quantities may be changed. This would not be a clearing agreement even though in part payment might be made from the full proceeds of certain Spanish goods to be sold to Argentina, including especially iron and steel products, and also from other exchange earmarked for this purpose. Approximately 35,000,000 Argentine pesos would be grouped in this credit to cover the cost of approximately 5,000 tons of wheat from which shipments are at present actually being made, even though details of the terms have not been completed.

RA:AED:GRS

Copy:bj:4-18-41

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TURKISH EMBASSY
WASHINGTON, D. C.

March 31, 1941.

My dear Mr. President:

I represent on behalf of the Turkish Government, pursuant to Sections 4 and 7 of the Act of March 11th, 1941, that:

1) Every contract or agreement for the disposition of any defense article or defense information, pursuant to Section 3 of the Act of March 11th, 1941, to the Turkish Government shall be deemed to include a clause that the Turkish Government will not, without your consent, or the consent of someone designated by you for that purpose, under the Act, transfer title to or possession of such defense article or defense information by gift, sale, or otherwise, or permit its use by anyone not an officer, employee or agent of the Turkish Government;

and

2) If, as a result of the transfer to the Turkish Government of any defense articles or defense information, it is necessary, pursuant to Section 7 of the Act of March 11th, 1941, fully to protect the rights of any citizen of the United States, who has patent rights in and to any such defense article or information, the Turkish Government will do so, when so requested by you or your designee for that purpose.

Please accept, Mr. President, the assurances of my highest consideration,

M. Münir Ertegün

His Excellency
The President
of the United States of America

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March 31, 1941

MEMORANDUM FOR THE SECRETARY:

Attached is a summary report of the projects which have been worked on in the Division of Tax Research during March, 1941.

RB

Attachment

Regraded Uclassified

Monthly Report on Projects in the
Division of Tax Research
March, 1941

I. New projects

1. Capital gains taxation

A memorandum analyzing the treatment of capital gains under the 1938 Act is in process. (Miss Coyle)*

2. Intergovernmental fiscal relations

An outline for the study of intergovernmental fiscal relations was prepared. (Mr. Ecker-Racz)

3. National income and savings

A memorandum on the volume of savings and income available for consumption was prepared. (Mr. Farioletti)

4. Advertising costs

A memorandum analyzing the treatment of advertising costs under the excess profits tax was prepared. (Mr. Campbell, Mr. Farioletti and Mr. Mills)

* Persons listed as working on the different projects do not include those who acted largely or exclusively in a consulting or reviewing capacity. In general, the person, if any, actively in charge of the project is listed first.

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5. Income taxation

Tables were prepared showing the effects of lowered personal exemptions and increased surtax rates. (Mr. Zorach)

6. Gold and silver mining

(a) The principal arguments advanced in support of classifying gold and silver as strategic minerals for the purpose of exemption under the excess profits tax were analyzed. (Mr. Ecker-Racz)

(b) A memorandum on the taxation and subsidization of gold mining in Australia, South Africa and Canada was prepared. (Mr. Ecker-Racz and Mr. Gordon)

7. Shipping tax

A memorandum commenting on a proposal for a tax on water and pipe line transportation was prepared. (Mr. Ecker-Racz)

II. Continuing projects

1. Income tax payment

A memorandum analyzing the problems involved in the collection of the individual

Regraded Uclassified

income tax at source and other methods of facilitating income tax payment is in process. (Mr. Atlas and Mr. Mills)

2. Tax-exempt securities

(a) A memorandum relating to tax-exempt securities of foreign countries is in process. (Mr. Ecker-Racz and Mr. Mannen)

(b) A table showing the treatment of interest from governmental obligations under State income taxes was completed. (Miss Wells)

(c) A digest of congressional proposals pertaining to the elimination of tax-exempt government securities was completed. (Mr. Mannen)

3. Taxation of insurance companies

A memorandum analyzing statistical information relating to the profit and income tax payments of insurance companies is in process. (Mr. Mills)

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4. Federal sales taxes

A memorandum on some possible forms of Federal sales taxes, including taxes on value added, manufacturers and wholesalers, is in preparation. (Mr. Farioletti and Mr. Copeland)

5. Federal excise taxes

A memorandum analyzing possible additional sources of excise tax revenue is in process. (Mr. Campbell)

6. Foreign taxes

(a) Memoranda on the latest changes in Canadian and Australian taxes are in preparation. (Mr. Atlas and Miss Hughes)

(b) In collaboration with the Division of Monetary Research, a study of the Haitian fiscal system is in final stages of completion. (Miss Wells)

7. Treasury Bulletin

An article for possible publication in the Treasury Bulletin is in process comparing taxpayers' reported State of residence

Regraded Uclassified

in 1936 with the States in which they filed their income tax returns. (Miss Coyle and Mr. Zorach)

8. Income, excess profits and undistributed profits taxation

Reports on the following subjects have not been actively prosecuted during the month:

(a) Analysis in the light of issues raised by the undistributed profits tax of the statistics made available from income tax returns and other sources. (Mr. Atlas and Mr. Copeland)

(b) Analysis of the proposal to allow corporations with five or less shareholders to be treated for tax purposes as partnerships. (Mr. Mills)

(c) Analysis of special treatment afforded financial, personal service and public utility companies, the professions and agriculture under the World War and present excess profits taxes of the United States, Great Britain and Canada. (Mr. Mills)

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III. Routine Assignments

1. Technical review of forthcoming Treasury publications

(a) The work of the Philadelphia project analyzing income, excess profits and estate tax returns is in final stages of completion. A press release for the forthcoming volume on capital gains and losses was prepared. (Miss Coyle)

(b) Table outlines for periodic tabulations from corporation excess profits tax returns were reviewed. (Miss Coyle)

2. Digests and comments on other studies

(a) The following studies were reviewed:

1. Page proof of an article on taxation for the Americana Annual. (Miss Hughes)

2. The article "Public Relations in Tax Administration" published by the Federation of Tax Administrators, August 1940 (Mr. Zorach)

(b) The report "Study of the Delaware State Income Tax Yields" by Walter C. Wilson is pending review. (Miss Coyle)

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3. Statistics

(a) In connection with the supervision of the statistical work of the Bureau of Internal Revenue, various proposals for statistical compilations were examined including suggested tabulations from the corporation income and excess profits tax returns. (Mr. Blough, Mr. Shere and Miss Coyle)

(b) Administrative reports and statistics of the Bureau of Internal Revenue are graphed and commented upon for Mr. Sullivan's information. (Mr. Campbell)

(c) Data relating to different taxes, digests of tax items, and congressional activity on tax items of interest to the Division are currently prepared. (Staff members)

4. Correspondence

The Division handled correspondence pertaining to tax matters. (Staff members)

Regraded Uclassified

March 31, 1941

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III. Routine Assignments

1. Technical review of forthcoming Treasury publications

(a) The work of the Philadelphia project analyzing income, excess profits and estate tax returns is in final stages of completion. A press release for the forthcoming volume on capital gains and losses was prepared. (Miss Coyle)

(b) Table outlines for periodic tabulations from corporation excess profits tax returns were reviewed. (Miss Coyle)

2. Digests and comments on other studies

(a) The following studies were reviewed:

1. Page proof of an article on taxation for the Americana Annual. (Miss Hughes)

2. The article "Public Relations in Tax Administration" published by the Federation of Tax Administrators, August 1940 (Mr. Zorach)

(b) The report "Study of the Delaware State Income Tax Yields" by Walter C. Wilcox is pending review. (Miss Coyle)

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3. Statistics

(a) In connection with the supervision of the statistical work of the Bureau of Internal Revenue, various proposals for statistical compilations were examined including suggested tabulations from the corporation income and excess profits tax returns. (Mr. Blough, Mr. Shere and Miss Coyle)

(b) Administrative reports and statistics of the Bureau of Internal Revenue are graphed and commented upon for Mr. Sullivan's information. (Mr. Campbell)

(c) Data relating to different taxes, digests of tax items, and congressional activity on tax items of interest to the Division are currently prepared. (Staff members)

4. Correspondence

The Division handled correspondence pertaining to tax matters. (Staff members)

MA:ted
3/31/41

Regraded Uclassified

For Miss Chauncey

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 31, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns.....£53,000
Purchased from commercial concerns.....£71,000

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

Sold to commercial concerns.....£ 1,000
Purchased from commercial concerns.....£ 2,000

In New York, some improvement took place in the quotation for the Canadian dollar, while the Cuban peso continued to ease off from the high of 3-1/2% discount reached on March 27. The closing rates for the foreign currencies listed below were as follows:

Canadian dollar	14-3/4% discount
Swiss franc (commercial)	.2322
Swedish krona	.2384-1/2
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2320
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	4% discount

In Shanghai, the yuan in terms of our currency was quoted at 5-9/32¢, off 1/16¢. Sterling was 1/2¢ lower at 3.92-1/2.

There were no gold transactions consummated by us with foreign countries today.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped $3,399,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the U.S. Assay Office.

The prices fixed in London for spot and forward silver were unchanged at 23-1/2d and 23-7/16d respectively. The U.S. equivalents were 42.67¢ and 42.56¢.

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

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We made two purchases of silver totaling 260,000 ounces under the Silver Purchase Act, all of which consisted of new production from foreign countries for forward delivery.

During the month of March, we purchased 3,611,000 ounces of silver under the Silver Purchase Act, as against 3,662,000 ounces in February. The figure for March represents the lowest monthly total that has been recorded since October, 1939. The sources of these purchases were as follows:

Type of Silver	Ounces
New production	
1. From various countries	2,910,000
2. From Canada under agreement	450,000
Inventory	251,000
Total	3,611,000

The Federal Reserve Bank's report of March 26, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled $112,661,000, an increase of $734,000 since March 19. Most of the change in deposits took place on the books of the Yokohama Specie Bank's New York agency. The latter's principal dollar liabilities to and dollar claims on Japanese banks in Asia stood as follows on March 26:

		March 26	Change from March 19
Liabilities:	Deposits for Japan and Manchuria	$66,101,000	+ $ 425,000
	Deposits for China	38,260,000	+ 542,000
"	: U.S. Treas. Bills, comm. paper, etc.	21,921,000	- 803,000
Claims	: Loans	$68,232,000	+ $1,296,000
"	: Other - mainly Jap. import bills	6,173,000	- 2,541,000

The last three categories refer principally to Japanese banks in Japan and Manchuria. It appears that the reduction in the Agency's own holdings of Japanese import bills was effected primarily with funds loaned by the Agency to Japanese banks, plus part of the proceeds of sales of U.S. Treasury bills, etc. held for account of such banks.

CONFIDENTIAL

Regraded Uclassified

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

Week ended March 29, 1941

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	99,600 Bbls.	--	--	310,324 Bbls.
Crude -				
Blended or California High Octane Crude*	117,000 Bbls.	--	--	--
All Other Crude	64,000 Bbls.	--	--	--
Gasoline -				
Gasoline A**	--	--	--	12 Bbls.
Gasoline B*	100,000 Bbls.	--	--	--
All Other Gasoline	--	--	--	115,000 Bbls.
Lubricating Oil -				
Aviation Lubricating Oil***	--	--	--	11,633 Bbls.
All Other Lubricating Oil	26,120 Bbls.	--	--	32,252 Bbls.
Tetraethyl Lead***	--	--	--	--
"Boosters", such as Iso-Octane, Iso-Hexane, or Iso-Pentane	--	--	--	--
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	--	--	--	10,596 Tons
All Other Scrap	--	--	--	3,600 Tons

Office of the Secretary of the Treasury, Division of Research and Statistics.
March 31, 1941.

Source: Office of Merchant Ship Control, Treasury Department.

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

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ALLISON SHIPMENTS

	British			Army				Grand total
	C	E	Total	C	E	F	Total	
Dec. 29 - Jan. 4	8	-	8	1	3	-	4	12
Jan. 5 - 11	83	-	83	-	2	-	2	85
Jan. 12 - 18	41	-	41	-	2	-	2	43
Jan. 19 - 25	33	-	33	-	-	-	-	33
Jan. 26 - Feb. 1	31	-	31	-	1	-	1	32
Feb. 2 - 8	60	-	60	25	1	-	26	86
Feb. 9 - 15	30	1	31	32	2	1	35	66
Feb. 16 - 22	-	-	-	77	2	1	80	80
Feb. 23 - Mar. 1	-	-	-	88	3	-	91	91
Mar. 2 - 8	6	-	6	69	2	-	71	77
Mar. 9 - 15	6	-	6	72	-	2	74	80
Mar. 16 - 22	36	-	36	14	1	2	17	53
Mar. 23 - 29	87	2	89	10	1	3	14	103
TOTAL Dec. 29 - Mar. 29	421	3	424	388	20	9	417	841

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

March 31, 1941.

STRICTLY CONFIDENTIAL

Regraded Uclassified

ALLISON ENGINEERING COMPANY

Shipments of Airplane Engines

	Actual shipments	Estimated shipments on existing orders
1940		
January	10	
May 24 - June 22	28	
June 23 - July 20	43	
July 21 - Aug. 17	47	
Aug. 18 - Sept. 14	140	
Sept. 15 - Oct. 12	263	
Oct. 13 - Nov. 9	233	
Nov. 10 - Dec. 7	154	
Dec. 8 - Jan. 4	228	
1941		
January 5 - 11	85	
January 12 - 18	43	
January 19 - 25	33	
January 26 - February 1	32	
February 2 - 8	86	
February 9 - 15	66	
February 16 - 22	80	
February 23 - March 1	91	
March 2 - 8	77	
March 9 - 15	80	
March 16 - 22	53	
March 23 - 29	103	
March 30 - 31		-
April		306
May		260
June		310
July		330
August		320
September		370
October		400
November		500
December		600
1942		
January		700
February		800
March		800
April		800
May		646

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

March 31, 1941.

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BRITISH EMBASSY,
WASHINGTON, D.C.

31st March 1941

PERSONAL AND
SECRET

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable,

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

Regraded Uclassified

Telegram from London dated March 28th.

1. Naval. Enemy aircraft attacked shipping off Milford Haven evening of March 22nd. Four small ships totalling 2,337 tons damaged. Two enemy aircraft were badly damaged.

2. H.M.S. "Leith" attacked by two enemy aircraft with bombs S.W. off St. David's Head, March 27th, was undamaged but destroyed at least one aircraft. On March 27th, the Coastal Blenheims on reconnaissance of Lorient attacked Fokke-Walf aircraft and cruiser presumably the "Voltaire" results unobserved. Two Blenheims dive-bombed near missing about 6,000 ton.....and two naval auxiliaries off Brest.

3. Military - Albania. No indications of Italians yet able to resume the offensive. Defensive preparations being made in the southern sector. Total forces north of line Durazzo - Tiranha probably not more than 12,000.

4. Yugoslavia. The army loyal to the new Government and reported concentrating southwards. Minimum of 23 divisions mobilised. The whole country appears enthusiastic and orderly.

5. On March 23rd - British Colonial and Belgian forces occupied Bengali (about 331 miles west of Addis-Abbaba) after severe fighting.

6. Royal Air Force March 27th. Daylight attacks were made on shipping from Ushant to La Rochelle and on small naval craft off the Dutch coast. Alderney harbour, buildings and small merchant ship hit. Two Blenheims shot down by enemy fighters.

7. Night/

Regraded Uclassified

7. **Night of March 27th/28th.** Ninety-seven bombers sent to attack Cologne (30) Dusseldorf (30) Dunkirk, Calais and Brest. Three aircraft missing.

8. Eritrea.- During March 25th-26th. Sixteen tons of bombs dropped on enemy positions near Keren; two enemy fighters reported destroyed.

9. Ethiopia. Three trains on Addis-Abbaba Djibuti Railway Station at Awda received direct hits.

10. Greece. On March 25th four Gladiators intercepted 20 enemy fighters escorting 6 bombers. They probably destroyed 1 fighter and damaged another. One Gladiator destroyed on the ground at Parangtha.

11. German Air Force. March 27th. Two enemy fighters over Kent. One ME.110 damaged and one Spitfire missing.

12. Night of March 27th/28th. A few aircraft reported off the coast.

13. Syria. French reported building a defensive line in northern Syria facing Turkey.

Regraded Uclassified

Telegram from London dated 29th March

Commander in Chief Mediterranean with strong force of Mediterranean Fleet on the 28th got into touch with strong Italian forces south of Yildiz west of Crete. Enemy cruisers first sighted 8 a.m. By noon the enemy forces in two groups retiring westwards at high speed one group consisting of two battleships three cruisers five destroyers, second group three cruisers three destroyers with possibly two battleships. Air attacks by aircraft and strong force of Blenheims from Greece made several attacks. Former scored possibly torpedo hit on one cruiser; latter claim two bomb hits on one cruiser two heavy bomb hits on another cruiser, one hit heavy bomb on destroyer. One Littovio class reported to have speed reduced to fifteen knots by day torpedo attacks. Commander in Chief reported at 12:28 a.m. 29th March also two eight-inch cruisers severely damaged by our battleships in ensuing night action - hoped sunk. Result of destroyer night attacks not yet reported. Survivors from believed six inch gun cruiser reported by aircraft.

2. On the 16th Parthian fired torpedoes at 6000 ton merchant ship and 10,000 ton tanker in escorted convoy in the Straits of Messina, two explosions heard believed two ships hit.

3. Scharnhorst Gneisenau were at Brest on 28th. One in dry dock one in Rade Aboi.

4. Royal/

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4. Royal Air Force. Night of 27th/28th. Industrial centres Cologne and Dusseldorf each attacked by 33 aircraft; 26 tons H.E. dropped on the former and 33 tons and 3,000 incendiaries on latter. Many fires and explosions caused.

5. Night of 28th/29th. All bombing operations cancelled.

6. Dodecanese. Enemy aerodrome in Rhodes bombed on 27th one enemy aircraft destroyed on the ground.

7. German Air Force, 28th. Only slight enemy activity; our fighters destroyed one enemy bomber and probably destroyed a second.

8. Night of 28th/29th. No enemy operations reported.

Regraded Uclassified

Telegram from London dated 30th March.

Naval. No further news yet received about the action in the Mediterranean March 28th and 29th but Greek destroyers have picked up 110 Italian survivors and have been directed by Sunderland aircraft to the position to pick up 600 more.

2. March 29th, several enemy air attacks made on east coast convoys; one British tanker was hit and sunk.

3. Royal Air Force. Night of March 29th/30th. All bombing operations cancelled.

4. Italy. March 28th. Six medium bombers attacked aerodrome at Lecce (near Brindisi) destroying at least one aircraft and damaging 20 others.

5. German Air Force. Night of March 29th/30th. About 40 aircraft operating principally in Avonmouth area, and 36 more suspected of mine laying.

6. In central Mediterranean German dive bombing force has been reinforced from units previously located in northern France.

7. Whole dive bombing force in the Balkan theatre (160) now located in south west Bulgaria.

8. Home Security. Night of March 29th/30th. Bombing not heavy but sharp attacks on Avonmouth and Bristol. At Avonmouth three oil cisterns set alight and still burning. Fires all under control. Casualties so far reported not serious.

9. Add to paragraph 1 above. Three Italian eight inch cruisers, two destroyers now confirmed sunk, one six inch cruiser possibly sunk. Our losses nil.

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CONFIDENTIAL

MILITARY INTELLIGENCE DIVISION,
WAR DEPARTMENT,
Washington, March 31, 1941.

TENTATIVE LESSONS BULLETIN,
No. 86
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.

NEW TYPES OF GERMAN ARMORED DIVISIONS

SOURCE

This bulletin is based upon information recently received from American official observers in Europe.

CONTENTS

1. GENERAL

2. THE REDUCED-SIZE DIVISION

3. THE LARGE DIVISION

   a. General
   b. Common Organization
   c. Differences in Organization

4. G-2 COMMENT

Regraded Uclassified

CONFIDENTIAL

NEW TYPES OF GERMAN ARMORED DIVISIONS

1. GENERAL

During the winter 1940-41, Germany reorganized her armored, or Panzer, divisions and expanded their number. There is probably no longer a single Panzer division in The German Army which is organized along 1940 lines. While information as to details of reorganization is in no sense conclusive, it permits an insight into organizational trends prevailing at present in the German Army.

There is no longer a single type of Panzer division, for two major types have been recognized - a large division and one reduced in size. Three variations of the large division have also been identified.

The concept of the "task force" governs German military thought to a great extent, and it is not inconceivable that still other types of armored divisions will be set up during 1941.

A part of the armored divisions reported to have been transported to Tripoli are of the reduced-size type, probably because lack of a road net in North Africa would seem to render impracticable the constant use of as large a body of troops as the 1940 type of Panzer division.

2. THE REDUCED-SIZE DIVISION

According to usually well-informed European sources, the reduced-size Libyan Panzer division is organized as follows:

Division headquarters;
One tank regiment of two battalions - 188 tanks;
One reconnaissance company or battalion - 29 armored cars;
One battalion of motorized infantry;
One "assault" artillery battery - 75-mm. infantry howitzers mounted on light tank chassis and provided with limited armor protection;
One antitank battalion armed with 37-mm. and 47-mm. antitank guns;
One antiaircraft battalion, armed with the following dual purpose antiaircraft and antitank guns: twenty-four 15-mm. antiaircraft machine guns; twelve 20-mm. antiaircraft machine guns, and sixteen 37-mm. machine guns.

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It is probable that this type of division also contains a small pioneer and signal detachment, although no information to this effect has reached the War Department.

3. THE LARGE DIVISION

a. General

The three types of large Panzer divisions already recognized are alike in all respects except in the matter of organization of the tank brigade. In all cases reconnaissance echelons, as well as motorized infantry brigades, are similarly organized.

b. Common Organization

Common organization is as follows:

Division Headquarters:
- 5 command vehicles;
- 5 light tanks for the reconnaissance platoon;
- 25 motorcycles for the messenger service.

Motorized Reconnaissance Battalion:
- One company of 24 armored cars;
- One company of 24 light tanks;
- One company of 120 motorcycles;
- One heavy weapons company consisting of
  - One antitank platoon of four 47-mm. antitank guns,
  - One infantry howitzer platoon of two 75-mm. infantry howitzers.

Motorized Infantry Brigade:
- One motorized infantry regiment - two battalions - armed as follows:
  - 72 light machine guns;
  - 16 heavy machine guns;
  - 24 light 50-mm. mortars;
  - 8 medium 81-mm. mortars;
  - 4 infantry howitzers, 75-mm.;
  - 8 assault guns, 105-mm. howitzers on self-propelled mounts. (Note: There has been no previous report to the effect that these howitzers were set up on self-propelled mounts. G-2.)
- One Motorcycle regiment, or possibly battalion, consisting of:
  - 24 machine guns;
  - 8 mortars, probably of 50-mm. caliber;

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16 infantry howitzers, 75-mm., mounted on light tank chassis and provided with light armor protection.

Divisional Artillery
One battalion of 105-mm. howitzers. (Note: One report states that these howitzers are mounted on "sleds". This report is believed to be of doubtful authenticity. G-2.)
One battalion of 120-mm. howitzers. (Note: This gun has not been previously reported except for a special Rheinmetall model constructed before the outbreak of war for sale to the Norwegian Army. G-2.)

Antitank Regiment or Battalion:
36 antitank guns, 47-mm.;
18 guns, 75-mm. or 88-mm.

Antiaircraft Regiment, or Battalion, armed with the following dual purpose antiaircraft and antitank guns: twenty-four 15-mm. guns; twelve 20-mm. guns, and sixteen 37-mm. guns.

Signal Battalion.

Pioneer Battalion with Bridge Columns.

c. Differences in Organization

In the case of the three types of heavy Panzer division, each tank brigade has a different organization. Difference may be due to restrictions in German tank production, but it is more probably the result of German GHQ's desire to produce special types of units for specific theatres of war. The three varieties of organization have been arbitrarily designated as Types A, B, and C, and the differences among them lie in the organization and equipment of the 2nd Tank Regiment of the brigade.

The Tank Brigade Headquarters and 1st Tank Regiment are organized in all cases as follows:

Tank Brigade Headquarters:
5 command vehicles;
5 light tanks for the light tank reconnaissance platoon;
25 motorcycles for the messenger service.

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The 1st Regiment (two battalions):
15 command vehicles;
15 light tanks for three reconnaissance platoons;
176 medium tanks;
Twelve 15-mm. antiaircraft machine guns and twenty-four antiaircraft 20-mm. machine guns, all of which are dual purpose weapons in that they can also be used against tanks. The organization used is probably that of a single antiaircraft company, which is a regimental unit.

The 2d Regiment:

Type A:
Same as 1st Regiment.

Type B:
5 command vehicles;
15 light tanks for three reconnaissance platoons;
One battalion equipped with 64 medium tanks - class III, 18 tons, and class IV, 22 tons;
One battalion equipped with 64 medium and heavy tanks - class V, 32 tons; class VI, 32 or 36 tons, and class VII, weight unknown.

Type C:
5 command vehicles;
5 light tanks for the reconnaissance platoon;
One battalion equipped with 5 light tanks and 64 heavy tanks, class VII, weight unknown;
One battalion of 47-mm. antitank guns, protected by light armor, on self-propelled mounts, number unknown.*

*Note: An American official observer in Sofia reports that he has observed these "tank chasers." He states that they are "fast light tanks, probably tank chasers, armed with guns of about 75-mm. and having traction from 12 wheels made of hard rubber." G-2.

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4. G-2 COMMENT

Establishment of these new types of German armored divisions illustrates the fluidity which prevails in the German Army. The organization and equipment of a German unit never remain stabilized for a long period of time, and constant change appears the only fixed rule. Changes of organization are simple in the German Army, for Tables of Organization are anything but sacrosanct and basic cells - squads - always remain constant. Reorganization involves only shifting the proportion and arrangements of the cells.

Five major trends in organization are apparent in these new types of Panser division:

1. A shift from light to medium and heavy tanks. In all four types of divisions, light tanks appear only in the divisional reconnaissance battalion and in the reconnaissance platoons of the various tank sub-units. In the former, light tanks seem to be replacing armored cars.

2. A strengthening of antitank defenses in the division. This is clearly discernible from the appearance of 47-mm. antitank guns in quantity and the assignment to the division of an antiaircraft machine gun battalion, all of whose guns are also capable of antitank fire.

3. The reorganization of the artillery component of the division as deduced from the appearance of a large quantity of light assault artillery set on self-propelled mounts and protected by armor.

4. The appearance in one instance in the tank brigade of a battalion of "tank destroyers" - 47-mm. antitank guns on self-propelled mounts.

5. The strengthening of the antiaircraft protection of the division by the assignment of an antiaircraft machine gun battalion.

Regraded Uclassified

RESTRICTED

G-2/2657-220
No. 354

M.I.D., W.D.
April 1, 1941
12:00 M.

SITUATION REPORT

I. Western Theater of War.

Air: German. In daylight yesterday there was scattered activity over England. Last night a fairly heavy attack was made on a "northeast coast town."

British. Normal night attacks on northwest Germany with concentrations on Emden and Bremen.

II. Balkan Theater of War.

Ground: Bulgaria. No change.

Yugoslavia. The possibility now exists of an immediate attack against Albania.

Albania. The Greeks report the annihilation of an Italian center of resistance. Local Greek action reported in the Ninth Army or Northeast Sector.

Air: Normal close support by both sides in Albania.

III. Mediterranean and African Theaters of War.

Ground: Abyssinia (Ethiopia). Diredawa, on the Addis Ababa railroad, was occupied by British troops on the afternoon of March 29.

Eritrea. The British advance toward Asmara is continuing.

Air: Some Axis offensive activity in Libya.

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

Regraded Uclassified

RESTRICTED

G-2/2657-220
No. 353

M.I.D., W.D.
March 31, 1941
12:00 M.

SITUATION REPORT

I. Western Theater of War.

Air: German. Widespread activity over Great Britain in small force.

British. Limited activity. Last night fairly heavy attacks were made on the Invasion Ports, including Brest.

II. Balkan Theater of War.

Ground: Bulgaria. It is definitely reported that German troops are being reoriented from Rumania and Yugoslavia toward the Yugoslav frontier.

Yugoslavia. Mobilization continues.

Albania. Intense patrol and artillery activity is reported by the Greeks.

Air: Normal close support in Albania.

III. Mediterranean and African Theaters of War.

Ground: Eritrea. The Italians are retreating toward Asmara under British pressure.

Ethiopia. British forces are advancing from Harar. Diredawa has already been evacuated by the Italians.

Libya. No activity reported.

Naval: The British Fleet has sunk three heavy Italian cruisers and two destroyers in a sea and air battle west of Crete. The British appear to have suffered no losses.

Air: German. Malta was again raided.

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British. The sea fight in the eastern Mediterranean appears to have involved very close aerial cooperation. The Fleet Air Arm is said to have mauled and delayed the Italian fleet until British ships could come up.

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.

Regraded Uclassified

Paraphrase of Code Radiogram
Received at the War Department
at 10:09, March 31, 1941.

London, filed 14:50, March 31, 1941.

1. British Air Activity over the Continent.

a. Daylight of March 30. Axis shipping off the coasts of Holland and France were attacked by a formation of British bombers. Machine-gun fire and near misses inflicted some damage on at least four cargo boats and the activities of these bombers also caused the sinking of one Nazi anti-submarine vessel.

b. Day of March 29-30. Adverse weather caused the cancellation of all flights of planes of the bomber command. However mines were planted by a small number of bombers from the Coastal Command along the coast of France.

c. Night of March 27-28. A total of 3,000 incendiary bombs and 33 tons of high explosive bombs were used in the British attack on Duesseldorf. Fifty tons of high explosive bombs were used in the British raid on Cologne.

2. German Air Activities over Britain.

a. Night of March 30-31. Berwick, Scotland, was attacked by three German bombers but little damage was done. Some German planes engaged in scattered attacks in Lincolnshire, Suffolk, Yorkshire and Norfolk. A few German planes carried out mining operations along the coast of England from the Humber River to Yarmouth. An attempt was made to intercept these mine-laying planes by British night fighters but it was unsuccessful.

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b. Day of March 30. Four German bombers crossed the coast line of England. About 800 German planes were over the Dover Straits on defensive patrols. Large numbers of German planes were engaged in weather and merchant shipping reconnaissance on all coasts of England.

c. Night of March 29-30. A total of 40 German planes took part in the raid against Avonmouth. German bombs set fires at three oil storage cisterns which were completely destroyed.

3. Aircraft Losses.

a. British. There are no reports of British aircraft losses.

b. German. Day of March 30. One plane destroyed and one other damaged.

4. British air activities in Middle Eastern theatre were as follows: in both theatre in Italian East Africa, (Eritrea and Ethiopia) planes of the Royal Air Force supported the operations of land forces; in the Albanian theater British bombing attacks were made in the Berat, Himara (?) and Tepelani regions; the Libyan harbor of Tripoli was successfully bombed by British planes.

5. German air activities in Middle Eastern theatre consisted of two raids on Malta. The first was during the night of March 29-30, and there was little damage from the random bombing. Early on the morning of March 30 eight more German planes attacked an airfield on Malta. There were no casualties and the damage done was slight.

6. The two 26,000-ton German battleships SCHARNHORST and GNEISENAU that were sighted in the Atlantic some days ago are now at Brest.

SCANLON

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Distribution:
Secretary of War
State Department
Asst. Secretary of War
General Miles
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps
G-2

Regraded Uclassified

Paraphrase of Code Radiogram
Received at the War Department
at 15:10, March 31, 1941.

Belgrade, filed March 31, 1941.

1. Yugoslavia intends to make an attack on Albania at the start of hostilities, and to drive the Italian forces out, seizing the ports, according to a statement made to me by General Mirkovic. Preparations for hostilities are being rushed at fever heat at the Yugoslav War Department, which is running twenty-four hours a day. Nothing beyond delaying action is intended anywhere to the north of the river line of the Save and the Danube. Aid from the Croatians would be welcomed by the War Office, but they are planning their military activities on a basis of Serbian support.

2. Last night eight hundred Germans departed by steamer. At nine o'clock tonight a special train will take Italian subjects, including women and children from the Italian Legation, back to Italy for repatriation. The offices of the German military attache and the German consul were loading ten trucks during the afternoon yesterday. The city of Belgrade is entirely orderly. Statements to the contrary are propaganda by the Axis Powers.

FORTIER

(S-2 Note. General Mirkovic is assistant chief of air force and the man who largely planned the military details of the coup d'etat.)

Distribution:
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
General Miles
Chief of Staff
War Plans Division
Office of Naval Intelligence
Air Corps

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Paraphrase of Code Radiogram
Received at the War Department
at 15:12, March 31, 1941.

Madrid, filed 12:30, March 31, 1941.

Spain producing only 100 tons of copper per month and to supply shortage is endeavoring to purchase British copper. Dependable sources state that Spain is shipping no copper to Germany.

EAGER

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