Excise taxes

Source	Estimated increase (In millions)
Gasoline, 1 cent per gallon additional	$255.0
Soft drinks, 1 cent a bottle and equivalents	132.5
Passenger automobiles, parts and accessories, double rates	79.9
Check tax, 2 cents per check	57.0
Admissions, reduce exemptions from 20 cents to 9 cents	55.0
Tires and tubes, increase rates from 2½ and 4½ cents to 5 and 9 cents	52.5
Telephone, telegraph, cable, etc., lower exemptions and increase rates	40.4
Passenger transportation, 5 percent of amount paid (35 cent exemption)	37.6
Telephone bill, 5 percent	28.6
Furs, 10 percent of retail sale price	20.7
Jewelry, 10 percent of retail sale price (1932 Act exemption)	19.6
Photographic apparatus, etc., 10 percent	15.0
Clocks, watches, etc., 10 percent	10.0
Mechanical refrigerators, increase rate from 5½ to 10 percent	9.8
Sporting goods, 10 percent	8.5
Matches, 2 cents per 1,000	7.1
Radio sets and parts, increase rate from 5½ to 10 percent	6.3
Toilet preparations, revise basis	5.0
Trunks, suitcases and other luggage, 10 percent	4.5
Phonographs and phonograph records, 10 percent	4.5
Candy, chewing gum, 5 percent	3.6
Musical instruments, 10 percent	3.6
Bowling alleys, $15 per alley, billiard or pool table	3.4
Club dues, initiation fees, lower exemptions and redefine base	2.8
Playing cards, increase rate from 11 to 15 cents	1.7
Safe deposit boxes, increase from 11 to 20 percent	1.7
Cabarets, 4 percent of total charge	1.0
Total	$867.3

Regraded Uclassified

The Treasury has given careful consideration to the relative merits of a general sales tax and a group of excises on selected commodities in the light of present requirements. In concluding against a general sales tax, it was not influenced merely by a knowledge that such a tax would fall more heavily on the very lowest income groups but also by the realization that such a tax would militate against achievement of the basic principles set forth in the opening of my statement.

Aside from these general questions there are several more technical reasons for staying clear of the general sales tax at this juncture. Among these the following may be mentioned.

1. The effective administration of a general sales tax would require the creation of an elaborate administrative structure entailing more time and expense than is warranted if the sales tax is to be used only as a temporary source of revenue.

2. The superimposition of a general sales tax on the existing Federal excises would add to the complexity of the Federal tax structure and unless the present excises were exempt from a general sales tax levy, some of the commodities would almost certainly be taxed too heavily. The use of selected excises avoids this complication and makes possible fitting the rates of tax for each commodity more nearly to its peculiar market situations.

3. The Federal-State fiscal conflict involved in the imposition of a Federal sales tax in addition to the existing State and local sales taxes is mitigated by the proposed selected excises.

Regraded Unclassified

For those general and more specific technical reasons, we have come to the conclusion that it is inadvisable to risk the dislocations in business and elsewhere which a general sales tax would occasion. Instead, we propose to avoid experimentation and stay as nearly as possible within the scope of our previous experience by limiting our consumption taxes to excises on carefully selected commodities.

We are faced with a job, a severe and unenviable one. But we feel that the program outlined for you will do that job effectively and in fairness to everyone.*/ I believe you will agree with me that the Treasury's suggestions will raise the money for the gigantic task ahead of us; that it distributes the burden in a fair and equitable manner and that this entire tax program will be accomplished without disrupting or dislocating industry or our economy.

* In all its tax proposals the Treasury seeks equity. Just as we have sought equal treatment to all taxpayers in the repeal of the tax exemption of future issues of Federal securities, and in our frequently expressed desire for the repeal of the exemption in favor of future issues of State and Municipal securities, so too, here we offer a plan we believe to be eminently fair to all.

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A-1

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

Source		Estimated increase (In millions)
Individual income taxes		
Increase surtax rates, adopting attached schedule (with defense tax)		$1,520.7
Estate and gift taxes		
Estate tax changes: (1) reduce exemption to $25,000; (2) adopt attached estate tax rate schedule (with defense tax) (3) reduce insurance exclusion to $25,000		347.2
Gift tax changes: (1) reduce exemption to $25,000; (2) increase the gift tax rates to three-fourths the rates in the estate tax schedule		
Corporation taxes		934.5
(1) Surtax: 5 percent on first $25,000 net incomes; 6 percent on the balance	534.5	
(2) Excess profits tax	400.0	
		188.3
Tobacco		
Cigarettes: Additional 75 cents per 1,000	112.8	
Cigars, tobacco and snuff: Double rates	75.5	
		177.6
Liquor		
Distilled spirits: $1 per gallon additional	122.3	
Fermented malt liquors: $1 per barrel additional	52.8	
Wines, cordials and liqueurs: Increase of 16-2/3 percent	2.5	
		867.3
Other excise taxes		
Gasoline, 1 cent per gallon additional	255.0	
Soft drinks, 1 cent a bottle and equivalents	132.5	
Passenger automobiles, parts and accessories, double rates	79.9	
Check tax, 2 cents per check	57.0	
Admissions, reduce exemptions from 20 cents to 9 cents	55.0	
Tires and tubes, increase rates from 2½ and 4½ cents to 5 & 9 cents	52.5	
Telephone, telegraph, cable, etc., lower exemptions and increase rates	40.4	
Passenger transportation, 5% of amount paid (35 cent exemption)	37.6	
Telephone bill, 5 percent	28.6	
Furs, 10 percent of retail sale price	20.7	
Jewelry, 10 percent of retail sale price (1932 Act exemption)	19.6	
Photographic apparatus, etc., 10 percent	15.0	
Clocks, watches, etc., 10 percent	10.0	
Mechanical refrigerators, increase rate from 5½ to 10 percent	9.8	
Sporting goods, 10 percent	8.5	
Matches, 2 cents per 1,000	7.1	
Radio sets and parts, increase rate from 5½ to 10 percent	6.3	
Toilet preparations, revise basis	5.0	
Trunks, suitcases and other luggage, 10 percent	4.5	
Phonographs and phonograph records, 10 percent	4.5	
Candy, chewing gum, 5 percent	3.6	
Musical instruments, 10 percent	3.6	
Bowling alleys, $15 per alley, billiard or pool table	3.4	
Club dues, initiation fees, lower exemptions and redefine base	2.8	
Playing cards, increase rate from 11 to 15 cents	1.7	
Safe deposit boxes, increase from 11 to 20 percent	1.7	
Cabarets, 4 percent of total charge	1.0	
Summation of items		4,035.6
Less: Allowance for interrelated tax bases (approximate)		435.6
Total		3,600.0

April 24, 1941

Treasury Department.

1/ Estimates for individual and corporation income taxes and the gift tax are based on income levels estimated for calendar year 1941; all other estimates are based on income levels estimated for fiscal year 1942.

Regraded Uclassified

A-2

Individual surtax rate schedule

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

Treasury Department, Division of Tax Research April 24, 1941

Regraded Uclassified

A-3

Comparison of individual surtax rate schedules under present law and proposal

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

Treasury Department, Division of Tax Research April 24, 1941

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

Married person - no dependents

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

Treasury Department, Division of Tax Research April 24, 1941

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

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Estate tax rate schedule

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

Treasury Department, Division of Tax Research April 24, 1941

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A-6

Proposed estate tax rates compared with present estate tax rates

Net estate after specific exemption (in thousands of dollars)	Proposed rates 1/		Present rates 1/	
	Bracket rate (percent)	Cumulative tax on higher amount	Bracket rate (percent)	Cumulative tax on higher amount
$ 0 - $ 5	4	$ 200	2	$ 100
5 - 10	8	600	2	200
10 - 20	12	1,800	4	600
20 - 30	16	3,400	6	1,200
30 - 40	20	5,400	8	2,000
40 - 60	23	10,000	10 - 12	4,200
60 - 80	26	15,200	12 - 14	6,800
80 - 100	29	21,000	14	9,600
100 - 150	32	37,000	17	18,100
150 - 200	35	54,500	17	26,600
200 - 250	38	73,500	20	36,600
250 - 300	41	94,000	20	46,600
300 - 500	44	182,000	20 - 23	89,600
500 - 1,000	47	417,000	23 - 29	222,600
1,000 - 2,000	49	907,000	32 - 35	557,600
2,000 - 3,000	51	1,417,000	38 - 41	952,600
3,000 - 4,000	53	1,947,000	44 - 47	1,407,600
4,000 - 5,000	55	2,497,000	50 - 53	1,922,600
5,000 - 6,000	57	3,067,000	56	2,482,600
6,000 - 7,000	59	3,657,000	59	3,072,600
7,000 - 8,000	61	4,267,000	61	3,682,600
8,000 - 9,000	63	4,897,000	63	4,312,600
9,000 - 10,000	65	5,547,000	65	4,962,600
10,000 - 20,000	67	12,247,000	67	11,662,600
20,000 - 50,000	69	32,947,000	69	32,362,600
Over 50,000	70	-	70	-

Treasury Department, Division of Tax Research — April 24, 1941

1/ Exclusive of temporary defense tax.

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A-7

Comparison of Federal estate tax (before allowance of credit for State death taxes) under present and proposed rates, upon net estates (before exemption) of selected sizes 1/

Net estate before exemption (000)	Amount of tax 2/		Effective rate		Increase in tax	
	Present law	Proposal	Present law	Proposal	Amount	Percent
$ 50	$ 220	$ 2,860	0.4%	5.7%	$ 2,640	1,200.0%
60	660	4,840	1.1	8.1	4,180	633.3
80	2,200	9,735	3.8	12.2	7,535	342.5
100	4,620	15,290	4.6	15.3	10,670	231.0
200	21,660	50,205	10.8	25.1	28,545	131.8
400	63,780	139,020	15.9	34.8	75,240	118.0
600	112,340	237,575	18.7	39.6	125,235	111.5
800	167,340	340,095	20.9	42.5	172,755	103.2
1,000	228,780	442,455	22.9	44.2	213,675	93.4
2,000	588,000	974,265	29.4	48.7	386,265	65.7
4,000	1,499,640	2,099,085	37.5	52.5	599,445	40.0
6,000	2,655,140	3,306,945	44.3	55.1	651,805	24.5
10,000	5,323,500	5,977,065	53.2	59.8	653,565	12.3
20,000	12,532,700	13,186,595	62.7	65.9	653,895	5.2
40,000	27,391,820	28,046,045	68.5	70.1	654,225	2.4
60,000	42,361,380	43,015,770	70.6	71.7	654,390	1.5
100,000	72,521,380	73,175,770	72.5	73.2	654,390	0.9

Treasury Department, Division of Tax Research April 24, 1941

1/ Under the proposal, the attached rate schedule is substituted for the present schedule, and the specific exemption is reduced from $40,000 to $25,000. In the computations, the credit for State death taxes is assumed to be 80 percent of the tax imposed under the 1926 Act, both under present law and under the proposal. The defense tax is 10 percent of the Federal tax after allowance of the credit for State death taxes.

2/ Includes defense tax.

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RADIO COMMENT

April 24, 1941

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5:45 P.M. RADIO STATION WINX

GRAY MORGAN: In Congress the House Ways and Means Committee has before it the Treasury's new tax bill calling for an over-all increase in the income tax from the present 4.4 percent to a new high of 16.5 percent. Secretary of the Treasury Morgenthau appeared before the Committee and warned the nation that all citizens, the poor and the rich, must bear their fair share of the burden. The Treasury is trying to raise three billion five hundred million dollars in additional revenues for meeting the defense costs. Treasury experts explained that if all other taxes remain the same, it means that the American people will be contributing twenty-four percent of their national income to taxes next year.

6:00 P.M. RADIO STATION WJSV

EDWIN C. HILL: The Treasury Department today presented Congress with its plan to raise three and one half billion dollars in additional revenues, disclosing their aim to increase present tax rates from 4.4 per cent, the current basic rate, to a new high of 16.5 per cent. The boost in

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federal levies will mean that all taxing agencies, federal, state, and local, will be taking twenty-four percent of the national income next year. Henry Morgenthau, Secretary of the Treasury, warned the nation today that all citizens, rich and poor, shall bear their fair share of the tax burden.

6:15 P.M. RADIO STATION WMAL

ANNOUNCER: The Treasury Department discloses today that the present income tax rate of 4.4 percent will presently be increased to 16.5 percent. Treasury experts advised the House Ways and Means Committee that assuming state and local taxes remain the same, the increase in the federal levies will mean that all taxing agencies, federal, state, and local, will be taking twenty-four percent of the national income next year.

6:30 P.M. RADIO STATION WRC

BAUKHAGE: Here in Washington while we are thinking about war, we are talking about taxes. That topic probably will be discussed here and elsewhere for some time to come. Secretary of the Treasury Morgenthau and his assistant, John L. Sullivan, explained to the House Ways and Means Committee, the details

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of Treasury's plan for raising that three billion six hundred million dollars. Secretary Morgenthau suggested right off that non-defense expenditures of Government could be cut as much as a billion dollars. He said the Federal farm program, for instance, could stand a big cut. The specific new tax proposal was presented by Sullivan. It calls for a minimum of eleven percent surtax on the first dollar of taxable income, as well as new surtaxes on corporate income. Another Treasury official, Undersecretary Daniel Bell, estimated that the new taxes, plus those already in effect, would be about twenty-four percent of the national income next year. Secretary Morgenthau described it as a small price to pay for security against aggression.

6:30 P.M. RADIO STATION WOL

WALTER COMPTON: Taxes were the talk of Washington again today and probably they will be the main topic for many days to come. Treasury Secretary Morgenthau and his assistant, John L. Sullivan, explained to the House Ways and Means Committee details of the Treasury's plans for raising three billion six hundred million dollars. Secretary Morgenthau

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suggested right off that non-defense expenditures of Government could be cut as much as one billion. The specific new tax proposal was presented by Sullivan. It calls for a minimum eleven percent surtax on the first dollar of taxable income, as well as new surtaxes on corporate incomes. Another Treasury official, Undersecretary Daniel W. Bell, estimated that the new taxes, plus those already in effect, would be above twenty-four percent of the nation's income next year. Morgenthau described it as a small price to pay for security against aggression.

6:45 P.M. RADIO STATION WJSV

ERIC SEVEREID: The Secretary of the Treasury turned over to Congress today his new plan to raise three and a half billion dollars in new income taxes. To a Congressman who objected to the strain of all that, Morgenthau replied: "Well, how much is it worth to be a free man living in a free land?" And that is the situation in Washington.

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6:45 P.M. RADIO STATION WMAL

LOWELL THOMAS: The Administration's plan to raise money for national defense and aid to Britain was formally presented by Secretary of the Treasury Morgenthau today. He placed it before the Ways and Means Committee of the House of Representatives. The Secretary's recommendations come under two headings - raise taxes, and cut down non-military expenditures. The tax proposal presented the figure that we have heard before, three and a half billion dollars to be raised by extra taxation. The Secretary said that this will be a small price to pay for the defense of national freedom. He declared that the public is willing to accept the new burden, the heaviest tax bill in American history. The principal feature proposed is a drastic raise of income taxes which also is according to information that we have had previously; the basic four percent income tax to remain the same, but a surtax to be put on every dollar of income, a surtax beginning at eleven percent on all incomes. The Secretary of the Treasury pointed out that extra taxes amounting to three and a half billion dollars would take only four percent of the national income which is rising rapidly. The proposal brought out the

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fact that the new taxes added to those already in effect would consume twenty-four percent of the national income. The Secretary of the Treasury went on to argue that the new taxation would have the desirable effect of keeping down prices of the ordinary goods of life, because after paying taxes, then the American people would have less money to spend. Another argument that came up in the Committee hearing was this; that even after paying all the taxes, the average citizen would be better off financially than the men called in the Army and Navy, because those called up are giving up a year of earning, just to get a basic rate of pay of only thirty dollars a month. In other words, they have given up a lot more than the taxpayer is called upon to do. The drastic plan proposed by the Secretary is not the only one under consideration. Congressional leaders have formulated another not nearly so stiff, something that would not bear down so heavily on the people with small incomes. As for cutting down non-military expenses, Secretary Morgenthau told the Congressional Committee that a billion dollars a year could be saved. He said that there should be no cut in necessary relief money. He declared that the Government must continue to provide for

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those in want, those in urgent need of relief. He suggested that large sums of cash could be saved by cutting the budgets of the Civilian Conservation Corps and the National Youth Administration, which already are scheduled for a total of six hundred seventy million dollars during the next year. All of those items ought to be re-examined, said the Secretary of the Treasury. And he also thought that the money paid to farmers should be cut. The present budget originally called for a two hundred twelve million dollar farm bill. Congress raised that to four hundred fifty millions. "That is one place where a lot of money could be saved," so said the Treasury head today.

7:00 RADIO STATION WOL

FULTON LEWIS, JR.: As far as Congress is concerned, the most significant news tonight is that a considerable revolution is brewing on the new tax bill. The full import of that tax bill is just beginning to seep into the consciousness of the average Congressman. Once it gets inside, it seems to cause him a great deal of pain. Already there is one substitute proposal, a substitute tax program, devised by the tax expert

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for the Congressional committees themselves, and it reflects very well the preference of Senators and Congressman as such. It reduces the drastic increases on the income tax rate for people in the lower income tax brackets from ten thousand dollars a year down; but the difficulty is that this proposal does not supply anything that is very convincing as a substitute for the income that the Treasury loses by that reduction. The organization, so-called the little business men, who made themselves famous by their meeting here several years ago, sent the committee a suggestion today by telegram. They want a payroll tax of five to ten percent of all salaries of all workers. Just for your information, that is out of the question from a political point of view. Secretary of the Treasury Morgenthau and Mr. John L. Sullivan, of the Bureau of Internal Revenue, appeared at the Capitol today, and they testified on the subject of this program that they have prepared. They had, however, nothing particularly new to offer. They merely insisted that a three and a half billion dollar tax bill is necessary, and in their opinion their program is the simplest way to get it. Secretary Morgenthau did propose that drastic economies be made in every possible way. He

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said that he thinks the appropriation for the CCC, for the National Youth Administration, and for farm benefits should be cut down to rock bottom. There is one compromise proposal on this tax picture that seems to be gaining some general favor around the cloak rooms and the offices, a combination of sales tax and income tax increases. In effect, it really is just about the plan that was offered by the Congressional tax advisers about which I told you just a moment ago, with a small sales tax to make up that difference. In some cases, it was suggested that a general sales tax of one percent be levied on everything. That would mean a nickel in taxes on every five dollars worth of groceries you buy. The argument was made that that certainly is not a burden to anyone. The other alternative was a two percent sales tax on general commodities with an exemption for food, fuel, clothing, and medicine. The first idea would bring about six hundred million dollars worth of revenue, the second would bring about four hundred million dollars worth, but both of them still are strictly in the talk stage. The only thing that is certain is that some sort of a tax bill is going through, and it is going to be a steep one. And that brings up a bit of news

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that I think you are entitled to know, inasmuch as you and I are paying the bill for whatever is spent. We call it national defense, and there are probably a very few people in the country who begrudge a single penny that goes for that purpose; but it begins to appear that in some quarters there is an effort to tap the pipe line of this national defense spending so that part of the money the public will pay in taxes will go for other things than national defense.

7:15 P.M. RADIO STATION WRC

FORD PEARSON: Secretary of the Treasury Morgenthau formally handed Congress the job of raising three and a half billion dollars in new taxes, calling the sum a small price to pay for freedom.

9:00 P.M. RADIO STATION WOL

GABRIEL HEATTER: Well, the new tax bill is on its way tonight. The amount recommended by Mr. Morgenthau is what earlier reports said it would be, three and a half billion dollars. And that is tempered by a plan to save about a billion dollars of non-defense spending. The basic tax rate on incomes will

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will probably remain at four percent, but surtaxes of a minimum of eleven percent affecting the very first dollar of taxable income are almost certain to come. And where we spent about four percent of our national income for defense, we shall now be spending approximately twenty-four percent.

9:15 P.M. RADIO STATION WOL

FRANK BLAIR: Away from the flurry of these developments, Congress and the nation heard from the Treasury what Mr. and Mrs. America must pay for defense. The Treasury's program is twofold. More taxes, and economy in non-defense projects. The Administration's specific tax proposals called for drastic surtaxes on lower and middle income brackets, and a general increase in most other levies.

10:30 P.M. RADIO STATION WRC

CLAUDE MAHONEY: When I said that two Cabinet officers made news, I should have said three; for Secretary Morgenthau is in the news again, though not so definitely as though he had mad a speech. He told the House Ways and Means Committee today that the proposed three and a half billion increase

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in taxes is a small price indeed to pay for liberty. He said there is a possibility that the war may spread to this continent, and that sounds like the other speakers. The committee was hearing him on new defense tax schedules, and I submit that his statement might also have been read in advance by the same master proofreader.

11:30 P.M. RADIO STATION WOL

ANNOUNCER: Assistant Secretary of the Treasury Sullivan told Congress today that a manufacturer's sales tax high enough to meet present defense needs would require a levy of more than eighteen percent on virtually all commodities. Sullivan was questioned during an appearance before the House Ways and Means Committee on a possible substitution of a sales tax for the Treasury plan for raising three and a half billion dollars in new defense funds. He said that the Department had considered the sales levy in making its study of tax resources, but had rejected it in favor of levies against incomes, inheritances, and luxury commodities. Earlier the Assistant Treasury Secretary had laid before the Committee a detailed recommendation for sweeping new taxes to

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provide money for the mounting defense program. The recommendations included an eleven percent surtax on individual incomes which would increase to sixteen and a half percent the lowest bracket tax on private earnings. It included a proposed new six percent surtax on corporate income, sharp increases in inheritance rates, and higher excise levies.

12:00 Midnight RADIO STATION WINX

ANNOUNCER: Assistant Secretary of the Treasury Sullivan told Congress today that a manufacturer's sales tax high enough to meet present defense needs would require a levy of more than eighteen percent on virtually all commodities. Sullivan was questioned during an appearance before the House Ways and Means Committee on a possible substitution of a sales tax for the Treasury plan for raising three and a half billion dollars in new defense funds. He said that the Department had considered the sales levy in making its study of tax resources, but had rejected it in favor of levies against incomes, inheritances, and luxury commodities. Earlier the Assistant Treasury Secretary had laid before the

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Mr. Kuhn said today that he had ridden with the Secretary to the tax hearing this morning, and he felt sure that the Secretary, after thinking it over, did not care to write a letter to the New York Times on this subject.

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April 24, 1941

Ferdinand Kuhn, Jr.

Secretary Morgenthau

Please talk to me today about the tax editorial in the New York Times. I think maybe we ought to write a letter to them and tell them that if they think our tax bill is so lousy, I would like to have them give me a plan how to raise three and a half billion dollars additional in taxes.

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

For Miss Chauncey.

DATE April 24, 1941.

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£34,000
Purchased from commercial concerns	£12,000

Open market sterling held steady at 4.02-1/4. Transactions of the reporting banks were as follows:

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

The Canadian dollar, which closed at a discount of 11-9/16% last night, weakened to close at 11-7/8% today.

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

Swiss franc	.2320-1/2
Swedish krona	.2384
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2350
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	4-3/16% discount

In Shanghai, the yuan in terms of our currency was unchanged at 5-5/32¢, and sterling was again quoted at 3.90.

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

No new gold engagements were reported.

In London, the price fixed for spot and forward silver remained unchanged at 23-1/2d, equivalent to 42.67¢.

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

We made no purchases of silver today.

H. M. C.

Regraded Uclassified

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE April 24, 1941

TO Secretary Morgenthau

FROM Mr. Wiley

The Criminal Division of the Department of Justice has ruled that organizations engaged in the business of soliciting orders for food packages for individuals in belligerent countries are not required to register as agents of foreign principals or as persons soliciting contributions to relieve human suffering in belligerent countries (under Section 8 of the Neutrality Act of 1939).

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE April 24, 1941

TO Secretary Morgenthau

FROM Mr. Wiley

FBI reports:

Recent FBI reports indicate that deposits are being made in German accounts in this country of currency traced to prior large cash withdrawals from Italian accounts. On April 15 Hamburg-American paid $250,000 in cash to J. P. Morgan and Company in packages of old bills the bank straps on which were from the Banco di napoli Trust Company and the Corn Exchange Bank in which the Banco di Napoli has an account and from which it has in the past made large cash withdrawals. On April 21 the Reichs-Kredit-Gesellschaft deposited $113,000 in cash at the Central Hanover for the credit of the Banco de la Nacion in Buenos Aires; 110 $500 bills in this deposit had been withdrawn by Credito Italiano from the Irving Trust on January 14. In addition a total of $36,500, withdrawn in large bills by Credito Italiano some months ago, have been traced to cash deposits of various German representatives during March.

April 18. The Japanese government is said to be arranging to place its merchant ships in the Pacific in the event of hostilities breaking out with the United States.

ONI reports:

April 1 and 8 - Mexico City. A document has come to ONI's attention in Mexico purporting to be signed by Velasquez, new chief of the CTM, the Mexican labor organization, addressed to the officers of the organization, calling on them to cooperate with the National Socialist Party in accordance with "our contracted obligations." It is also reported from Tampico that the Mexican immigration officials there are pro-Nazi and have been contriving to permit the crews of seized Axis vessels to enjoy freedom from arrest or detention.

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THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

Box 680
Benjamin Franklin Station
Washington, D. C.

April 24, 1941

Dear Mr. Morgenthau:

When I saw the President a few days ago, I described, at his request, the general British shipping and imports position in broad outline, and subsequently summarized this description in a kind of aide memoire.

Knowing your friendly interest and active help in all that concerns American assistance to the British and Allied war effort, I thought that you might care to see this note, and I am, therefore, sending it to you. You will, of course, appreciate that the shipping problem varies rapidly, as losses occur and the strategic position changes. Nevertheless, the broad outline remains fairly constant for some time, and such a general picture as I have tried to present may provide a useful background to current events.

In particular, Purvis tells me that he is, at your request, obtaining certain information as to the volume of goods waiting for shipment at the different ports. Such information reflects one aspect of the shipping difficulties, but is perhaps more useful if it is considered in relation to the more general shipping situation. Otherwise the "last moment" difficulties resulting from a shortage of shipping which are reflected in statistics of goods actually at the ports may be misleading.

In any case, you may care to glance through this general note, which I shall be happy to supplement at any time you may wish.

Yours sincerely,

(Signed) ARTHUR SALTER

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

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THE SHIPPING PROBLEM

1. Two things are necessary: (a) to out-build losses as early as possible in 1942; (b) to bridge the interval.

2. Since the collapse of Western Europe last summer, losses have been at the average rate of 5 million gross tons a year. Every possible effort to improve protection is, of course, needed but the enemy's attack is also increasing in strength. It would be imprudent to count on a lower average rate of losses. British building, in the United Kingdom and elsewhere in the British Empire (Canada and Hong Kong), is at the rate of 1 1/4 to 1 1/2 million gross tons. In view of naval building and repairs, this figure will probably not be exceeded and may be seriously reduced if there is heavy bombing in the shipyards.

U.S.A. building is the only other source. To meet the deficiency at the present rate of loss, 3 1/2 to 3 3/4 million gross tons a year would be required even to match current losses at present rate but before the full American production can reach its peak, tonnage will have been further depleted. A margin is, therefore, needed to make up arrears apart from some insurance against a possible increase in the rate of loss. It is important, therefore, that American production should

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be increased so as to reach the rate of at least 4 million gross tons (or 6 million tons deadweight) as early as possible in 1942. This was the rate programmed in 1917 and attained in 1918-19. The speed with which production can be expanded is no less important than the scale ultimately aimed at. The most energetic action is, therefore, needed at once.

On the present plans American output will amount to 800,000 g.t. in 1941 and about 3 1/4 million in 1942.

3. If we assume provisionally that from the latter part of 1942 combined building can be brought up to equal the current losses, there remains the question of how the interval is to be bridged.

The shipping required for this purpose may be best judged from a brief summary of the present shipping and import position of Great Britian.

In what follows, (A) ordinary ships and cargo and (B) tankers carrying oil will be considered separately.

4. <u>A. (EXCLUDING TANKERS AND OIL)</u>

British ocean-going tonnage, including what has been added to the British flag by capture, requisition and purchase, now amounts to 13 million g.t. In addition, we have on charter 3 million g.t. of allied and neutral ships in war service.

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Of this total of 16 million tons, 4 million tons are used by the Navy and Army (for armed merchant cruisers, troop carriers, etc.), about 2 million tons are under repair and about 2 1/4 million tons are employed in maintaining Empire supplies. This leaves about 7 3/4 million tons available for importing into Great Britain.

5. The imports which we can secure with this tonnage are reduced (a) by the need to bring from more distant sources what we imported in peace-time from Europe; (b) by the delays necessarily involved in the convoy system, and (c) by losses of cargoes afloat and ashore. After allowing for every economy we can make in ships under our own control (such as diverting from Australasia to the Atlantic), we estimate that, on the assumption that the present rate of loss continues, U.K. imports (excluding oil) cannot possibly exceed 30 million tons this year. How serious this position is may be judged from the following facts:

Our imports (excluding oil) averaged for the three years immediately before the war 56 million tons.

The corresponding imports in the worst year of the last war (1917) were 34 million tons (and our population was then less than it is now by 10%). In the first year of this war we imported 43 1/2 million tons and our plans were made on the basis of 40 millions

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being a minimum below which real food difficulty and some impairment of our war effort through shortage of raw materials would be involved.

We were a few months ago compelled to cut down our programmes on the basis of a prospective total import of 35 million tons, of which food was to take 15, and raw materials and munitions 20. This would have involved a severe hardship and shortage of some materials needed for manufacture of munitions, but on that figure we might perhaps have just pulled through. In any further reduction below a total of 35, food cannot bear an equal proportion of any cut and the main result must be to deplete stocks and stint supplies of the raw materials wanted for munitions manufacture.

6. B. TANKERS AND OIL.

We have (not counting fleet auxiliaries in attendance on the fleet and thus not available for replenishing stocks) 3 million g.t. of British ocean tankers and 1 1/4 million g.t. of allied and neutral tankers. In spite of severe rationing of petrol, we need to import all forms of oil into Great Britain and to transport about 15 million tons for bunkers and fleet supplies abroad and for the civilian needs of the Dominions.

We estimate now that we shall be short by at least 500,000 g.t. even if future losses are from now on balanced by replacement.

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7. We thus reach the question, "How much additional tonnage is needed during the next 12 to 15 months to prevent the danger of a serious impairment of the war effort (through shortage of either food or raw material or an enforced reduction of military action in the Middle East, etc.)?" We need an additional importation of 7 to 10 million tons beyond what we can ensure by our own tonnage. We must assume that the Middle East will absorb in total rather more tonnage than it does now and we cannot prudently allow for any net reduction in the rate of loss. We must also bear in mind that any tonnage brought into our service will come in gradually and will not be actually importing for the whole of the forthcoming year. Taking these factors into account, it seems clear that we really need an increase of the tonnage engaged in importing or in carrying military stores of between 3 and 4 million gross tons coming into service rapidly enough to make them at least equivalent in carrying power to 2 million tons gross or 3 million tons deadweight immediately added and continuously employed.

8. It will naturally be asked whether some contribution cannot be made to the above tonnage requirements by some re-routing of British or Allied tonnage.

As far as British tonnage is concerned, however, every possible effort has been, and is being, made, under

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the compelling pressure of our imports shortage, to secure the maximum importing use of our shipping by withdrawal from foreign trade and diversion from distant sources (e.g., Australasia) to the Atlantic.

The above estimate of our prospective imports (and, therefore, of the extent of the deficit) allows for the effect of these diversions.

A detailed analysis has been made of the employment of all the British ships and was recently given to Mr. Hopkins in London. This shows that there is only about 500,000 tons deadweight or 300,000 gross tons physically suitable for ocean work. These ships are, however, engaged in essential work. They could be drawn into importing work if replaced, but not otherwise. Any further diversion would not, therefore, reduce the amount of extra tonnage required. But it would enable some part of this tonnage to be taken in the form of the allocation of shipping to work in safe areas.

As regards Allied ships, a certain amount of Norwegian, Greek and Dutch tonnage has been left outside of direct war service in order to earn dollars required to meet existing obligations and essential current necessities. Most, but not all, of this tonnage, is

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however, engaged in important work for which provision must be made in some way.

Allowing for this, it is possible that something like 400,000 g.t. of further Allied tonnage could be gradually brought into war service, if the Allied Governments could be furnished with the dollar exchange now earned by their work. This might take the form of Lease-Lend purchase or chartering by the U.S. Government with allocation to war service.

9. Taking the requirement, as explained in paragraph 7, as say 3 1/2 million g.t. spread over the next year until June, 1942, it remains to consider from what source this might be met.

They consist of (A) tonnage not under the U.S.A. flag, which might be obtained with the aid of the U.S.A. Government and (B) U.S.A. flag tonnage.

The former category (A) includes Danish ships, German and Italian ships in U.S.A. ports; a few Jugoslav ships; the Allied tonnage referred to in paragraph 8. As more remote possibilities are the French ships, perhaps some of the enemy ships in Latin American ports which the Governments concerned might seize if the U.S.G. gave a lead (a few of which might perhaps come into our service); possibly also a few of the "Panamanian" ships might be secured by the U.S.A.

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Taking into account political considerations and the serious damage to most of the enemy shipping, it would be improvident to hope for more than a total of 3/4 million g.t. from all the above sources, and much of this will come into service very late.

The second category, (B) - American "flag tonnage" includes both existing ships and new ships which will be produced between now and June 1942.

The existing American Mercantile marine (excluding Great Lakes tonnage) consists of about 7 1/2 million gross tons. Much of this, of course, is unsuitable and the great part of the remainder cannot be spared from the work in which it is now engaged and to which it is being diverted for U.S.A. defense needs.

A great deal of "inter-coastal" work (i.e., from Pacific to Atlantic via Panama) could be transferred to rail or road) and some of the "domestic" work could be similarly transferred or restricted. Conceivably 1 million g.t. could be obtained from these two sources.

In addition, passenger vessels (which would release some of our good cargo carriers from troop carrying), tankers, and other tonnage might yield another 1/2 million g.t.

New production between now and the end of June 1942, is planned to reach about 2 1/4 million tons. Some of this will be required to replace ships

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scrapped through old age. But most old ships could be kept going a year or two longer. Conceivably, 1 1/2 million g.t. could be allocated from new production.

10. The above withdrawals, if they were all possible, would - on the assumption of the present rate of loss - almost meet our deficit on essential needs (with allowance for time lag in entry on service) until the middle of June, 1942, or a little later. By that time, American production might be so expanded that, when added to British production, future current losses might be offset.

The problem, therefore, though urgent and difficult, is not insoluble. Several conclusions, however, emerge clearly:

i. Immediate shipping assistance on a large scale is indispensable and the date at which ships are forthcoming is as important as their number. For the vital year ahead, a ship supplied tomorrow is worth two ships in six months.

ii. The adequacy of the action described above, as regards both production and interim assistance from existing ships, depends upon the future rate of losses. The enemy's strength in attack, by both U-boat and air, is increasing. It is uncertain whether our protective forces can keep the rate of loss down to even the present high figure in spite of their own increase in strength.

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It is obviously better to save a ship than to build one in replacement. Anything that is possible to assist in protection is, therefore, doubly valuable.

iii. Increase of production (e.g., by using the resources of the Great Lakes) is highly desirable if possible, in order to ensure some margin against the uncertainty of further production, and to hasten the date at which equilibrium between losses and replacement will be reached.

Acceleration in the work is in any case required, and to secure results even in 1942 the action is required now. Every week's avoidable delay involves serious loss in essential supplies.

iv. For every form of assistance the most urgent and drastic action will be required by the American administration responsible (the Maritime Commission), and intricate co-ordination with the British supply organization. This will throw a heavy strain on the personnel of the Commission, and it is highly desirable that officers and appropriate subordinates shall have sufficient authority and sufficient time to carry through the work involved, in daily collaboration with the members of the British Shipping Mission, by the decisions of

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policy taken from time to time by the President. Here, as in the sphere of production, any delays through inadequacy of the administrative arrangements, might be fatal.

Arthur Salter
April 22, 1941

Regraded Uclassified

(1) Six leading operational types.

(2) Number of pilots.

(3) Planes undergoing repairs, overhauled, etc.

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MINISTRY OF AIRCRAFT PRODUCTION

OFFICE OF
THE REPRESENTATIVE

1785 MASSACHUSETTS AVE.
WASHINGTON, D.C.

April 24, 1941

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

SECRET
AND
NFIDENTIAL

Dear Mr. Secretary:

I enclose usual monthly figures up to the end of last month. To refresh your memory, the key is as stated on the attached slip.

Yours sincerely,

Morris W. Wilson,
Representative.

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SECRET AND CONFIDENTIAL

	1	2	3
1940			
May 10	3,209	3,101	1,874
Sept. 27	3,735	4,149	1,882
Nov. 29	4,185	4,398	-
Dec. 31	5,004	4,586	1,804
1941			
Jan. 31	5,477	4,630	1,815
Feb. 28	6,239	4,528	1,762
Mar. 31	6,648	4,613	1,773

Regraded Uclassified

212

E. Dietrich

Noted

R. Hawkey

FEDERAL RESERVE BANK

OF NEW YORK

April 24, 1941.

CONFIDENTIAL

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

I am enclosing herewith our compilation for the week ended April 16, 1941, showing dollar disbursements out of the British Empire and French accounts at this bank and the means by which those expenditures were financed.

Faithfully yours,

/s/ J. W. McKeen,
J. W. McKeen,
Assistant Vice President.

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

Enclosure

COPY FOR OFFICE FILES

Distributed by Mr. Cochran to:

Secretary
Mr. Bell
Mr. Gamston
Mr. Puhle
Mr. Upham
Mr. White
Mr. Wiley

COPY:mg:4/25/41

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[illegible] OF CANADIAN AND AUSTRALIAN ACCOUNTS

Week Ended April 16, 1941.

Strictly Confidential

PERIOD	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Transfers from Official British A/C: For Own A/C	Transfers from Official British A/C: For French A/C	Other Credits	Net Incr. (+) or Decr. (-) in Balance	Total Debits	Transfers to Official British A/C	Other Debits	Total Credits	Proceeds of Gold Sales	Other Credits	Net Incr. (+) or Decr. (-) in Balance
1939																
Aug. 31 - Sept. 27	17.5	0.6	16.9	21.8	15.1	0.8	-	5.9	+ 4.3	-	-	-	-	-	-	-
Sept. 28 - Nov. 1	9.6	0.3	9.3	16.7	7.3	2.1	-	7.3	+ 7.1	-	-	-	-	-	-	-
Nov. 2 - 29	9.9	0.7	9.2	14.4	13.3	-	-	1.1	+ 4.5	-	-	-	1.9	1.9	-	+ 1.9
Nov. 30 - Jan. 3	30.0	-	30.0	22.8	13.3	3.0	-	6.5	- 7.2	2.5	-	2.5	5.8	5.8	-	+ 3.3
1940																
Jan. 4 - 31	23.5	-	23.5	25.7	21.1	-	-	4.6	+ 2.2	3.2	0.3	4.9	3.3	3.0	0.3	- 1.9
Feb. 1 - 28	23.1	-	23.1	17.0	16.1	-	-	0.9	- 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	323.0	16.6	306.4	504.7	412.7	20.9	39.7	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	6.7	1.3	- 0.7
Oct. 3 - 30	26.7	-	26.7	28.6	14.0	-	14.3	0.3	+ 1.9	10.1	7.5	2.6	7.9	6.5	1.4	- 2.2
Oct. 31 - Nov. 27	35.2	-	35.2	69.6	49.2	-	15.7	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.[illegible]
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.[illegible]
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	60.9	-	60.9	46.0	23.1	-	19.1	3.8	- 14.9	5.8	0.8	5.0	13.7	12.5	1.2	+ 7.9
WEEK ENDED:																
March 26	12.5	-	12.5	4.4	3.6	-	0.6	0.2	- 8.1	1.1	-	1.1	0.1	-	0.1	- 1.0
April 2	18.1	-	18.1	3.8	3.4	-	0.1	0.3	- 14.3	0.3	-	0.3	6.3	5.9	0.4	+ 6.0
9	2.3	-	2.3	6.5	0.1	-	0.5	5.9	+ 4.2	1.2	-	1.2	0.6	-	0.6	- 0.6
16	4.1	-	4.1	7.5	3.6	-	-	3.9	+ 3.5	0.2	-	0.2	-	-	-	- 0.2

Weekly Average of Total Debits Since Outbreak of War Through April 16, 1941 $ 7.2 million

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(a) Includes payments [illegible] British Air Ministry, British Supply Board, Ministry of Supply [illegible]

(b) Estimated figures based on transfers from the New York Agency of the Bank of Montreal, [illegible] 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 $36.5 million representing the initial payment on the sale of the American Viscose Corp. - subsidiary of Courtauld's, Ltd.

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

Week Ended Apr. 16, 1941.

Strictly — Confidential

PERIOD	BANK OF CANADA (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	(+) or Decr. (-) in Balance
1939															
Aug. 31 - Sept. 27	94.3	3.5	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	+ 4.3
Nov. 30 - Jan. 3	97.7	8.7	89.0	75.2	50.6	-	24.6	- 22.5	86.8	26.1	58.7	109.2	93.9	15.3	+ 22.4
1940															
Jan. 4 - 31	54.8	16.8	38.0	43.4	20.5	-	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	125.2	19.2	+ 44.0
May 30 - July 3	283.2	145.3	137.9	319.3	301.3	3.0	15.0	+ 36.1	156.7(e)	127.3(e)	29.4	345.1(e)	335.6	9.5(e)	+188.4
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	1,793.2	605.6	1187.6	1,828.2	1,355.1	52.0	420.1	+ 35.0	866.3	416.6	449.7	1095.3	900.2	195.1	+229.0
Aug. 29 - Oct. 2	316.8	244.3	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	- 36.6	2.1	-	2.1	0.6	-	0.6	- 1.5
War period through Dec.	2,782.3	1,425.6	1356.7	2,793.1	2,109.5	108.0	575.6	+ 10.8	878.3	421.4	456.9	1098.4	900.2	198.2	+220.1
Jan. 2 - 29	197.4	162.7	34.7	259.9	176.2	32.0	51.7	+ 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	229.7	197.6	32.1	237.9	103.7	72.0	62.2	+ 8.2	0.7	-	0.7	1.6	-	1.6	+ 0.9
WEEK ENDED:															
March 26	35.3	28.4	6.9	29.2	2.1	13.0	14.1	- 6.1	0.6	-	0.6	0.6	-	0.6	-
April 2	47.6	41.5	6.1	30.9	-	14.0	16.9	- 16.7	-	-	-	0.7	-	0.7	+ 0.7
9	32.6	24.8	7.8	138.3	125.6	6.0	6.7	+105.7	0.1	-	0.1	0.1	-	0.1	-
16	29.2	23.8	5.4	49.0	-	2.0	47.0(f)	+ 19.8	0.5	-	0.5	0.4	-	0.4	- 0.1

(See footnotes on reverse side)

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)	52.9 million

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

Week ended Apr. 16	$ -	million
Cumulation from July 6	$ 152.3	million

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PLAIN

LS

LONDON

Dated April 24, 1941

Rec'd 12:18 p.m.

Secretary of State,

Washington.

1621, Twenty-fourth.

FOR TREASURY.

(1) By way of closing a small loophole the Bank of England yesterday instructed banks that in future no business in United States dollars with the Argentine must be entered into unless a prior import permit in free devisen has first been obtained from the Argentine Foreign Exchange Control Office by the Argentine importer. British banks financing dollar trade between the Argentine and other countries have in some cases recently received no return of dollars despite their disbursement in the first instance so that a loss of dollar exchange was occurring. The Argentine authorities have agreed to provide United States dollars to reimburse British banks in all cases where permits are granted. According to this morning's press similar arrangements have recently been made with Brazil. The FINANCIAL NEWS regards the new restrictions as "demonstrating the close collaboration existing between the

Bank

Regraded Uclassified

Bank of England and the central banking institutions of Latin America."

(2) The parliamentary secretary to the Treasury announced in the House of Commons last night that the local authorities participating in the conversion offers, referred to in the Embassy's no. 1082, March 19, are being asked to adopt uniform terms for conversion offers which will be at par for 3½ percent stock having a life of 19-29 years. The 22 local authorities concerned will issue redemption notices on May 1 giving three or six months notice according to prospectus terms.

WINANT

WSB

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: April 24, 1941, 2 p.m.

NO.: 1624

The following telegram is for the Secretary of the Treasury from Ambassador Winant:

I thank you for your telegram of April 23, 5 p.m., No. 1588.

WINANT.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

APR 24 PM 3 10

TREASURY DEPARTMENT
RECEIVED

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DEPARTMENT OF STATE
WASHINGTON

reply refer to
840.51 Frozen
Credits/1638

April 24, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits a partial paraphrase of telegram no. 192 dated April 22, 1941, from the American Legation in Budapest, reporting a conversation with the Prime Minister of Hungary, and a copy of a letter dated April 22, 1941 from the Hungarian Minister at Washington, seeking the issuance of licenses for Hungarian diplomatic and consular expenses in the United States.

Enclosures:

1. No. 192, April 22, from Budapest.

2. From Hungarian Minister, April 22.

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PARAPHRASE OF INFORMATION RECEIVED IN TELEGRAM NO. 192
DATED APRIL 22, 1941, 10 p.m., FROM BUDAPEST.

I was asked by the Prime Minister last night to request the Department to give reconsideration to the United States freezing of the $800,000 which the Hungarian Legation now has on deposit. To begin with, $900,000 was withdrawn by the Hungarian Legation to be used by Legations and Consulates in England and South America; but $200,000 was redeposited by the Hungarian Legation due to the fact that it was necessary to pay out $700,000 for the coming year in England and South America. However, the Treasury has evidently added the redeposit to the $600,000 which never were withdrawn and has blocked the whole amount as the bank declined to pay $20,000 for the expenses of the New York Consulate General. It is my conviction that the Hungarians are acting in good faith; therefore it is my hope that at least part of the funds will be freed to take care of legitimate running expenses of the foreign diplomatic missions of Hungary.

The Prime Minister also denied rumors that Hungary, complying with German demands, would police Croatia, thereby replacing German soldiers who could then be used in other places. According to the Prime Minister no serious troubles between Rumania and Hungary now were anticipated and already Hungary's troops were gradually being demobilized.

TRAVERS

EA:MSG

Copy:bj:-4-24-41

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April 22, 1941

My dear Mr. Berle:

With reference to our conversation of today, I beg to enclose herewith for your information a list showing the monthly requirements for the normal maintenance and administration of this Legation and of the Hungarian Consulates in New York, Cleveland and Chicago, as well as their joint consular agencies and offices.

I would deeply appreciate your help and assistance in obtaining for us the required licenses so that the current and necessary expenses and salaries may be paid without delay, namely,

a. a license for the Legation to draw from the Riggs National Bank its own monthly requirements,

b. a license for the Riggs National Bank to remit from the account of the Legation to each of the Consulates their monthly requirements in the amounts set forth in the enclosed list, and

c. licenses for each of the Consulates enabling them to draw on their respective accounts with their own banks indicated in the enclosed list to the extent of the amount transmitted to them pursuant to the license indicated under "b".

I wish to reiterate once more the assurance I gave you orally that the amounts intended for the maintenance and administration of the Hungarian Legations and Consulates in South America, in London and in Canada will be kept here intact until the pending questions relating thereto are settled.

May I express the hope that the authorities of the United States will perceive no objection if, from the amounts originally intended for the maintenance of the Hungarian Legation in London and the Hungarian Consulates in Montreal and Winnipeg, the travelling expenses of the personnel of these offices and the cost of transportation of their belongings be paid when they pass through the United States en route to Hungary.

Permit me to express to you my deep appreciation for your kind assistance in this matter.

I remain, my dear Mr. Berle,

Very sincerely yours,

(signed) GEORGE GHIKA

Hungarian Minister

Enclosure
The Honorable
Adolf A. Berle, Jr.
Assistant Secretary of State.

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LIST OF MONTHLY REQUIREMENTS

FOR THE MAINTENANCE OF

HUNGARIAN LEGATION, WASHINGTON.....$10,000.

HUNGARIAN CONSULATE GENERAL, NEW YORK..... 15,000.

HUNGARIAN CONSULATE GENERAL, CLEVELAND
(INCLUSIVE OF ITS OFFICE IN PITTSBURGH, PENNA.)..... 7,000.

HUNGARIAN CONSULATE, CHICAGO
(INCLUSIVE OF THE DEPUTY CONSULAR AGENCY IN LOS ANGELES, CALIFORNIA)..... 4,000.

The Banks of the Consulates are as follows:

Chase National Bank, New York

National City Bank of Cleveland, Ohio

Third National Bank of Chicago, Illinois.

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DEPARTMENT OF STATE
Washington

NA 811.5151
Control/

April 24, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of a paraphrase of telegram no. 229 dated April 23, 1941, to the American Embassy at Rio de Janeiro, regarding the transfer of Yugoslav funds from the Bank of Brazil to the Federal Reserve Bank of New York.

Enclosure:
No. 229, April 23,
to Rio de Janeiro.

Regraded Uclassified

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro.

DATE: April 23, 1941, 8 p.m.

NO.: 229.

This telegram is for Caffery's attention.

Reference is made to our telegram no. 222, April 21, 6 p.m.

Department has been advised by the Yugoslav Minister here that he has now been instructed by the Prime Minister of Yugoslavia to notify the Yugoslav Minister in Rio to request the Bank of Brazil to transfer $11,250,000 to the Federal Reserve Bank of New York for the account of the National Bank of Yugoslavia. Department is further advised that the Yugoslav Minister here has so instructed the Yugoslav Minister in Rio de Janeiro. The Yugoslav Minister in Washington understands that the request will soon be made of the Bank of Brazil.

We consider it important for this transfer to be made at once. We hope that this can be done in a routine manner; however, you are authorized in your discretion to advise the Brazilian officials that the United States Government and the Federal Reserve Bank of New York recognize fully and favorably the instructions which the Yugoslav Government sends its Minister as to disposal of Yugoslav funds.

You are requested to keep in contact with the Yugoslav Minister there and to report any developments to the Department.

HULL
(SW)

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EA:MSG
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4-24-41

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BRITISH EMBASSY,
WASHINGTON, D.C.

April 24th, 1941.

Personal and Secret.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Halifax

The Honourable
Henry Morgenthau, Jr.,
United States Treasury,
Washington, D. C.

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Telegram from London dated April 22nd.

1. Naval.

British submarine sank 10,000 tons tanker probably German, off Brest April 18th and Free French submarine torpedoed a large tanker Southwest of Norway April 21st.

2. Attacks on shipping by submarine British ship (10,300 tons) homeward bound with food, was torpedoed in Atlantic and a British tanker (7,100 tons) sunk off Crete April 18th.

3. By aircraft. On April 21st British 6000 ton tanker was damaged by a near miss off Crete and abandoned.

4. At 0500/21 strong force of Mediterranean Fleet including three Battleships bombarded Tripoli harbour for 42 minutes. Attack preceded by bombing by naval and Royal Air Force aircraft from Bari. Surprise achieved. One big fire and explosions seen by Fleet, one destroyer, six merchant ships seen hit, one of the latter seen later by reconnaissance aircraft to have capsized in naval basin. On the previous day Fulmars from Formidable met five J U 52 troop carriers, they shot down four and also one Cant. No damage to His Majesty's ships.

5. Military. Greece. Our troops have taken up defensive lines in the region of Thermopylae running roughly from Molos to Eretini. Enemy bombing of roads and ports continues very heavy.

6. Royal Air Force. April 21st. Thirty-six medium bombers sent out, 18 with fighter escort attacked enemy shipping. Near misses were obtained on a convoy of four 2000 ton merchant ships.

7. Night of April 21st/22nd. No operations by bomber command; six coastal Blenheims attacked Havre, hitting harbour station and warehouses, two fighters attacked enemy

aerodromes/

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aerodrome and destroyed one 4 engined aircraft.

8. Libya. During the night of April 19th/20th and on April 20th heavy bombers attacked enemy aerodromes and medium bombers harrassed enemy M/T and tanks. Two bombers and one fighter lost. Eight Wellingtons successfully attacked Tripoli on the night of April 20th/21st.

9. German Air Force. April 21st. Enemy activity negligible. One fighter destroyed and one probably destroyed and a fighter and a bomber damaged. We lost two fighters, 1 pilot saved. Night of April 21st/22nd. About fifty enemy aircraft were mine-laying off the East coast; about 160 bombers visited Plymouth and Devonport.

10. Home Security. Night of April 21st/22nd. Plymouth and Devonport attack lasted about four hours chiefly on Dockyard area where several fires were caused. Two Barracks also set on fire. All fires except two under control by 6.00 a.m.

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CONFIDENTIAL

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, April 24, 1941

AIR BULLETIN
No. 19
G-2/183-314

NOTICE

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

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AIR OPERATIONS
FEBRUARY 16 - MARCH 15, 1941
INCLUSIVE

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a. Italy and Germany
b. Greece and Great Britain

Regraded Uclassified

CONFIDENTIAL

AIR OPERATIONS
FEBRUARY 16 - MARCH 15, 1941
INCLUSIVE

1. WESTERN THEATER

a. Germany

(1) General. The German Air Force concentrated its main attack during the period February 16-March 15 against ports and harbors in England and Scotland, with heavy secondary attacks directed against industries, rail centers, and airdromes. An average of 49 German planes flew over England during daylight operations and an average of 145 planes during night operations. There was more activity against shipping than for the preceding 30-day period, and casualties were heavier.

(2) Day Operations. The main effort during daylight was directed against shipping, and sufficient reconnaissance was used to carry out missions. The Germans claim that 36 ships were sunk by their air force during this period and that 19 merchant ships were sunk and 12 were damaged, including one cruiser, in waters off the English coasts. On February 25, a unit of Heinkel-III bombers was reported by the Germans to have attacked a convoy 310 miles west of Ireland, sinking nine ships, displacing a total of 58,000 tons and damaging 23,500 additional tons. Other shipping attacks were reported in the North Sea and off the Hebrides.

The appearance of the Focke-Wolf Kurier in increasing numbers has considerably enlarged the area dangerous to British shipping.

Several heavy defensive patrols were maintained off the coast of France. On February 25, 200 fighters were off the coast and an additional force of 115 bombers patrolled from the English Channel to the North Sea. On March 12, 230 planes patrolled the Straits of Dover.

Inland operations of the Air Force were directed chiefly against airdromes in East Anglia and along the south and southwest coasts of England, in Scotland, and in the Orkney Islands. On March 6, low level attacks against airdromes were made by 44 planes. These raids resulted in damage to hangars, barracks, and to a few planes on the ground, according to German sources.

Repeated harassing attacks were carried out against objectives in London, Cardiff, and Portsmouth; a number of East Coast harbors were mined, and harassing attacks were carried out against the industrial centers of Cardiff, Newcastle, and other cities. The British

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report that several harassing attacks on London resulted in damage to residential areas only. On February 16, nine planes bombed the naval station at Skegness with considerable damage reported. Although several harbors and ports were raided, there was no main concentrated attack by a large number of planes during daylight operations inland.

(3) Night Operations. The main concentration of attack was on ports and harbors with 21 attacked in England and about six in Scotland. Heaviest raids were carried out against harbor objectives in London, Liverpool, Portsmouth, Glasgow, Hull, Cardiff, and Swansea.

During the nights of March 8, 9, and 15, London was attacked by formations of more than 100 planes, with heavy damage reported to harbor facilities. The heaviest raid on Liverpool was made on March 12 by 316 planes operating also against harbor areas between Liverpool and Birkenhead, with heavy damage claimed to shipyards, petroleum storage, flour mills, and power and gas works. Portsmouth was attacked March 10 by 238 planes which dropped thousands of incendiaries and caused damage to oil storage and power stations.

On March 13 a total of 421 planes were reported over England. Of these, 56 attacked harbor works at Liverpool; 75 bombed objectives in Hull with destruction to warehouses and flour mills; 251 raided Glasgow, releasing 272 tons of high explosive and 58,000 incendiaries on harbor works, shipyards, gas works, and grain storage. About 100 fires were observed along the Clyde River. The next night Glasgow was again attacked by 203 planes, which damaged the Rolls-Royce factory and other objectives.

Heavy attacks were made against industrial centers and important rail communications. The Cardiff-Bristol rail areas were bombed on March 3 by 160 planes, which started more than 50 fires and caused heavy damage to rail facilities. The heaviest industrial attack was carried out against Birmingham on March 11 by 135 planes, which bombed factory sites and started a large number of fires. Heavy destruction to steel mills in Sheffield was reported by the Germans after an attack by 105 planes on March 14.

Night attacks on airdromes were carried out over the midlands and East Anglia, with repeated attacks made against those of Norfolk and Suffolk. Several airdromes north of London were repeatedly raided. Thirteen different airdromes were raided on February 25, and 11 more were attacked on March 3. Damage to hangars, barracks, and planes on the ground was reported.

(4) Volume of German Bombs. Reports covering operations of the German Air Force over England have not stated the actual volume of bombs dropped during raids, or during any given period. Raids were

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more numerous and heavier, however, for the period February 16-March 15 than for the preceding month. Large numbers of planes made heavy attacks, with a great amount of damage reported to factories, warehouses, harbor facilities, and rail centers. Thousands of incendiaries must have been released during the heavier raids to start the large number of fires reported for the areas attacked.

(5) Effect of German Bombing Raids. During the period February 16-March 15, the Germans made three fairly heavy attacks upon London. On the night of February 17 a direct hit was made and fires were started in an air raid shelter, with the result that 70 people were killed and 46 injured. On the night of March 8 the North Lodge of Buckingham Palace was demolished, and a hit on a cafe brought death to 26 people and injuries to 80. The following night 120 aircraft bombed London, set fires, and damaged docks and business property.

Swansea was the target for attacks on the nights of February 19, 20, and 21. During these successive nights, warehouses, lumber yards, and residential areas were damaged considerably; many fires were started in the center of the city, and 128 people were killed and 194 seriously wounded.

Cardiff received attacks on the nights of February 26, March 3, and March 4. Numerous fires were started; there was a great deal of damage to private and business properties, and railroad facilities were dislocated as a result of a direct hit on the railroad station.

During an attack on Portsmouth the night of March 10, the Royal Naval Barracks were damaged by fire, as were dockyards, a power station, and electrical workshops. At Gosport, oil tanks were set on fire. A number of other attacks on varied areas caused damage to the water, electricity, and gas services in towns.

On February 7 a balloon barrage center, an infantry training center, and 6 R.A.F. stations were attacked. Some damage was done at each.

b. Great Britain

(1) Day Operations. During the period February 16 to March 15 inclusive, day raids made by the British were not on a large scale. Executed in the main by small formations of Coastal Command planes supplemented by single planes from the Bomber Command, they attacked shipping and coastal cities of the occupied area. Either alone or in conjunction with the Bomber Command, fighters made a few sweeps on airdromes and industrial centers of Northern France, Belgium, and Holland.

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On February 16, 21, and 25 and during the first week in March, the Coastal Command and the Bomber Command made attacks on German shipping along the Channel coasts and dropped a few bombs on oil farms, airdromes, shipyards, and docks in the occupied countries. The naval dock yards at Den Helder, Holland, received four attacks in less than a week.

On February 25 and 26 and March 4, 5, and 10, bombers and fighters made quick sweeps into the occupied zone, with air fields in Northern France as the main targets, while on February 26 two sweeps of about 40 bombers and fighters each were made on airfields in the vicinity of Calais. According to German reports, little damage was done on these sweeps, which employed a ratio of four fighters to one bomber.

A number of attacks were made by lone bombers on the coastal cities of the occupied zone. Planes usually made a quick flight to the objective, dropped their load, and returned. Not much time was spent on selecting the target or on accurate sighting.

(2) Night Operations. The night operations of the British during this period had more offensive weight than in the preceding month, and larger numbers of planes were used in raids.

On February 16, a total of 189 planes of the Bomber Command were out, of which 40 attacked the city of Boulogne; 73 attacked oil refineries at Holton, Holland and Sterkrade, Germany; 70 attacked Hamburg; three attacked harbor facilities at Calais, and three took action against a German warship in the Port of Brest. Of these, five were lost.

Seventy-one bombers were sent out against Helder, Calais, and Boulogne on February 23. Harbor facilities of these ports were the objectives, and large fires were observed at Calais and Boulogne.

The harbor at Brest was attacked on February 24 by 70 medium bombers from the Bomber Command and the Coastal Command, with a German cruiser of the Admiral Hipper class as their target. On February 25 industrial plants at Dusseldorf were bombed by 80 heavy bombers, while other planes of the Bomber Command and the Coastal Command attacked merchant shipping and harbor facilities at Boulogne, Le Havre, Dunkirk, and Calais. A number of fires were started at these places. Seventeen other medium bombers made attacks upon air fields in Northern France.

The industrial area of Cologne was bombed by 155 heavy bombers on February 26, and a large number of fires were started. Four bombers were lost during this raid. On the same night, Coastal Command

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planes attacked a manufacturing plant at Abbeville and the port of Le Havre. Mines were also laid in occupied ports on the French coast.

Wilhelmshaven was attacked on February 28 by 98 heavy bombers. Additional targets were 26 other areas in Northwest and Western Germany. On March 1 the industrial area of Cologne was again bombed - this time by using 131 bombers, of which three were lost.

The cruiser at Brest was again attacked on March 2 by 71 heavy bombers, while small formations of bombers raided air fields in the Netherlands near Rotterdam and in Northern France. During these attacks, six bombers were lost. On March 3, Boulogne was attacked by 10 bombers, the Cologne area by 72 bombers, and the cruiser at Brest by seven. Of the total of 89 planes sent out, two were lost. Fighters made a sweep on the air fields in the Poix-Amien area of Northern France.

During the night of March 10-11, bombers from the Coastal Command attacked the cruiser at Brest; 31 heavy bombers raided the air field at St. Aubin and the harbors of Le Havre, Boulogne, Dieppe, and St. Nazarie; 19 other heavy bombers were active against Cologne. Two bombers were lost in these operations. Air fields in the vicinity of Bremerhaven were attacked by formations of heavy bombers and the ship building plants in Kiel were raided on March 11 by 27 bombers.

The following night 254 bombers operated in attacks as follows: 88 on Hamburg; 72 on Berlin; 86 on Bremen; 7 on Boulogne and one on Calais. Seven of these bombers failed to return. Six Coastal Command planes attacked and torpedoed a destroyer during raids on merchant vessels in the Skaggerale.

On March 13 Hamburg was attacked by 139 bombers; Rotterdam by 14; and the German occupied area by 150. Coastal Command planes raided air fields in South Norway and also mined the northwest coast of France. Six of the bombers used in these raids were lost.

Bombing raids were made during the night of March 14 on the manufacturing area of the Ruhr and Dusseldorf; on harbor facilities at Dutch, Norwegian and French ports; on oil refineries at Gelsenkirchen; on occupied air fields in the Netherlands, and on stores of gasoline at Rotterdam. The Coastal Command also mined the Norwegian coast. Of the 159 planes used in these raids, two were lost.

On March 15, 37 bombers attacked six manufacturing plants and a submarine base at Lorient and 21 planes bombed Dusseldorf. Long-range bombers attacked targets in the Netherlands.

The largest raids made by the British during the entire

Regraded Uclassified

war occurred during this period. From 200 to 260 planes operated nightly over a number of targets. The largest number used on one target was 159 over Hamburg on March 13.

(3) Volume of British Bombs. From all information available, the British dropped an average of about 38 tons of high explosive and 7500 incendiaries during large-scale raids. Information on this subject is very meager, and the only figures which are known concern nights during which the largest number of bombers were employed.

(4) Effect of British Bombing Raids. British air raids against industrial areas of Germany have resulted in damage to a limited number of factories. At Dusseldorf one of the Krupp factories is reported to have been completely destroyed, with considerable damage to other works. Although heavy attacks have been made at Cologne and in other industrial centers along the Rhine, reports have not indicated heavy damage to military objectives, but heavy damage to residential areas has been reported by the Germans.

Attacks on rail centers have resulted in damage to rail facilities in Duisburg and Cologne, but the extent of this damage has not been indicated. After attacks on ports and harbors in Germany, reports have admitted damage to buildings and plant facilities in the navy yard at Kiel. In Bremen, an airplane factory was damaged by bomb hits and fires. The heavy raid on Hamburg, during which 300 high explosive bombs and 600 incendiaries were released, resulted in hits on the Blohm and Voss Shipyards, but there was no interruption of plant work. Considerable damage was reported to residential areas in Hamburg with 11 houses destroyed and 44 others severely damaged. Bombing of Hamburg has resulted in destruction to flour mills, warehouses and one shipyard.

In occupied territories considerable damage has been reported to objectives in ports and harbors, usually by fires. The naval base at Den Helder in the Netherlands had a number of bomb hits which caused minor damage to buildings. At Rotterdam, considerable damage to petroleum plants and storage facilities was claimed by the British. Damage to residential areas in Rotterdam, Boulogne, and other cities in occupied territories has been reported by the Germans. It has been admitted that in Calais and Boulogne railway facilities have suffered considerably.

2. MEDITERRANEAN-AFRICAN THEATER

a. Germany

The German Air Force directed its main attacks against Mediterranean shipping and against the ports and harbors of Libya and

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Malta during the period under consideration. Italian planes operated in conjunction with German bombers in the Mediterranean Area.

The Germans moved from 800 to 1000 planes into Italy and Sicily in a strong effort to dominate the Central Mediterranean. Tripoli and the Dodecanese Islands were also being used for bases.

Repeated attacks - 69 in all - were made against airdromes and harbors at Malta, most of them effected by dive bombers. On February 26 a strong formation of German dive bombers with Italian escort attacked the air field of Luqua, causing considerable damage to the flying field, hangars, barracks, and fuel supply. During this raid, according to the British, seven Axis fighters were shot down by British fighters and five by antiaircraft. The following day 144 bombers and 26 fighters attacked at Luqua, Kolafiana, and Hal Far airdromes.

Seventy-six bombers which raided Malta on March 5 completely destroyed a hangar and a barracks building, according to the Germans. Bombing raids against Malta are reported to be reducing its value as a naval and repair base. There have been 411 attacks on the island, including 142 bombings, since January.

Operations over the Mediterranean and Libya were carried out with an average of 37 bombers escorted by an average of 22 fighters. Attacks on ports were made in Bengazi, Tobruk, and along the coast of Cyrenaica. On February 28 a number of ports were attacked by 99 bombers with 19 fighters for escort, and it was said that the harbor at Bengazi would be useless until considerable repairs can be made. Raids against British ground forces were carried out 100 miles south of Agedabia, near Derna, Agheila, and at Bengazi.

On February 23, 40,000 German troops had succeeded in disembarking from 60 ships at Tripoli.

Attacks on shipping in the Mediterranean resulted in the reported sinking of eight vessels, including a 5,000-ton auxiliary cruiser and the 7,000-ton monitor, "Terror." Eleven other ships, including 2 destroyers, were damaged by bomb hits, it was said.

Operations against the Suez Canal were generally carried out at night and for purposes of mining. The Canal was scheduled to open on March 6 after a channel had been cleared of mines for the purpose of allowing ships of less than 20 foot draft to pass through, but the Canal was again mined on March 5. A similar incident prevented opening of the Canal on March 11.

Regraded Uclassified

Casualties to Axis aircraft in this theater were reported by the British as follows:

By naval antiaircraft.....	6
By ground antiaircraft.....	9
By fighters.....	21
Total.....	36

b. Italy

Activities of the Italian Air Force have not been reported as especially extensive or noteworthy. Raids were made against Libyan ports in Cyrenaica and Bengazi; harbors and airdromes on the Island of Crete were bombed during four raids, and in the Agean Sea harbor works on Mytilene Island were raided. Attacks against British ground troops and emplacements were reported near Agedabia and Bengazi.

On March 6 the Italians reported an attack on a convoy in the Eastern Mediterranean, scoring hits on a cruiser, a destroyer, and a merchant vessel.

Italian air losses during this period have been reported as 41 shot down by British fighters, four by antiaircraft, and eight destroyed on the ground.

c. Great Britain

Planes of British forces based at Malta made two attacks upon airdromes in Sicily and one upon Tripoli in Libya, with docks, harbors, and shipping, as targets.

Planes based at Sudan made a number of attacks upon Ethiopian bases and against Italian forces there.

Planes based at Aden concentrated on Eritrean cities and on the assembly plant and air fields at Caproni.

Italian Somaliland was attacked by planes, based at Kenya and the Libyan area was attacked by planes based in Egypt.

In all these areas raids were scattered and directed at troop concentrations, supply bases, and airdromes occupied by Italian and German troops.

There was considerable cooperation with ground troops in all of these areas during the period under consideration. The tactics employed during the Libyan campaign involved, (1) intensive counter-air

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force operations; (2) air attack against strategic objectives, and (3) intense close-support operations, with all types of aircraft in use.

Fighters were used for army cooperation work and also for ground strafing operations.

Because of the necessity of consolidating positions and establishing lines of communications, offensive action against Italian forces were voluntarily curtailed. This allowed the release of one bomber squadron and two fighter squadrons for use in Greece.

Most of the airplanes in use in Africa are old and have no de-icing equipment, carburetor heat, automatic pilots, or modern bomb sights. The squadrons are being reformed as rapidly as equipment becomes available. In addition to the tactical squadrons, the following units, all of which are organized differently, are stationed with the R.A.F.:

2 air transport units;
2 transport units;
1 marine section;
25 air base stations;
4 supply columns;
5 medical detachments;
5 port detachments;
4 maintenance units;
8 air stores;
3 repair and salvage units;
8 staging posts.

3. GREEK THEATER

a. Italy and Germany

There was little air activity in the Greek theater during the period of February 16-March 15. While Axis planes were reported in operation, there was little to indicate that Germany offered much aid to the Italian Air Force in Greece.

Scattered attacks were carried out by Italian planes against targets in the Tepelini area, Larissa, and Preveza, and along the Greek frontier raids were made against Greek troops and emplacements. The Italian offensive, extending from the Adriatic Sea to Lake Ochrid on the Jugoslavia frontier, failed to receive support from the Air Force. In Albania a few attacks were made by Italian planes against Greek ground troops and military objectives. Italian and Axis losses in this theater were reported as 31 planes shot down by British fighters.

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Larissa, Greece, was the objective of two raids; one by German planes on the night of March 2 and one the following night by Italian planes. These attacks occurred shortly after the city had been severely damaged by an earthquake, and it was unable to defend itself in any manner. It was later claimed that the five Italian planes participating in this attack were destroyed by British pursuit planes.

b. Greece and Great Britain

The airdrome situation in Greece was very critical, since there are no all-weather fields in the country and the British were confined to fields at Athens and Taussa and an advance field at Janina. Many important missions were cancelled because of the unserviceable condition of airdromes and the fact that their location made operations with short range airplanes very difficult. The lack of airdromes also required the crowding of squadrons into areas extremely vulnerable to air attack.

The mountainous terrain between airdromes and the objectives presented another obstacle. Because of icing conditions in the clouds, which cover the mountains for long periods during the winter, it was often necessary to route bombardment missions along the coast from airdromes at Athens. The effective field of operations was decidedly limited.

The advance airdrome at Janina is located in a pocket between high mountains which handicapped fighter operations to a considerable extent. Italian airplanes could often operate against Greek rear areas when weather conditions tied British airplanes to the ground only a few miles away.

The British Air Force in Greece was augmented during this period by one squadron of long-range bombers and one fighter squadron. This part of the R.A.F. was unusual in that much of its administrative work was performed by the Army, as is the case in the United States Air Corps. The R.A.F. in Greece is operated like an air corps group under the general directive of the R.A.F. Middle East Headquarters in Cairo. Consistent with limits of aircraft, terrain, weather, and availability of airdromes, the policy, generally strategic, closely follows the doctrine of the United States Tactical School.

Operations are well planned and executed skillfully and with determination. They are calculated to produce the maximum effectiveness under extremely difficult conditions. Close support bombardment missions requested by the Greek High Command were performed when possible, but these missions contributed more to Greek morale than to the common effort.

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The main targets operated against during this period were motor transport trains, supply bases and ground forces, particularly in the Tepeleni and Berat areas; Brindisi and airdromes at Valona. Two or three raids were made upon air fields on the Island of Rhodes. During the period of the full moon, raids were made by long range bombers from Egypt on Italian and Albanian ports. These planes were ferried from Egypt and operated from one or both of the airdromes in the Athens area.

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RESTRICTED

0-2/2657-220; No. 374 M.I.D., W.D. 12:00 M., April 24, 1941.

SITUATION REPORT

I. Western Theater of War.

Air: German. A fairly strong attack was made on Plymouth last night for the third night in succession. Minor attacks over southeast and northeast England and over south Wales.

British. Night attacks along the Invasion Coast.

II. Greek Theater of War.

Ground: On April 23, British troops held a line from Molos in the Thermopylae area to Eratini on the Gulf of Corinth. The German High Command communique of April 24 reports a "penetration into the British Thermopylae position".

Unconfirmed reports from Istanbul state that German troops have occupied the Aegean islands of Lemnos and Skyros.

Air: German. Strong support of the ground forces plus bombing of harbors.

III. Mediterranean and African Theaters of War.

Ground. No special change in the situation.

Air: Several Axis attacks on Tobruk.

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Paraphrase of Code Radiogram
Received at the War Department
at 10:45, April 24, 1941

Moscow, filed April 24, 1941.

1. The Iranian Government notified the Iranian Ambassador to Moscow that the frontier between Iran and the U.S.S.R. is still open.

2. Rush instructions have been issued for complete double-tracking of the Caucasian Railroad.

3. According to the Turkish Military Attache, the Soviet Union continues to refuse to sell supplies of military equipment to Turkey.

YEAR ON

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

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SECRET

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

Date 25 Apr 41 (JB)
Initials

Paraphrase of Code Radiogram
Received at the War Department
at 9:51 A.M., April 24, 1941

Ankara, filed April 23, 1941.

British officials at the British Embassy here are starting to send their children from Turkey to Palestine quietly. Their hope is to get them either to Canada or the United States sooner or later.

KLUSS

Distribution:

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

SECRET

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Paraphrase of Code Cablegram
Received at the War Department
at 11:03, April 24, 1941

London, Filed 16:40, April 24, 1941.

I. Daily Cable.

1. British Air Activity over the Continent.

a. Daylight, April 23.

Hits were scored on two freighters and one anti-aircraft vessel in raids on seaborne traffic off the Netherlands.

b. Night of April 22-23.

Thirty-six British bombers again attacked the two German battleships in the harbor at Brest. No damage was observed.

2. German Air Activity over Great Britain.

a. Night of April 23-24.

German squadrons again bombed Plymouth with an estimated total of approximately 160 planes. Portsmouth area was subjected to a minor attack and East Coast towns from Wick to Norwich were raided by single planes. There was some sea-mining, and enemy fighters attacked British airfields.

b. Daylight, April 23.

German air activity over Britain was of minor proportions with no damage having been reported.

c. Night of April 22-23.

A total of 220 planes were employed in the German bombing attacks on Great Britain.

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3. Air Losses British Theater.

a. Daylight, April 23.

No losses were reported by either side.

b. Night, April 22-23.

One British bomber was shot down in attacks on Brest.

4. British Air Activity Middle East Theater.

a. Libya.

From air bases in Egypt the British bombed Bengasi and machine gunned German motor convoys near Gambut with heavy damage reported.

b. Greece, Daylight of April 23.

No British air operations took place in Greece.

5. German Air Activity Middle East Theater.

a. Malta, Night of April 23-24.

Damage was reported to naval facilities in the port after bombing raid by 40 German planes.

6. German Air Losses, Middle East Theater.

a. Malta, Night April 23-24.

One German plane was shot down in raids on Malta.

b. Libya.

British fighters shot down four Axis planes with two additional considered probable.

II. The following is a summary of British Military Intelligence information as of 07:00, April 24.

1. Greece.

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a. It is now reported that the Germans have not landed on the Island of Lemnos as formerly reported.

b. The King and the Greek Government have evacuated the mainland to Crete. On the Epirus front resistance of the Greek Army has terminated and the troops are taking to the mountains. There has been, however, no advance of German columns south of Janina.

c. Up to 22:00, April 23d, the British positions on the Molos-Eratini front had not been attacked by the Germans. German air activity over the whole expanse of British rear positions has been greatly increased and mass bombing attacks on shipping near the south Greek coast are taking place.

2. Libya.

a. In the Sollum area a German motorized infantry column accompanied by tanks was engaged and repulsed by British artillery.

b. Night of April 21-22.

Many Axis casualties were claimed and 500 prisoners, chiefly Italian, were taken by British infantry and tanks who, advancing from Tobruk, raided the enemy positions to the north and southwest. The British lost one light tank and had minor casualties.

ENE.

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

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Paraphrase of Code Radiogram
Received at the War Department
at 12:21, April 24, 1941

Budapest, filed April 24, 1941.

A moderate movement of German troops continues centered by rail and road through KOLOZSVAR rather than as formerly via ARAD.

PARTRIDGE

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

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BRITISH EMBASSY,
WASHINGTON, D.C.

April 25, 1941

PERSONAL AND
SECRET

Dear Mr. Secretary,

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

Believe me,
Dear Mr. Secretary,
Very sincerely yours,

Lewis Butler

The Honourable,
Henry Morgenthau, Jr.,
United States Treasury,
Washington, D.C.

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TELEGRAM RECEIVED FROM LONDON APRIL 23RD, 1941

Naval

Battle cruisers still at Brest, April 23rd.

2. Two coast convoys attacked by aircraft April 22nd, but no damage.

3. Military. Libya

During the night April 19th/20th, an unopposed landing was carried out in Bardia area by raiding party 450 special service troops. Dump of new Italian tyres burnt bridge destroyed and breach blocks of four old defence guns rendered useless. Five officers and sixty-two other ranks failed to reembark. Enemy has announced their capture. One landing craft with two officers and thirty-nine other ranks on board missed its parent ship but reached Tobruk.

4. No contact with the enemy on Thermopylae position reported up to 9.35 p.m. April 22nd.

5. Royal Air Force Daylight April 22nd.

Blenheim hit enemy merchant vessels northwest of Stavanger.

Night of April 22nd/23rd. Thirty-six aircraft sent to attack enemy battle cruisers at Brest. One aircraft missing.

Libya April 21st Our bombers heavily attacked two aerodromes and transport concentrations in Capuzzo and Bardia areas; considerable damage caused to vehicles and aircraft on the ground.

6. German Air Force April 22nd. Enemy activity slight; one bomber destroyed by Spitfires.

Night of April 22nd/23rd. About 185 enemy aircraft operating. Plymouth and Devonport again attacked.

Malta was bombed on April 21st and 22nd - some damage to naval property. One German fighter destroyed by anti-aircraft.

7. Home Security Night of April 22nd - 23rd.

Plymouth /

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-2-

Plymouth and Devonport worse than on the previous night. Full particulars not yet available but at 5.25 a.m. reported that over a large area in commercial centre fires were not yet under control.

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MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, April 25, 1941

TENTATIVE LESSONS BULLETIN
No. 96
G-2/2657-235

NOTICE

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

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IMPRESSIONS OF AN AMERICAN UNOFFICIAL OBSERVER IN FRANCE

SOURCE

The information in this bulletin was obtained in an interview with a United States Reserve officer who lived in Paris for many years and left that city only on December 11, 1940. In civil life the officer is a munitions and weapons expert.

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1. TANKS
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7. POSSIBLE SHORTAGES
8. ATTITUDE OF FRENCH
9. ATTITUDE OF NAZIS

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IMPRESSIONS OF AN AMERICAN UNOFFICIAL OBSERVER IN FRANCE

1. TANKS

The observer was greatly impressed with German tanks. Built of ordinary steel with little chrome, they are of extremely cheap construction, but because of their lines they are tactically effective. Ricochet angles have been so carefully studied that it is difficult to penetrate tank armor despite its poor quality.

A French 25-mm. gun can easily penetrate the average German light tank if the angle at which the projectile strikes the tank is not too great, but quite often projectiles glance off from the "ricochet-lined" tanks. Having examined shell holes in tank armor, the observer says they were not what he calls "resisting holes" - that is, the armor around the hole was almost melted.

The Germans admit that the French Somua tank was far and away the best tank engaged on the West Front in 1940, according to the observer. All derelict Somuas were gathered up by the Germans, taken to the Somua plant, repaired, and shipped away by train. According to French rumor, they were destined for Rumania.

2. NOTE ON PANZER DIVISIONS

On three occasions the observer saw German Panzer divisions pass on the road. Each took about 3 hours to pass, with the troops moving at 60 to 70 kilometers an hour. The driving was impressively good. In each case a ponton train moved near the leading elements and a second ponton boat detachment was located about in the middle of the division. The observer concluded that the pontons were organically part of the Panzer divisions.

3. DEMOUNTABLE ARMOR

German personnel-carrying trucks have demountable armor on the sides and a sloping shield, also demountable, in front. The armor can be removed and the truck used for ordinary purposes. The top is always open, for there is no armored roof. Artillery tractors which pull 150-mm. and larger pieces have similar armor available, but usually they appear without this on the road and install it when the guns are unhooked.

4. IMPROVEMENT OF AIR FIELDS

The Germans are enlarging and improving all air fields in

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Occupied France, and drainage is being provided for even the old French emergency fields. The soil is turned up, several inches of cinders are put in, and the soil is put back and rolled, with much of the work done by mechanical devices. Concrete is being laid at good fields, and large numbers of men, mostly prisoners, are engaged in this work. Verneuil on the Oise, Senlis, and Compiegne are among the fields where the observer knew that large scale work was in progress.

5. BRITISH BOMBING

The Dunkirk plant of a vital war industry has been bombed four times by the British since it resumed operations. Warning had been given by the British that the plant would be bombed if work was resumed there. In each of the four cases, the British used only 65-pound bombs, and these were quite ineffective.

The observer heard from a German source in which he has confidence that Cologne was raided 128 times between September 15 and December 1, but that only one or two planes - usually one - effected each attack. Material damage had been insignificant; the principal result was loss of sleep.

6. IRON RINGS FOR ARTILLERY SHELL

Instead of copper rings, the Germans are using rings of pressed powdered iron on artillery shells of 120-mm. and larger. They have discovered some means of making powdered iron soft, compressing it and pressing it onto the shell. Results are as good as with copper rings. The present German capacity for powdered iron is believed to be 20 tons a day, and a large new plant is being constructed near Dusseldorf which will have a capacity of 50 tons daily.

7. POSSIBLE SHORTAGES

The Germans act as if there were an aluminum shortage. They exerted considerable pressure on the Pechinet aluminum group, which had plants in Occupied France, to get bauxite sent in from the unoccupied section, and the observer believes Germany regrets not having occupied those parts of France which produce bauxite. From German sources he understands that German airplane production has been limited to 1750 planes a month because of the aluminum situation, but he doubts that the aluminum shortage is so great.

French monthly steel production, formerly 600,000 to 700,000 tons, is now only about 50,000 tons, or less than half the limit imposed by the armistice. The chief reason is the lack of lubricating oil in the occupied area, but the observer does not believe that Germany herself lacks lubricating oil.

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8. ATTITUDE OF FRENCH

French upper classes in Occupied France are inclined to be pro-German. The middle classes and laborers, at first ready to accept the Germans, are now weary of the occupation and of their conquerors. Increasing sabotage is probable.

9. ATTITUDE OF NAZIS

The observer was impressed by the morale and fanatical spirit of the young Nazi soldiers, and he feels that they would be extremely difficult to defeat. They appear not only willing, but almost eager to die for Hitler. Their attitude is that of crusaders.

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G-2/2657-220; No. 375 M.I.D., W.D. 12:00 M., April 25, 1941.

SITUATION REPORT

I. Western Theater.

Air: German. Estimated that about 150 bombers were employed over England last night. Main attack was made on Portsmouth. Further successes are claimed against shipping.

British. Normal activity last night centering over Kiel and Wilhelmshaven. Scattered attacks were made along the west coast of Europe from Norway to France.

II. Greek Theater.

Ground: German troops have captured the pass of Thermopylae. British GHQ in Cairo has announced a new but orderly withdrawal of the British forces in Greece.

Air: Germans continued to bomb in the combat area and to attack suspected embarkation ports. No appreciable Allied activity.

III. Mediterranean and African Theaters.

Ground: North Africa. Considerable patrol activities with no special change in the situation.

Abyssinia (Ethiopia). The British have broken through forward Italian defenses in the Dessye sector.

Air: The R.A.F. bombed Tripoli and Rhodes.

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Telephone of Code Indicator
Received at the War Department
at 9:00, April 25, 1941.

Rome, filed April 25, 1941.

Please substitute the words "Rome 35 and Rome35" for the numerals "35" in cablegram No. 69 from this office.

[illegible]

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

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Paraphrase of Code Cablegram
Received at the War Department
at 11:15, April 25, 1941.

Moscow, filed 16:11, April 25, 1941.

1. Apprehension of imminent hostile invasion appears to be growing. There has been observed transfer of troops and materiel in the westward direction. Westbound traffic over the Trans-Siberian Railroad has been suspended for 10 days; this supports reliable information of the transfer of the 15th Army of 8-10 divisions from the Far East to the West. May Day parade is persistently rumored as the cause of suspension of all international traffic from April 25 to May 5. There has been acceleration in the mobilization of troops involving an innovation of calling up Soviet conscripts at night.

[illegible]

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

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TREASURY DEPARTMENT

FOR RELEASE, MORNING PAPERS
Friday, April 25, 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 30, 1941, and will mature July 30, 1941, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $100,000, $500,000, and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, two o'clock, p.m., Eastern Standard time, Monday, April 28, 1941. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public

24-75

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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 30, 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 nor or hereafter enacted. The bills shall be subject to estate, inheritance, gift, or other excise taxes, whether Federal or State, but shall be exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States shall be considered to be interest.

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

-OoO-

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April 25, 1941

Mr. V. H. Thompson

Mr. Cochran

Reference is made to the memorandum from Mrs. Ross which was addressed to you under date of April 21, setting forth the inscriptions on the plaques which have already been given to naval vessels which have carried gold for the Treasury.

Will you kindly have three additional plaques prepared, similar to those already awarded, bearing the following inscriptions:

1

Presented by Henry Morgenthau, Jr., Secretary of the Treasury, to the Commanding Officer of the U.S.S. Vincennes, Captain J. H. Beardall, U. S. Navy, in appreciation and acknowledgment of the efficiency of the Captain and officers and crew under his command in the conveyance and safe delivery of 242 million dollars of gold from Casablanca, Morocco to the Assay Office in New York City, June 10, 1940, June 22, 1940.

2

Presented by Henry Morgenthau, Jr., Secretary of the Treasury, to the Commanding Officer of the U.S.S. Louisville, Commander H.J. Nelson, U. S. Navy, in appreciation and acknowledgment of the efficiency of the Captain and officers and crew under his command in the conveyance and safe delivery of 150 million dollars of gold from Simonstown, Union of South Africa, to the Assay Office in New York City, January 6, 1941, January 23, 1941.

3

Presented by Henry Morgenthau, Jr., Secretary of the Treasury, to the Commanding Officer of the U.S.S. Vincennes, Captain J. H. Beardall, U. S. Navy, in appreciation and acknowledgment of the efficiency of the Captain and officers and crew under his command in the conveyance and safe delivery of 132 million dollars of gold from Simonstown, Union of South Africa, to the Assay Office in New York City, March 30, 1941, April 16, 1941.

HMP.

HMC:lsp-4/25/41

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April 25, 1941

Files

Mr. Cochran

On April 21 I telephoned Mr. Cameron in the Federal Reserve Bank at New York asking him to give me the details of the last three gold shipments which we have received by cruiser. At 3:45 on April 22 he telephoned me certain data. I also telephoned Admiral Royce, giving him the data from Mr. Cameron, and asking him to check and complete these. It was agreed with the Admiral that the second date on each plaque which is to be awarded to the Commanding Officer of the naval vessel which has transported gold for the Treasury should be the final date of delivery of the cargo at the Assay Office.

From the above sources the following data were assembled, and have been found to check with our own Treasury records:

1

U. S. S. Vincennes, Captain J. R. Boutelle, left Casablanca, Morocco, June 16, 1940 and arrived Brooklyn June 20, 1940; the cargo of gold valued at $41,579,997.93 was discharged on June 21 and 22.

2

U. S. S. Louisville, Commander H. J. Nelson, left Simonstown, Union of South Africa, January 6, 1941 and arrived Brooklyn January 23, 1941; the cargo of gold valued at $149,633,633.26 was discharged on January 23, 1941.

3

U. S. S. Vincennes, Captain J. R. Boutelle, left Simonstown, Union of South Africa, March 30, 1941, and arrived Brooklyn April 16, 1941; the cargo of gold valued at $132,804,812.00 was discharged on April 16, 1941.

In indicating the value of the gold it has been agreed that only round numbers to the nearest million will be used.

HMD:lap-4/25/41

Regraded Uclassified

April 25, 1941
9:30 a.m.

GROUP MEETING

Present: Mr. Odegarde
Mr. White
Mr. Sullivan
Mr. Thompson
Mr. Graves
Mr. Haas
Mr. Foley
Mr. Bell
Mr. Schwarz
Mr. Gaston
Mrs. Klotz

H.M.Jr: Herbert, in the future, don't you and Waesche both go out to lunch at the same time. It is not fair to me or to the Treasury, because when people call up - Knox wants an answer, and I can't get you, and I can't get Waesche, and I can't get - what is that fellow's name over there?

Gaston: I was available at the Custom House. I had talked to my office earlier in the morning, and Stephens got in touch with me right away, and I gave him an answer in half an hour.

H.M.Jr: One of you always be here.

Gaston: All right.

H.M.Jr: Is it true that Waesche doesn't get up until

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nine-fifteen in the morning and has breakfast at a quarter of ten? That is the answer I got, that he wasn't called until nine-fifteen. Is that what time he gets up?

Gaston: I don't know what time he gets up. I have talked to him at a few minutes after nine a number of times. He is in my office right now.

H.M.Jr: Will you come in with him? Was this dinner he went to so important?

Gaston: He went to two things. I forget the name of the association. One was a marine luncheon, and one was a marine dinner.

H.M.Jr: Well, if you just see that you or he are available, always one or the other.

Gaston: It happened that they had this annual importers' dinner --

H.M.Jr: Well, if you don't mind, that is pretty damn unimportant.

Gaston: I think so, yes.

H.M.Jr: And this other thing - I mean, where the Navy is looking for something every minute, I mean one or the other ought to be here.

Gaston: All right.

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

Gaston: Well, on those cutters, everything is moving along perfectly normally. I gave a full report to Stephens yesterday at eleven o'clock on the thing.

H.M.Jr: Well, I want something in writing.

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Gaston: I can read you what we have got in writing.

H.M.Jr: Isn't it in writing? Am I going to get it?

Gaston: You are going to get it. I am having it photostated and it will be in here.

H.M.Jr: Let's wait until eleven o'clock.

Gaston: Yes.

H.M.Jr: What else?

Gaston: Phil Young called up yesterday on that matter of appropriations for the replacement of those cutters. I want to talk to Cox this morning about what we should do about that. Of course, there are three things. There is the original cost of these cutters, which is twenty-five million. The replacement cost today if we were to get the same boats would be about thirty million. If we get the five - or get the two heavy ice-breakers and five large cutters, the cost will be around thirty-five million. I don't think that there is any existing fund from which that could come.

H.M.Jr: I thought it would go to Congress.

Gaston: It has got to go to Congress. So why shouldn't we send in an estimate of what we will need for the two ice-breakers and five cutters, which will be around thirty-five to forty million.

H.M.Jr: Sure; that is right.

Gaston: And just as soon as we can get that, send it over.

H.M.Jr: Please.

Gaston: Right. Of course, we really need ten cutters in

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addition to the two ice-breakers.

H.M.Jr: Well, I asked for five. Why not ask for ten and then be cut down on them?

Gaston: Sure.

H.M.Jr: The way the Bureau of the Budget is working now, I would ask for three big ice-breakers and ten cutters.

Gaston: Yes.

H.M.Jr: That is the way Harold Smith works. The more I see him the less I think of him. O.K.?

Gaston: Yes. Just like a Congressional Committee.

H.M.Jr: Only worse. I am not sold on Harold Smith.

Foley: Here is a letter to Hull. That is the over-all agreement. I don't know whether that is the letter you want or not.

H.M.Jr: O.K.

Foley: Here is a memorandum on the Stabilization Fund. I spoke to Sam Rayburn as you suggested, and he wanted to wait until we got the tax bill out of the way, and I told him I was afraid that that would be too late; and he said that he talked to the chairman of the House Weights, Coinage, and Measures Committee, Somers, and would let us know. Larry Bernard says that Somers has got to go to the hospital for a very serious operation, in which case Cochran would be acting chairman of the Committee. I think the sooner we get started, the better.

(Mr. Odegarde entered the conference.)

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H.M.Jr: All right?

Foley: Yes.

H.M.Jr: I rode down with and had a long talk with Stimson this morning. Incidentally, he brought up this question of the Labor thing. So he said he would send for Donald Nelson. Donald Nelson really didn't know what he had signed. He had made a very poor explanation, but he got him to change his mind. I wouldn't do anything about it. It is in the President's lap. Let's see what happens. Nelson really didn't know what he signed. O.K.?

How did you (Sullivan) get along?

Sullivan: I had a nice time yesterday afternoon. They had a lot of questions. I think it was a good hearing all the way through. They were all delighted with the way you handled it in the morning.

H.M.Jr: I haven't seen your statement yet, you know.

Sullivan: Here it is.

H.M.Jr: I never got it. I never did get a copy of it.

Sullivan: Congressman Disney called this morning, and he said he thought it would be very helpful if he could get some figures on what the contractors having contracts were doing, and I told him I didn't know just what we could get, but we would be very glad to get what we could; and it occurred to me that, if you wanted the material that we were assembling on those hundred leading companies, Monday will be a grand time.

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

Sullivan: I have sent in to you memoranda with the informa-

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tion on, I think, eighty-one or -two of them. If I could have that back, we will work up the material for Monday. You asked for it Wednesday morning coming down in the car, and I told you it had just come over from the Bureau, and I think it came in yesterday morning.

The Committee is meeting in executive session this morning, and I think they are going to have quite a time. The purpose of this meeting is to find out who gave out this information to P.M. and so on and so forth. We are not invited. They know we are out.

H.M.Jr: I take it we also are not guilty.

Sullivan: Oh, no; we are not.

Gaston: P.M. means Post Mortem.

(Laughter.)

Schwarz: If we are sure we are all right, that is all right.

H.M.Jr: Anything else?

Sullivan: No, that is all. I thought if there wasn't anything you wanted, I might like to get out this afternoon.

H.M.Jr: It is all right. You mean golf?

Sullivan: Yes, sir.

H.M.Jr: Good.

Sullivan: I will attempt it.

H.M.Jr: Merle, did you get my message that I want you to

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go over with me when I go over to the English at a quarter of one?

Cochran: No.

H.M.Jr: I told Stephens this morning.

Cochran: Over where?

H.M.Jr: They asked me to go over for lunch, and frankly, I want you to go along as a reporter.

Cochran: Oh, I see. At a quarter to one, come in your office.

H.M.Jr: Leave at twenty minutes of, and I would like you to go with me with your brain open.

Cochran: I have nothing.

H.M.Jr: Professor Odegarde?

Odegarde: I have nothing to report.

H.M.Jr: I sent you a memo. It may not have come to you yet. I wonder - you have these connections, I think, with the Gallup Poll - whether you couldn't get the Gallup Poll people to make a poll on the increase in taxes and how the people feel on cutting expenses.

Odegarde: They have been working on those questions, Mr. Secretary.

H.M.Jr: But those two things.

Odegarde: That could be done.

H.M.Jr: That didn't come to you, because my dictaphone at the house didn't work. Would you take it up?

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Odegarde: Yes.

H.M.Jr: Harold, you are sitting on the edge of your chair.

Graves: We have been in touch with the Boy Scouts.

H.M.Jr: Hooray!

Graves: ....who have - as a matter of fact, they have come to us.

H.M.Jr: Two fingers in salute.

(Laughter.)

Graves: ....to find out what way the Scouts can be of service --

H.M.Jr: What about the Girl Scouts?

Graves: Ain't heard from them. I am not sure that is true. We probably have.

(Laughter.)

Schwarz: You hope.

Graves: We have tried to be careful in working out a program for the Scouts. They have wanted to do some soliciting and taking orders and that sort of thing, more or less keeping up with what they did in a very fine way during the World War. We have deferred consideration of everything except one thing. They want to distribute that poster for us, and we think that they probably can do a very fine job on that, and we have accepted their services in that connection. We are giving them a million of those cards, and their proposition is that they will put those cards in store windows and on counters everywhere.

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H.M.Jr: Wonderful!

Graves: Throughout the country in such a way as to avoid any wasteful distribution, which is a common thing when you are dealing with poster material.

H.M.Jr: That is right.

Graves: Now, they wanted a letter from the President, who is the honorary head of the Boy Scouts.

H.M.Jr: Yes.

Graves: And they have drafted and given us such a letter. I have here a memorandum for you to sign addressed to the President.

H.M.Jr: Asking them to do this?

Graves: Asking him to endorse this program of theirs and sign that letter as Honorary Head of the Boy Scouts of America.

H.M.Jr: Sure, let's try it.

Graves: It is their letter and I thought if you would sign that I would give it to Mr. Schwarz to hand to Mr. Early. He is to see him about another matter.

H.M.Jr: All right.

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Graves: We had organization meetings on Wednesday in Missouri and yesterday in South Carolina, and I have heard from both by telegraph and telephone that they were very successful, according to our people who went out from here to attend those meetings.

H.M.Jr: Good.

Graves: We are appointing Mr. Saul Haas, as I told you some days ago, our state administrator for the State of Washington--

H.M.Jr: Mr. Gaston's pal?

Graves: Yes.

Gaston: One of them.

Graves: And Collector of Customs Bartley in the State of Montana. These two men have been here for some time. We sent them down to the South Carolina meeting to get the hang of the thing.

Gaston: Bartley is a very good man.

Graves: Both of those men, I am sure, will make a success of this. We sent them down to our meeting at South Carolina, and Saul phoned me last night that he was very much impressed with the spirit of the thing and the way the people down there were taking hold. There

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is a meeting of some kind of the American Bankers Association group at Hot Springs this week. Mr. Edward is going there for us, and he has been urging me to come down for one day. I thought if you see no reason why I shouldn't go, I would leave here this afternoon and go down there and be back here Sunday night.

H.M.Jr: Where?

Graves: Hot Springs, Virginia.

H.M.Jr: Sure. Nice place.

Graves: That is all I have.

H.M.Jr: Where is that poster of Peter Hurd with the--

Graves: I have it in my office.

H.M.Jr: Send for it please, now.

Graves: I will get them both in.

Odegarde: Mr. Secretary, could I ask a question? What were the two questions you wanted?

H.M.Jr: How do they feel about increasing taxes three and a half billion dollars and how do they feel about cutting the non-defense expenditures by a billion? Okeydoke?

Odegarde: Yes.

H.M.Jr: George?

Odegarde: You would like that as soon as possible?

H.M.Jr: Yes.

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Haas: I have got a good deal of this defense statistical material here.

H.M.Jr: Let's see it. Everybody else will be interested.

Haas: This isn't quite what you wanted. Here is a sample of this chart and here are the actual figures, cumulative here, and here is the monthly one. For the total period they are behind 64.

H.M.Jr: Perfect.

Haas: We could do that for each of the major procurement items.

H.M.Jr: That is right.

Now, Mr. McCloy says the sooner he can get one the better, but I think we had better give it to Stimson and always to the Under-secretary and Assistant Secretaries over there and the Chief of Staff. That is perfect. This is for me?

Haas: Yes. Well, I thought you had in mind - you thought the most important one--

H.M.Jr: I would send them anyway.

Haas: All right. You see, that was the month that Biggers said was going to be a hundred in April. It is the April figures.

H.M.Jr: You are just going back to January?

Haas: That is what I thought.

H.M.Jr: Maybe Bell can help you on the other thing

Regraded Uclassified

I want. I would like to know the day that the President signed the bill and how much the appropriation is. This may be two appropriations or three appropriations. Then how long before the contract was signed. This is fine. That is all right. That is just the way I want it.

What else?

Bell can help you on that.

Bell: It is very difficult to follow appropriations because they get contract authorizations in addition to appropriations.

H.M.Jr: Well, he will have to talk to you.

Haas: Here are some charts you haven't seen. They are not made up this way, they are made up--

H.M.Jr: Why not stay behind a minute?

Haas: All right.

H.M.Jr: I will do it later.

To show you how effective these figures are, the last one I sent over on planes, I was told by one of the Assistant Secretaries of War that Mr. Stimson spent a whole half day on it pressing buttons and sent for one man after another to try to prove that they were wrong, and each man that came in said, "No, they are right." He said he spent the whole morning sending for one man after another trying to prove my airplane figures were wrong. Everybody he saw came in and said they were all right.

Bell: What was done about it?

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H.M.Jr: Well, if he spends a half day on it, he gets his teeth into it, anyway. He has one of these dictaphone boxes, or whatever you call it. You know, that he calls people? He called somebody on the phone and he says, "What is the matter with this thing? Why don't you get after it?" And the voice came back, "If you would only get rid of that blankety-blank so and so, the things would be better." And the blankety-blank was sitting there. (Laughter) Since that they have called it his Pandora box.

Gaston: It is a dangerous tool.

H.M.Jr: The other story I have heard, they say that Knox has a whole list of buttons on his desk, each one for an admiral, and this man says he has been in his office a half dozen times and he presses one after another and he says he has yet to be able to find that Knox has been able to press the button that produces an admiral.

Schwarz: I have here the - some comments on yesterday's tax stuff. On the radio, for example, Lowell Thomas, 500 words, and all the others. I have it all.

H.M.Jr: Wonderful.

Schwarz: And Collier's today winds up a nice editoral called "Better Buy Some Bonds."

H.M.Jr: I have seen that. That Collier's thing is very fine.

Schwarz: Do you want to send a letter to Tom Beck?

H.M.Jr: It has been taken care of.

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Schwarz: The ticker says there is a small clique of people in the United States who are well known as enemies of Germany: Hull, Knox, Stimson, Dorothy Thompson, Morgenthau, and Donovan.

H.M.Jr: Wonderful. That is the best we have heard yet.

Schwarz: How do we get in that circle?

H.M.Jr: This radio thing is something new you are doing, Chick. That is fine. That is awfully good.

Gaston: Did you see F. P. A.'s paragraph last night? It said that while it isn't legal, they still think they ought to confer on you the title of "Sur Tax Morgenthau."

Schwarz: They have got a saying in Hollywood that you have changed the name of Twentieth Century Fox to "Penitentiary Fox."

H.M.Jr: Incidentally, I don't get it, but they say Bob Hope regularly once or twice a week has something funny. You couldn't get any of his script?

Schwarz: I will get some.

H.M.Jr: I would like to send a little note saying my children hear it but I haven't. They say it is very funny. They say every week he says something.

Anything else?

George?

Haas: I got back in the line over here. It is

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Harry this time.

White: You take my turn today. (Laughter)

Haas: All right, give me your stuff, Harry.

White: I haven't anything.

H.M.Jr: What is this, a shell game?

White: I haven't anything, so I thought I would let him have my chair.

H.M.Jr: Did you make an appointment?

White: I haven't been able to yet.

H.M.Jr: Otherwise, all right?

Daniel?

Bell: Here is a memorandum (dated April 18) of our conference the other day at the White House on the Agricultural Bill.

H.M.Jr: Oh, yes.

Bell: We have 15 million dollars in that 50 million investment of the two and a half's for the trust funds. That is all we have got until the thirtieth. There isn't much we can put it in except postal savings or FDIC, and there wouldn't be any harm in letting it lapse if we didn't want to invest it. We have a hundred and eleven in two's, Postal, and 19 in FDIC.

H.M.Jr: Give it to Postal.

Bell: All of it, or split it?

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

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Bell: Fifteen million.

H.M.Jr: I would give it to Postal. They are helping us now.

Bell: They would be glad to get it.

H.M.Jr: I would give it to Postal. Fahey

Bell: The Home Owners Loan will pay off a hundred and ninety million dollar maturity on the eighteenth, and Mr. ~~Fay~~ is giving out a public statement on May 1, and in that statement he is saying that this hundred and ninety million dollars will be available for the investment in the new savings bonds which you are announcing that day, and we thought that that morning we might give you some figures, that is Thursday, and you will have a press conference that day, so that you might also say something about it.

H.M.Jr: Fine. O.K.

What else?

Bell: That is all.

Thompson: I have one item, if I can stay a minute. It will keep over.

H.M.Jr: I will take it up after the meeting. And then George, I will take you on right away.

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May 1, 1941 278

Professor Odegarde reported at the 9:30 meeting today that the Gallup Poll is going ahead with these two questions, and that it will be done at the expense of the Gallup Poll.

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April 25, 1941

Professor Odegarde

Secretary Morgenthau

I wonder if you could get in touch with the Gallup Poll people, and ask them whether they could run a poll on the three and one-half billion tax increase; also particularly on my suggestion that we save one billion dollars on our present non-defense expenditures.

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APR 25 1941

MEMORANDUM FOR THE PRESIDENT:

The Boy Scouts of America have volunteered their services to the Treasury in its program for promoting the sale of Defense Savings Bonds and Stamps.

As a beginning, they have offered to assist in the distribution of posters throughout our cities and towns. Their help in this matter will be very valuable, and we have of course accepted their offer.

The Scout executives have told us that it will add greatly to Scout morale for them to have a letter from you, as their Honorary President, expressing your approval of this project.

I take pleasure in attaching a draft of such a letter for your consideration.

(Signed) H. M. JR.

HNG/mff

(Handed to Steve Early by Mr. Schwarz)

Copy to Mr. Thompson.

Regraded Uclassified

My dear Mr. Reeds

It will be most gratifying to me as Honorary President of the Boy Scouts of America to have Boy Scouts under the leadership of our 545 local councils and 48,000 scout units, covering all parts of the United States, lend their aid to the Secretary of the Treasury as special messengers in the distribution of the official Government posters announcing the United States Savings Bonds and Stamps for Defense, and cooperate in such other ways as may be determined suitable for boys of Scout age and Scout training.

It is important that these posters be distributed promptly throughout our country so that our people may be fully informed of this opportunity to share in carrying forward the Defense Program of the Government. Moreover, this will give every Scout and Scouter an opportunity to help through personal service.

As I said in my anniversary message on February 8th, the Boy Scouts have always responded generously when called into action, and I am confident that this, the first specific request presented in the present emergency, will bring each and every member great satisfaction, and materially help the Secretary of the Treasury and those working with him in going forward effectively with their plans.

Sincerely,

Mr. Walter W. Reed,
President of the Boy Scouts of America.

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April 25, 1941
10:12 a.m.

Col. Leonard Ayres: Yes, sir.

H.M.Jr: Henry Morgenthau, Jr.

A: Yes, sir.

H.M.Jr: I just wanted to tell you how much I appreciate the cooperation that you are giving to George Haas.

A: Well, we'll try.

H.M.Jr: It's very helpful, and I spoke to Mr. Patterson about it and it's entirely agreeable to him. He knows all about it.

A: Yes, sir.

H.M.Jr: And I suggest that George Haas come over and see you this afternoon some time.

A: All right. I'll be very glad to see him, indeed.

H.M.Jr: What time would be good for you?

A: Almost any time. It would be better after 2:00 o'clock.

H.M.Jr: 2:30?

A: Yes, sir.

H.M.Jr: He'll be there.

A: All right.

H.M.Jr: Thank you.

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April 25, 1941
11:14 a.m.

H.M.Jr: Hello.

Operator: Mr. Hoyer-Millar, the First Secretary. (British Embassy).

Mr. Millar: Good morning, Mr. Secretary.

H.M.Jr: Mr. Millar, Secretary Knox has had two messages from London, one from Forrestal and one from Harriman in which it said that the British Admiralty said that they would not be able to operate these Coast Guard cutters on account of their not being familiar with the electric drive.

M: Yes.

H.M.Jr: Captain Palliser of the Malaya says that he is satisfied that he can.

M: Yes.

H.M.Jr: Admiral Waesche, the head of the Coast Guard, has had it up with Admiral Pott and he says he is satisfied. I wish you would speak to Admiral Pott and ask him if he is satisfied that the British personnel can run these Coast Guard cutters to your own satisfaction, and then if you could call me just as soon as possible, please.

M: Right-o, sir. Would you like me to get Admiral Pott to talk to you on the telephone?

H.M.Jr: That would be fine.

M: I'll get him to ring you back. There may be some technical details that he could explain in person.

H.M.Jr: If he would do that, that would be fine.

M: Right-o. You'll be at the Treasury .....

H.M.Jr: You call on District 2626.

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M: District 2626. I'll go and speak to Pott now.

H.M.Jr: That's my own - I have my own private operator.

M: Yes, I'll go down and get hold of Pott now straight away.

H.M.Jr: District 2626.

M: District 2626. Right-o, sir.

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April 25, 1941
11:30 a.m.

Admiral Pott: Is that Mr. Morgenthau?

H.M.Jr: Talking.

P: Good morning, Mr. Secretary. Admiral Pott speaking.

H.M.Jr: Good morning, Admiral.

P: I understand there has been some communication about these Coast Guard cutters.

H.M.Jr: Well, I've had two. One from Secretary Knox yesterday, saying he had a message from Mr. Forrestal and Mr. Harriman, saying that your Admiralty in England said that your English sailors would not be able to operate these cutters on account of the electric drive and therefore they wanted us to put some men on for six months.

P: Yes.

H.M.Jr: Well, I asked Waesche to go up and see Captain Palliser and he reported that he could, and I understood that Waesche also spoke to you.

P: Yes, sir.

H.M.Jr: Well, inasmuch as Secretary Knox was making quite a thing of it, I just wanted to know from you direct whether you felt everything was in hand.

P: Yes, sir. We're absolutely happy about it here.

H.M.Jr: Are you entirely happy?

P: Absolutely happy about it.

H.M.Jr: Well, I wanted to report that at Cabinet then that you are entirely satisfied.

P: Yes, sir, we're entirely satisfied.

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H.M.Jr: Then you can take these cutters all over and operate them.

P: Yes, sir, absolutely. Actually, Captain Palliser sent a dispatch to London day before yesterday giving the dates when he would take them over and when they would sail. This is the first I've heard of any difficulty at all. It doesn't come from this end.

H.M.Jr: No, no, no.

P: How the Admiralty could know that we can't operate them I don't understand.

H.M.Jr: Well, maybe they have a crystal ball.

P: (Laughs). Well, I'm very sorry this has happened but please quote me and Captain Palliser if you will, sir, both of us, that we are confident that we can.

H.M.Jr: Well, I'm sure that will end it.

P: Yes. Well, thank you very much, Mr. Secretary.

H.M.Jr: And if anything should turn up that you are not satisfied, I'd be very glad to hear about it personally.

P: Yes, sir. We'd let you know at once, sir.

H.M.Jr: Thank you.

P: Thank you, sir.

Regraded Uclassified

April 25, 1941
11:35 a.m.

RE CHINA

Present: Dr. T. V. Soong
Ambassador Hu Shih
Mr. White
Mr. Cochran
Mrs. Klotz

H.M.Jr: I was anxious to see you gentlemen before I went to Cabinet, you see, in case this question of China came up so I would be prepared to answer it; so I would like to have the opportunity of talking, as I say, before I went to Cabinet.

Hu Shih: It is very kind of you to give us any time at all. We know you must be very, very busy.

H.M.Jr: Well, we always have time for China.

Soong: Well, Mr. Secretary, after we left you, the Ambassador and I sent a telegram to General Chiang Kai-shek. To this telegram up to the present we have no reply. The situation in China is very bad, so we have come here to make an earnest plea to you to sign the agreement as soon as possible.

You see, my Government is only too anxious to cooperate with you in every respect. You were the first, in a way, to discover China, after the President. So you can depend upon our Government and especially the new chairman of this board - we have

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announced it, Mr. K. P. Chen.

H.M.Jr: Has it been announced?

Soong: Yes.

Hu Shih: It was in the Times yesterday.

H.M.Jr: I didn't see it.

Soong: You may be sure that he will give you the upmost cooperation. More than that, China will have to depend on you and the United States for years to come; so I hope you will have the agreement signed soon.

H.M.Jr: Have you had any answer at all?

Soong: No reply yet.

Hu Shih: I think that is probably because General Chiang may be out of Chungking. His movements are very uncertain. They are usually not known to the people, even immediately in the Government.

H.M.Jr: Putting this to one side for a minute, in this letter which I got - I think it was dated the seventeenth of March, from General Chiang Kai-shek to President Roosevelt, which I was given a copy of, there were really three things; the Stabilization Fund was one, aid to China under the Lend-Lease was two, and then the freezing of Chinese assets in this country, is that right?

Soong: Yes.

H.M.Jr: Well now, how is the Lend-Lease going?

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Soong: The Lend-Lease, I have seen Mr. Hopkins and the so-called committee - some sort of - some committee in the various military offices, and also I have seen your Procurement Division.

I have not had the opportunity of seeing the Joint Aeronautical Committee.

H.M.Jr: Well, have you got anything?

Soong: We have been discussing things, and so far they seem to indicate that for the Burma Railway there is a good chance of getting some materials. There is a chance for getting some trucks. Also scattered items in the --

H.M.Jr: Any definite commitments?

Soong: No commitment yet.

H.M.Jr: And on the freezing of funds, is that something the Generalissimo wants?

Soong: The Generalissimo sent a message on that subject.

H.M.Jr: Now, if we freeze China's funds, is it necessary also to freeze the Japanese?

Soong: To make it effective, we must freeze the Japanese also.

H.M.Jr: Why?

Soong: Because otherwise all our exports would be sent to Japan and shipped from Japan.

H.M.Jr: Suppose we froze all the funds in this country. Wouldn't that give you the protection you need?

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Soong: There are first exports from China, you see.

H.M.Jr: Explain it.

Soong: For instance, after freezing the funds, we must also freeze the future funds coming to this country, future Chinese funds.

H.M.Jr: They would be.

Soong: But instead of allowing Chinese to export from the main points of entry, the Japanese will collar all the goods and send them to Japan, you see, and export them as Japanese products, so that we cannot avoid that.

H.M.Jr: But you have heard nothing on the message the other day.

Soong: Not yet.

H.M.Jr: I see. Well, I want to report this to Cabinet and see what the President says. If there is any change, I will let you know when I come back.

Hu Shih: Mr. Soong and I really came here to, as I said, make a personal plea to you because you have been so helpful from the very beginning, and really you are the person who practically found a way of concrete aid to China.

In this case of the Stabilization Fund, while we are waiting for a reply - and we hope it will be a favorable reply - in the meantime we are coming to you, Mr. Secretary, to ask you to consider this matter in the most sympathetic spirit as you have always done, to see if you could waive this - almost the only restriction you are having. Could

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this sum be paid to us in a lump sum and as the - made available, the whole amount.

On our side, the details would be a question of understanding between you and the Government here, and the Chinese Government; but to facilitate an earlier signing, to more or less accede to some of the wishes of the Generalissimo and at the same time when - the spirit, I am sure, will be preserved.

We can trust our friend, K. P. Chen, for example. That is what we are here to - that is very kind of you to give us this time.

H.M.Jr: K. P. Chen has been announced as chairman?

Hu Shih: As chairman.

H.M.Jr: That makes a lot of difference to me. You see, in the publicity which I read, there was no intimation in the publicity that you wanted to get the whole fifty million. That is, in the statement which was prepared.

White: It merely said fifty million is made available.

H.M.Jr: Yes. I mean, nobody knows it. I mean, in the press release. It didn't say fifty million, of which only five million a month can be spent. Am I right?

Soong: Yes, sir. But the thing is this. It is getting so everything is known, and I may say that sometimes people are not discreet. Such things get talked about.

H.M.Jr: Sure. Let me see what I can do at Cabinet.

Hu Shih: Thank you very much.

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H.M.Jr: I never make any promises. I only tell afterward what I have or haven't done; but my interest in China is no less than it has ever been. I think you people have put up a magnificant fight, and I think you should get every kind of encouragement that is possible.

I will get you some kind of message - if I have a favorable message, then maybe we can still sign this afternoon. We will see.

Hu Shih: Thank you very much.

(Mr. Hu Shih, Mr. Soong, and Mr. Cochran left the conference.)

White: Mr. Secretary, I don't like the implication that I am putting on pressure. I have not talked to anybody; and if you would like a chance to think it over, all right, but I would really like to avoid any possibility --

H.M.Jr: What do you call it?

White: Well, it isn't pressure.

H.M.Jr: What is it?

White: It is giving you, to my knowledge, the best advice under the circumstances. I have nothing gained by this loan going through other than the conservation --

H.M.Jr: Well, nobody is implying that.

White: I feel this way about it, if there is any doubt in your mind at all as to the wisdom of it, think it over during the week-end.

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 25, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 12:45 today the Secretary, accompanied by Mr. Cochran, was the guest of Mr. Arthur B. Purvis at a luncheon given in the British Mission's private dining room at the Willard Hotel. The other guests consisted of Sir Henry Self, Head of the British Air Commission, Sir Arthur Salter, Head of the British Merchant Shipping Mission, Commander Galbraith of the British Admiralty Mission, Sir Clive Baillieu, Head of the British Purchasing Mission, Sir Frederick Phillips, Under Secretary of the British Treasury, the Honorable R. H. Brand, Head of the British Food Mission, Admiral French, in charge of repairs, Mr. Jean Monnet of the British Purchasing Mission and Mr. Playfair of the British Treasury Mission.

After an exchange of greetings, Mr. Purvis talked with the Secretary at one side with respect to aviation and shipping matters, including the delivery of planes by air to Singapore, as well as to England via Canada. Sir Henry Self entered the conversation as the guests were seated at the table to talk on the subject of actual deliveries of airplanes for the British. He remarked that the General Motors output had been quite a disappointment, falling some 3,000 below the promised output for 1941 of 5,900. Pratt and Whitney were doing splendidly, being considerably ahead of program. The Wright people were moving along, but behind schedule.

Sir Clive Baillieu told the Secretary that the British might endeavor to enlist his help in the near future with the view to obtaining from the United States a delivery of one hundred anti-aircraft guns weekly. This particular article was specially required, and speed in obtaining the guns was essential.

The subject about which discussion centered during most of the luncheon was that of merchant shipping for Great Britain. The Secretary unofficially advanced the suggestion that the British might well launch an appeal to the American public for shipping to transport foodstuffs to the British Isles to meet the needs of under-nourished mothers and children, as well as the fighting men of England. The Secretary made the point that the American public does not have an understanding of the actual food situation in England, and of the privations that the British are now suffering in this field. The British themselves know what they are doing without, and the Germans undoubtedly have their way of keeping informed as to what the British lack in the way of foodstuffs. Perhaps there had been some mention of British rationing in our press, but the Secretary thought our public should be given the shocking picture of the limits placed upon prime articles entering the diet of the British, particularly mothers and children. In answer to his inquiry, he was informed that the British meat ration is at present one shilling per week; that is, two pence a day for six days in the week. The point would be to show that necessity has obliged the British to establish a very severe rationing. There would be no purpose served in describing particularly supplies or amounts transported. It would suffice to show the meager rations of certain vital articles that are

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permitted to be consumed. The Secretary's idea was that an appeal of this sort would be much more effective with the American people, than a call for ships to transport munitions. It is a much more appealing story to recount that infants are going unfed than that so many tons of munitions are on an American dock awaiting shipping space.

The Secretary understood that only four American merchant vessels have actually been transferred recently to the British. Sir Arthur Salter confirmed this, although he said negotiations were still continuing for more. The Secretary thought that the big effort to obtain the transfer of perhaps sixty coastwise vessels might be expedited by a plea such as that above described. The desirability was mentioned of having the plea come from some outstanding British woman, such as Lady Reading. This led to the unanimous agreement that the most effective source of such a plea would be the Queen herself. Mr. Brand questioned whether it would be wise for the British to make such a plea of desperation. Might it not have the adverse effect of diminishing American confidence in the British ability to carry on? The reply was made both by the Secretary and Mr. Purvis that since the actual need exists, it is better to risk on the sentiment side than on the actual side. That is, if shipping space is not immediately made available for more food, British resistance will weaken.

When the discussion reached this point Sir Arthur Salter joined the group. He had some reservation about a plea of despair being made with respect to food. His argument took the line that the people of England would not be permitted to starve. The result would be, and is already tending in that direction, of taking shipping space away from munitions and giving it to food. The calculations in the past have been based upon a figure of twenty million tons of space for munitions and fifteen million for food. If and when the figure of tonnage goes under thirty million, the policy will be to cut down two tons of munitions for one ton of food. The shortage of shipping space has thus arrived now at a point where it will be necessary sharply to curtail munitions shipments to permit food to reach England sufficiently even for the present severe rations.

The Secretary left the foregoing thought with the British, again reiterating that this was purely a personal idea of his own, and had not been submitted to anyone in the Government, except that he had discussed it briefly with Secretary of War Stimson this morning and had found the latter quite interested.

In answer to the question as to whether Lindberg's New York speech would spread a wave of defeatism throughout the country, the Secretary gave an opinion to the contrary. The British agreed that the remarks yesterday of Secretary Hull and Secretary Knox should have a strong tendency to refute Lindberg. The Secretary added that at his press conference the President had declared that Messrs. Hull and Knox were speaking for the Government.

To Sir Frederick Phillips the Secretary remarked that a message had come from our Embassy in London with respect to a coming visit to this country by another British Treasury representative. Phillips knew about this. He thought the visit would be only a short one. He was not aware as to whether the visitor, Professor Keynes, would arrive by ship or by plane. The Secretary was obliged to take leave at 1:50 to attend a Cabinet meeting. At the request of Sir Frederick Phillips, Mr. Cochran stayed behind for a few minutes to talk with him and Mr. Playfair in Sir Frederick's office. Phillips stated that Secretary Morgenthau had let him know upon entering the

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ing room that the Chinese Ambassador and Dr. Soong had been at the Treasury just fore noon beseeching the Secretary to sign the Sino-American Stabilization Agreement day. The Secretary was going to take this up at the Cabinet meeting and had asked r. Cochran to arrange with Under Secretary Bell for everything to be prepared in se a signing at 4:30 was approved by the President. Phillips pointed out that no pproval had yet been received back from London as to the American suggested change the text of the British press communique. He said that Soong had been pressing the ritish for signature of their agreement today or tomorrow, asserting that this was rgently desirable before the exchange markets are reopened on Monday. Phillips hoped, erefore, that we could delay signing at least until Saturday, and preferably until nday. Mr. Cochran promised to call Sir Frederick as soon as a decision was received rom the Cabinet.

Upon returning to the Treasury Mr. Cochran asked to see Mr. Bell. He was with e Under Secretary when Secretary Morgenthau telephoned from the White House that e President approved of the signing of an agreement, without reservations, at o'clock this evening, and that we were to make the necessary arrangements. At r. Cochran's suggestion, Mr. Bell told the Secretary of Phillips' request, but the ecretary felt obliged to go ahead. Consequently Mr. Bell telephoned the Chinese fficials. Mr. Cochran telephoned Mr. Playfair, and also let Mr. Hamilton of the tate Department know that Secretary of State Hull had approved Secretary Morgenthau's nvitation for Mr. Hamilton to be present at the signing this evening. When r. Cochran spoke with Mr. Playfair, it was ascertained from the latter that approval f the British press communique had just been received from London, except for one t. Mr. Playfair was to discuss this with Messrs. Phillips and Rogers, and was ked by Mr. Cochran then to communicate with Mr. Bernstein as to the British plans, nd also as to whether any change in the American press communique would be necesitated. At 3:30 Mr. Bernstein came to Mr. Cochran's office to discuss the arrangeents and received a phone call from Dr. Soong at that time. Mr. Bell then received essrs. Bernstein and Cochran at 3:40, and telephoned Mr. Playfair that it was necesary that the American press release be given out after the signing at 5 o'clock onight. Mr. Bell did not think the Secretary would approve of the British suggestion hat it be held until tomorrow morning. Mr. Playfair was urged to telephone London t once with the view to arranging for a simultaneous release of the British statement n London.

H. M. S.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 25, 1941

TO Secretary Morgenthau

FROM H. D. White

Subject: The British Cash Position

Appended is a digest of Sir Frederick Phillip's Aide-Memoire dated April 18 covering the British cash position and their needs during the next five months.

An examination of the figures reveals that they will have enough dollars and gold available to meet their estimated dollar requirements — at least until September 1. However, their dollar balances (official, not private) may not rise during this period above $175 million and may at times drop considerably lower. This is less than the $250 million cash balance which they wish to attain by the end of August.

They can increase their dollar balances in one of the following ways:

1. Transfer additional plants and contracts. So far they are to receive in refunds only $49 million and are to have commitments taken over by the Army and Navy of only $24 million. It is our understanding that they would receive at least $200 million through the assumption of contracts and purchase of capital equipment.

2. Increase their sales of direct investments. Their present plans call for liquidation at the rate of $40 million a month. It may be possible to step up this rate.

3. Postpone repayment of the Belgian loan of $100 million in gold. This would add $100 million to their cash balance as long as the loan remained outstanding.

4. Maintain the former rate of gold production in South Africa. They report a rate of acquisition of South African gold of about $160 million a year lower than their previous estimates. It is not clear whether the reduction in their estimate arises from a decline in production or a decrease in transfers to U. K. In either case, they may be able to correct the situation.

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5. In a pinch, they may be able to borrow some more gold from Belgium and some dollars or gold from the Netherlands.

All things considered, it is doubtful that you need be seriously concerned about the British cash position for the next few months. Of course, if Lend-Lease does not take care of as many payments as the British may expect, the situation will be different.

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anded to me by Arthur Purvis.

25th April 1941

Following discussions with Mr Gamie, he proposes to let us have, regularly each month, a statement framed on the following lines -

1. Giving priority shipping requirements as cabled from London at the middle of each month, e.g. those for May are approximately as follows:-

Grain and Cereal	673,000	tons
Steel, Pig Iron and Scrap	455,000	"
	1,128,000	
* Miscellaneous	491,000	"
giving a total of ...	1,619,000	tons

* This consists of some 200 items of all descriptions - Plywood, Silk, Glucose, Canned Fruits, Lumber, etc.

2. There will be some 231 ships, according to Mr Gamie, required to ship this tonnage. He states that for Miscellaneous and Steel there will be a shortage of 20/25 ships, and he estimates that there will probably be a further 20/25 ships short for shipment of Grain and Cereal on present indications.

3. Cable indication from London covers both the U.S., Canada and the East and West Coast ships, and Mr Gamie is therefor building up his statement to cover the whole North American situation.

4. He is sending down a statement giving the detailed picture for May and asking us to indicate the form in which we would like a regular statement of the shipping needs framed.

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APR 25 1941

My dear Mr. Secretary:

Enclosed are several copies of the most recent draft of an over-all agreement to cover defense articles made available to Great Britain under the Lend-Lease Act. This document has been discussed informally with Assistant Secretary Acheson. The last time I spoke to the President and Harry Hopkins they indicated that the agreement should be taken up first with the State Department and later with the Attorney General and the Bureau of the Budget.

Accordingly, I suggest that you fix a time which will be convenient to you when we might get together and discuss the proposed agreement.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of State.

Enclosures
BB:EHF:vls - 4/22/41 - 3 copies of draft

By Messenger 1:15 p.m.

File sent to Mr. Foley

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WHEREAS, the President of the United States is authorized by the Act of the Congress of the United States of March 11, 1941 (Public No. 11, 77th Congress, and hereinafter called the Act) to sell, transfer title to, exchange, lease, lend or otherwise dispose of, and to take certain further action with respect to, defense articles to the government of any country whose defense the President deems vital to the defense of the United States, on such terms and conditions as the President deems satisfactory, and

WHEREAS, the President has determined that the defense of the United Kingdom is vital to the defense of the United States,

NOW, THEREFORE, it is agreed by the United States and the United Kingdom as follows:

1. From time to time and in such amounts as the President may determine, the United States will, pursuant to the Act,

(a) furnish to the United Kingdom certain defense articles;

(b) test, inspect, prove, repair, outfit, recondition or otherwise place in good working order any defense article, or procure any or all such services by private contract; and

(c) communicate defense information pertaining to any defense article furnished hereunder,

as valued and listed or otherwise described in schedules, appropriately identified, now or hereafter to be attached to this Agreement.

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2. Within such period or periods as determined by the President, notice of which determination shall be given to the United Kingdom,

(a) The United Kingfom agrees to redeliver to the United States such defense articles furnished to the United Kingdom hereunder which, in the opinion of the President, are not used up, worn out, destroyed, or otherwise rendered incapable of effective use.

(b) The United Kingdom agrees, in the case of defense articles, other than agricultural commodities, which in the opinion of the President are used up, worn out, destroyed, or otherwise rendered incapable of effective use, to furnish to the United States an equivalent amount of similar defense articles, which, in the opinion of the President, are of a quality, efficiency and relative value substantially equal to the defense articles furnished hereunder to the United Kingdom.

(c) The United Kingdom agrees, in return for

(i) agricultural commodities, and

(ii) other defense articles, services and defense information,

furnished to it hereunder and for which the United States has not otherwise received full reimbursement, to furnish to the United States an equivalent in tin, rubber, jute, and other products and commodities produced in the British Empire or elsewhere and which,

in the opinion of the President, are needed by the United States. Such products and commodities shall be furnished in such quantities and at such time or times as shall be determined by the President.

(d) In lieu of returning or furnishing the defense articles or similar defense articles as provided in paragraphs (a) and (b) above, the United Kingdom may, at its option, furnish or transfer to the United States any raw materials or other property, services, information, facilities, or other consideration or benefits acceptable to the President.

To the extent that, during such period or periods determined by the President, the United States shall not have received pursuant to paragraphs (a), (b), (c) and (d) full reimbursement for the defense articles, services, and defense information furnished to the United Kingdom hereunder, the United States shall be entitled to receive or otherwise acquire, and the United Kingdom agrees to furnish or otherwise transfer, property, services, information, facilities and other consideration and benefits acceptable to the President.

3. By future agreement, the parties may substitute, in lieu of Section 2, any other payment or repayment in kind or property, or any other direct or indirect benefit to the United States, which the President deems satisfactory.

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4. The President shall determine the fair value of any property, services, information, facilities or other consideration or benefit received by the United States from the United Kingdom; and the United Kingdom shall be credited therefor on account of the defense articles, services and defense information furnished to the United States hereunder. For any defense article returned to the United States pursuant to paragraph (a) of Section 2 above, the United Kingdom shall receive a credit equal to the value given to such defense article in the schedules now or hereafter to be attached to this Agreement. The parties to this Agreement shall periodically review the status of the accounts arising under this Agreement, and the President may from time to time determine any credits to be given to the United Kingdom by reason of any consideration or benefit which the President determines shall have been received by the United States from the United Kingdom.

5. The United Kingdom agrees that it will not, without the consent of the President, transfer title to or possession of any defense article or defense information furnished to the United Kingdom hereunder or permit its use by anyone not an officer, employee, or agent of the United Kingdom.

6. If, as a result of furnishing to the United Kingdom any defense articles or defense information, it

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is necessary for the United Kingdom to take any action or make any payment in order fully to protect, pursuant to the Act, any of the rights of any citizen of the United States who has patent rights in and to any such defense article or information, the United Kingdom will do so, when so requested by the President.

7. Any defense articles, materials, or other personal property to be returned, furnished, or paid to the United States hereunder, shall be delivered or paid by the United Kingdom at such place or places in the United States, or any place subject to the jurisdiction thereof, as from time to time shall be determined by the President. Any defense article or other property, service, information, facility, or other consideration or benefit to which the United States shall become entitled hereunder shall, in so far as the rights, powers and privileges of the United States may thereby be affected, be exempt and immune from any taxes, charges, restrictions, regulations and controls of any nature under the laws of the United Kingdom or any political subdivision thereof.

8. The United States may at any time cease furnishing the defense articles, services and defense information referred to in Section 1 above. Such cessation shall not affect any of the rights, powers, or privileges of the United States or of the President hereunder or of any of the duties, liabilities, or obligations of the United Kingdom, all of which shall continue in effect until the

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United Kingdom shall have fully performed its duties and obligations and discharged its liabilities hereunder. Any default by the United Kingdom in the performance of any of its duties or obligations or in the discharge of its liabilities hereunder shall entitle the United States, by appropriate action to be determined by the President, to enforce its rights, powers, claims and privileges hereunder.

9. The President may exercise any power or authority conferred on him hereunder through such officer or agency as he shall direct for that purpose. The terms "defense article" and "defense information" as used in this Agreement shall have the same meaning as defined in the Act.

10. Any notice under the hand of the President or any officer designated by him shall be deemed and taken as the notice of the United States and the President and shall be sufficient if delivered at the British Embassy at Washington, D.C., or at the office of the Permanent Secretary of the British Treasury in London; and any notice by the United Kingdom shall be sufficient if delivered to the American Embassy in London, or to the Secretary of the Treasury of the United States at the Treasury of the United States in Washington, D.C. Any waiver of any notice required hereunder shall not extend to or affect any subsequent notice or waive any right of the parties to require notice hereunder.

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11. The parties to this Agreement, and the officials signing this Agreement on their behalf, each for itself, himself, or themselves, represent and agree that the execution and delivery of this Agreement have in all respects been duly authorized, and that all acts, conditions and legal formalities which should have been performed and completed prior to the making of this Agreement have been performed and completed as required by, and in conformity with, respectively, the laws of the United States and the United Kingdom.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in duplicate at the City of Washington, District of Columbia, this _____ day of _____, 1941.

THE UNITED STATES OF AMERICA

BY _____
(Title)

HIS MAJESTY'S GOVERNMENT IN THE UNITED KINGDOM

BY _____
(Title)

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CONFIDENTIAL

Action Required

April 25, 1941

To: The Secretary

From: Mr. Young

Re: Request of Procurement Division for $118,800,074 from lend-lease appropriations.

Attached is a memorandum addressed to you, signed by the Director of Procurement, requesting an allotment to the extent of $118,800,074 for the purpose of procuring material for the British. This request is ready to be passed on to the Bureau of the Budget but before doing so it needs your approval.

Oscar Cox and I are also attempting to establish a system whereby goods purchased under this allotment can be transferred to the British as fast as they can be procured without an additional Presidential directive. You will hear more from us on this point very shortly.

D.Y.

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April 22, 1941

MEMORANDUM TO THE SECRETARY:

Under date of April 18, 1941, the British Purchasing Commission submitted to the Procurement Division an estimate of British requirements totaling $209,655,500, of which a total of $126,229,108 is covered by requisitions already submitted or now in process of submission as outlined in photostatic copy of their letter herewith.

There is attached hereto a statement of the available funds and a schedule of further allotments which will be required to cover the requisitions already received or to be submitted in the immediate future.

It is requested that we be authorized to make commitments under the several classifications listed to the extent of $118,800,074, and that allotments of funds be made for that purpose. It is also requested that the authorization provide for the delivery of such commodities to the proper representatives of the United Kingdom.

Clifton E. Mack,
Director of Procurement

Att.

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ALLOTMENTS REQUIRED TO COVER REQUISITIONS ON HAND

April 21, 1941

Commodity	Allotment 4/3/41	Encumbered	* Requisitions On Hand	* Allotments Required to Cover Requisitions
METALS:			$118,800,000.00	$115,050,000.00
Ferrous				
Non-ferrous				
Steel	$3,000,000.00			
Brass rods and wire	750,000.00			
MACHINERY & EQUIPMENT: (Including road building equipment agricultural and related equipment)				
Agricultural Implements	1,000,000.00		623,214.00	
Road Building Equipment	1,500,000.00	$1,469,646.06	214,447.94	184,094.00
FIRE FIGHTING EQUIPMENT: (Other than machinery)				
Fire Hose	700,000.00	315,000.00	315,000.00	
Hoof & Horn Meal	70,000.00		35,000.00	
ELECTRICAL EQUIPMENT:			794,180.00	794,180.00
CHEMICALS and ACIDS:			4,021,800.00	2,771,800.00
Nitrate	500,000.00			
Phosphate Rock	250,000.00			
Phosphates	500,000.00			
MISCELLANEOUS MFG. MATERIAL:	230,000.00	90,470.67		
	$8,500,000.00	$1,875,116.73	$124,803,641.94	$118,800,074.00

* Figures shown in third and fourth columns include requisitions now on hand and those in preparation for dispatch by the British Purchasing Commission

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HOTEL, WASHINGTON, D. C. TELEPHONE REPUBLIC 7660

BRITISH PURCHASING COMMISSION

April 18, 1941.

Mr. Clifton E. Mack,
Director of Procurement,
Treasury Department,
Ninth & D Streets, S. W.,
Washington, D. C.

Dear Mr. Mack:

Following Mr. Swiggett's conversation with you yesterday, and the receipt of additional data from London, we have prepared a general forecast of requirements for materials which we understand will be secured through the Procurement Division.

You have asked us to supply as detailed requisitions as possible under various headings. We trust that you will understand that we fully appreciate your need for such detailed figures and the corresponding need of the Bureau of the Budget, and trust that you will understand that we are doing everything possible to secure complete details and requisitions.

Except as indicated the estimates are intended to cover the period ending June 30, 1941.

We indicate below the present status of our needs, but should [illegible] point out how difficult it is to make these completely positive and fi[illegible] since enemy action at sea, and particularly in the air over England, [illegible] any moment require a complete change of program. This means that th[illegible]s which we indicate are unlikely to be lowered, but that they may b[illegible]ified, either in quantity or in kind at almost any time, due to the h[illegible] of war.

1. [illegible]S, including both ferrous and non-ferrous:

Iron & Steel	$ 98,000,000
Non-Ferrous Metals	9,157,500
Zinc, July 1, 1941-December, 1942	16,640,000
	$123,797,500

The following requisitions are en route to you:

Iron & Steel	$ 98,000,000
Zinc	20,000,000
Brass Rods	800,000
	$118,800,000

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Our preliminary forecast for these groups totalled $107,157,500. The iron and steel figure is unchanged but, as we have been able to forecast minimum zinc requirements to the end of 1942, we have increased the zinc requirements from $3,360,000 to $20,000,000. Therefore, as shown on our revised general program attached, our ferrous and non-ferrous metal requirements total $123,797,500, of which requisitions are en route to you amounting to $118,800,000. There is, therefore, a balance on which it is expected that requisitions can be shortly prepared covering brass rod, bar, and strip, copper, tin residues, bismuth metal, amounting to $4,997,500.

2. MACHINERY AND MISCELLANEOUS INDUSTRIAL EQUIPMENT, including Road Building, Agriculture, and related equipments.

Our general program now shows a total for this group of $11,000,000. Against this we have issued, or have in preparation, requisitions for the following:

(a) Road Building Machinery:

Spare Parts for Road Rollers	$ 61,013.2	
Bitumin Paddle Mixers	208,376.8	
Stone Crushers	416,101.2	
Bitumin Distributors	18,930.0	
Air Compressors	108,250.0	
Bituminous Tar Kettles	80,750.0	
Stone Heaters	36,380.0	
Tractors, Graders, Spare Parts	250,270.0	
Tractors, Graders, Spare Parts	123,668.0	
Tractors and Graders	127,924.5	
Winches, Spare Parts	29,520.0	
Tractor Spares	28,910.84	
Spare Parts for Earth-Moving Equipment	194,000.00	
		$1,684,094

(b) Agricultural Implements:

Tractors	28,584.80
Tractor Spare Parts	21,388.62
Tractor Spare Parts	10,703.32
Plows, Harrows	2,926.44
Plows, Harrows	1,782.00
Tractor - Spare Parts	109,203.97
Tractor Spare Parts	8,508.98
Trucks, Plows	65,621.87
Tractor Spare Parts	41,505.98
Discs and Harrows - Spare Parts	4,125.00
Discs and Harrows, Spare Parts	1,995.99
Agricultural Equipment	11,803.75
Starter Motors for Agricultural Tractors	9,598.00
Agricultural Equipment	37,358.07
Agricultural Equipment	32,123.27

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Threshers	$ 27,459.80
Spares for Agricultural Equipment	77,000.00
Spares for Agricultural Equipment	1,204.76
Spares for Agricultural Equipment	56,369.05
Spares for Agricultural Equipment	536.80
Spares for Agricultural Equipment	5,278.75
Tractors, Cultivators, Harrows, etc.	8,865.98
Combine Harvestors	3,832.50
Tires, Tubes, Rims, various sizes for Agricultural Tractors	37,760.92
Milking Machine Spares	2,676.00
Combines	5,000.00
Cultivators & Spares	5,000.00
Tractors & Spares	5,000.00
	$623,214

These figures total $2,307,308; therefore, a balance of $8,692,692.

From general knowledge of the situation, we believe that London's requirements on agriculture will be specified shortly in an amount of approximately $500,000. leaving a balance of $8,192,692.

The material required under this balance will probably be the following road building machinery:

Approx. 600 Track Tractors of various sizes with earth-moving attachments.
20 Athey Trailers
125 Trailer Compressors
50 Jaeger Bitumen Mixers
25 Barber Greene Mixers
28 Barber Greene Ditchers
20 Stone Heaters
100 Diesel Locomotives, 60 CM gauge
100 Diesel Road Rollers
300 Diesel Engines
50 Trailer Mounted GM Diesel Generating Sets, 35 KW and 75 KW
50 Diesel Driven Generating Sets, 25 of 5 KW and 25 of 12 KW
2 Portable Diesel Air Compressors, 250 Cubic Feet Capacity,

[illegible]h we have put an approximate estimate of 8 million dollars.

3. [illegible]MICALS AND ACIDS.

Our general program indicates 90-day requirements of $20,000,000. T[illegible]llowing requisitions have been forwarded or are in prep[illegible]ation for imme-d[illegible]dispatch:

Polyvinyl Chloride	$ 144,000
Paris Green	15,000
Butanol	79,200

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Diphenylamine	$ 82,500
Filter Powder	105,000
Lithium Hydroxide	156,000
Ethylene Glycol	182,000
Ground Sulphur	22,100
Acetone	3,036,000
Pharmaceuticals:	
Atropine Sulphate)	
Creosote Oil)	
Caffeine)	
Oil of Chenopodium)	
Podophyllum)	
Stromonium)	200,000

These requisitions total $4,021,800, and we have cable indications that the following requisitions may shortly be expected:

Triple Super-phosphates	$3,300,000
Phosphate Rock	3,500,000
Calcium Carbide	900,000
Guanadine Nitrate	680,000
Glycerine	338,000
Glycerine	1,7[illegible]

to a total amount of requisitions prepared, and imm[illegible] requirements anticipated, of $14,439,800.

We have been advised by London that the breakdown on the balance of approximately 5½ million dollars may be expected shortly and we have also asked them to forecast as far ahead as possible their other requirements. You will realize, however, that plants making such materials are of a nature where enemy action in the air may cause a complete change in requirements of large dimensions.

The category of civil defense equipment had seemed to us a proper one under which to group certain materials on which we had estimated the needs at $2,[illegible]00, but in accordance with your suggestion we are glad to divide this as indi[illegible] in paragraphs 4 and 5.

4. [illegible]ING SUPPLIES AND HARDWARE.

No requisitions have been prepared for this material but we believe the [illegible]don will shortly require the following:

Bitumen-treated Tarpaulins	$ 750,000
Roofing Felt	750,000
Hurricane Lanterns	26,000
Pneumatic Tools for Demolition Clearance	80,000
	$1,606,00[illegible]

5. [illegible] FIGHTING EQUIPMENT OTHER THAN MACHINERY.

Fire Hose	$ 700,000
Hoof & Horn Meal	70,000

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Of these, requisitions are en route to you for the following:

Fire Hose	$ 315,000
Hoof & Horn Meal	35,000

We believe that material in the same proportion will be required for the balance of the proposed allocation very shortly.

We now show requirements under eight new categories suggested by you today:

6. PAPER AND PAPER PRODUCTS.

Woodpulp for Paper & Cellulose Wadding	$2,520,000
Cotton & Linen Rags	39,000
Bagasse	66,000
Paper & Boards	1,350,000

On this no requisitions have yet been prepared.

7. PETROLEUM AND PRODUCTS.

From the United States	$15,000,000
From U.S.-owned Sources	15,000,000

No requisitions have been prepared on this while awaiting advice from London.

8. RUBBER AND RUBBER GOODS.

Our only item in this category is rubber piping to be used in stirrup pumps for fire fighting and in view of this, it would perhaps be simpler to include this in Fire Fighting Equipment, but in view of your proposed category, we have here separated it. Estimated value $70,000.

9. [illegible]

No requisitions have been prepared on tools, but we indicate below the estimates on tools and machinery submitted to us by London:

Air and Gas Compressors	$ 195,000
Type Moulder Extrusion Presses	68,000
Parts for Road Motor Vehicles	1,775,000
Boat Oars	125,000
Bearings	450,000
Testing Apparatus for Machines	120,000
Pumps	38,000
Other Essential Machinery	200,000
Sewing Machines	250,000
Refractory Bricks	20,000

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Wooden Tool Handles	$ 270,000
Brass Screws & Fittings	38,000
Needles	75,000
Accounting Machines	120,000

10. TEXTILES.

No specific requirements have been certified but the estimates from the U. K. are $400,000 for silk.

11. LUMBER AND TIMBER.

The figures from London include soft woods, hard woods, ply woods, and Veneer, Sitka spruce and box board. Total, $4,050,000.

There is a special qualification to be made of the estimates for Paper and Paper Products, Petroleum, Lumber and Timber, and Textiles. The figures included in our estimates were prepared in England some weeks ago. They are now, we understand, the subject of further scrutiny in London and we shall no doubt receive further particulars in due course.

12. CORDAGE AND ROPE.

No requisitions have been prepared but the London estimates are for Manila hemp, $645,000.

13. ELECTRICAL EQUIPMENT AND SUPPLIES.

The total value of the estimates for these supplies is $1,213,000.

Of this, a requisition has been forwarded to you for 50,000 photo-electric cells at an approximate value of [illegible]. [illegible] balance of the estimated needs are:

Electrical Generating Sets & Magnetos	$ 38,000
Wireless Apparatus	200,000
Batteries & Parts	225,000

This completes the new proposed categori[illegible] already.

In addition, we have the following requirements which we have listed be[illegible], which we shall be glad to re-allocate according to your suggestions.

14. [illegible]DICAL AND SCIENTIFIC EQUIPMENT.

X-Ray Apparatus	$ 240,000
Medical Glass Tubing	60,000
Scientific & Official Instruments	345,000
Raw Drugs	45,000
	$ 690,000

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15. MOLASSES.

High Test, from Cuba $6,200,000

While we have tried to avoid all miscellaneous groups, we have felt it advisable to indicate, as in our previous program, the estimated needs for miscellaneous raw materials and miscellaneous manufactured materials. They are as follows:

16. MISCELLANEOUS RAW MATERIALS.

$1,250,000. No requisitions have been submitted in this category, which covers Carbon Blacks, Lamp Black, Pine Tar, Rosin, Liquid Rosin, Turpentine, French Chalk, Raw Hair, Asphalt, Asbestos & Plastic Materials.

17. MISCELLANEOUS MANUFACTURED MATERIALS.

$245,000. No requisitions have been prepared under this category, but these will be submitted as soon as possible.

We trust that we have given you in these further estimates a sufficient basis for future Budget allocations.

Faithfully yours,

HIS MAJESTY'S GOVERNMENT IN THE
UNITED KINGDOM

By James M. Kirby
For and on behalf of the
Director General of the
British Purchasing Commission.

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ESTIMATE OF BRITISH REQUIREMENTS
(Not including Dominions, India, or Colonies)
assigned to
PROCUREMENT DIVISION, TREASURY DEPARTMENT

* * * * * *

COMMODITY	GENERAL ESTIMATE	COVERED BY REQUISITION	BALANCE TO BE REQUISITIONED
Metals - Ferrous & Non-Ferrous	$123,797,500.00	$118,800,000.00	$ 4,997,500.00
Machinery & Industrial Equipment	11,000,000.00	2,307,308.00	8,692,692.00
Chemicals	20,000,000.00	4,021,800.00	15,978,200.00
Bldg. Supplies & Hardware	1,606,000.00	None	1,606,000.00
Fire Fighting Equipment	770,000.00	350,000.00	420,000.00
Paper & Paper Products	3,975,000.00	None	3,975,000.00
Petroleum	30,000,000.00	None	30,000,000.00
Rubber & Rubber Products	70,000.00	None	70,000.00
Tools	3,744,000.00	None	3,744,000.00
Textiles	400,000.00	None	400,000.00
Lumber & Timber	4,050,000.00	None	4,050,000.00
Cordage & Rope	645,000.00	None	645,000.00
Electrical Equipment & Supplies	1,213,000.00	750,000.00	463,000.00
Medical & Scientific Equipment	690,000.00	None	690,000.00
Molasses	6,200,000.00	None	6,200,000.00
Miscellaneous Raw Materials	1,250,000.00	None	1,250,000.00
Miscellaneous Manufactured Materials	245,000.00	None	245,000.00
	$209,655,500.00	$126,229,108.00	$ 83,426,392.00

We expect to submit figures for the Dominions, India, and the Colonies within a few days.

We shall also have figures from the Air Commission on needs for Aluminum and Magnesium, on which they are the only British users.

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OFFICE OF THE DIRECTOR

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

April 25, 1941

MEMORANDUM TO THE SECRETARY:

Weekly Report - Lease-Lend Purchases
(4/18 - 25, 1941

Purchases to 4/18/41.....$1,892,316.73
No purchases were made this week

Requisitions Pending	Estimated Cost
Cleared by O.P.M.....	$1,037,330.00
Awaiting clearance by O.P.M.....	2,483,704.37
Total pending requisitions (Including steel, equipment, chemicals, etc.).....	$3,521,034.37

In accordance with the decision of the Bureau of the Budget that allocations of funds would be made only to cover issued requisitions, the British Purchasing Commission supplied a schedule of issued requisitions enroute to us which, together with those already submitted, have been used as the basis of our request of April 22 for an allotment of $118,800,074 for purchase commitments. In the meantime, all preliminary purchase steps are being taken on pending requisitions to avoid delay.

Clifton E. Mack,
Director of Procurement.

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Copy for Secretary Morgenthau

319

Hompson
Yes

MEMORANDUM

April 28, 1942

To: Mr. Henry Morgenthau

From: Philip Young

Lend-lease operations have now progressed to a point where adequate statistical tabulations become imperative if we are to have any kind of an over-all picture of what is going on. A good example is the summary table of allotments against the 7 billion dollar appropriation, which has just been compiled and distributed. This table was a homemade job, and if it is to be issued regularly should be handled by a person or persons qualified to do it.

Further, this table must necessarily be only the first of a general series furnishing the lend-lease administration with adequate information as to goods made available under the $1,500,000,000 limitation, goods ordered from the $7,000,000,000 appropriation, goods actually shipped, etc., classified by countries and by commodities.

There is no need to establish a separate statistical organization for lend-lease, and there is no need for esoteric statistical information which is interesting but of no practical operating value. There is great need for adequate tabulations in order that the lend-lease administration may operate intelligently and in order that there will be provided satisfactory factual information on which to base the necessary quarterly reports to the President.

Originally it was thought that the Research and Statistics Division of the Treasury might be utilized in this respect, but the pressure of Treasury work has so increased that it may be undesirable to request the help of that division for this purpose. Similarly, for policy reasons, it may be equally undesirable to request the use of Stacy May's statistical service.

As a compromise solution from a practical point of view, I would like to suggest that this office borrow Mr. Wesley Lindow from the

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Research and Statistics Division of the Treasury, together with one of his assistants, to work full time with me on this problem. It is necessary that the person in charge of this operation be physically part of my office if the job is to be performed satisfactorily. In fact, the passing of each day makes the job more difficult. To be sure, this man will have to call upon some statistical unit already in operation for mechanical facilities and clerical help. This represents only a minor part of the problem, and these facilities could be in any department or agency of the Government — Treasury, Federal Reserve, CPM, Farm Credit, etc.

My suggestion has two principal advantages; first, the experience which Mr. Lindow has acquired for the last twelve months in his work on foreign purchasing will not be sacrificed, and, secondly, there could be no added strain upon the Treasury Division of Research and Statistics except the loan of Mr. Lindow and his principal assistant.

(Initialed) P.Y.

Copy to Secretary Morgenthau

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(Initialed) F.Y.

Copy to Secretary Morgenthau

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE April 25, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

Per Miss Chauncey

STRICTLY CONFIDENTIAL

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

	No. of Shares Sold	$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	$ Proceeds of Bonds Sold
April 14	9,351	176,710	159,000	138,708
15	4,429	136,526	36,500	34,491
16	10,009	591,415	2,000	1,602
17	11,661	132,014	12,000	11,655
18	49,341	570,428	6,000	5,306
19	324	8,894	Nil	Nil
	85,115	1,615,987	215,500	191,762
Sales from 2/22/40 to 4/12/41	7,561,940-1/2	233,694,960	27,074,250	26,272,324
Total 2/22/40 to 4/19/41	7,647,055-1/2	235,310,947	27,289,750	26,464,086

Miss Poate reported sales of non-vested securities for the week ending April 12 totaled $200,000.

H.M.J.

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April 25, 1941
4:31 p.m.

H.M.Jr: Hello.

Operator: Major Smith stepped out of his office.

H.M.Jr: Well, when he comes in I want to speak to him.

Operator: Right.

4:59 p.m.

Major Smith: Yes, Mr. Secretary.

H.M.Jr: Hello, Major. I don't know whether Stephens - has Stephens talked to you in the last minute or two?

S: No, sir. I just this minute got into the office.

H.M.Jr: Oh. Well, then, I'll do it. When General Marshall lunched with me on Tuesday, he invited me to make a trip and visit his army.

S: Yes, sir. We've been wanting you to do that for a long time, Mr. Secretary.

H.M.Jr: And he wanted you to accompany me. Now, last night Mr. McCloy asked me to go down to Aberdeen, see, and I'm going down Tuesday morning. I wanted General Marshall to know that I was going, see, but that I don't consider this - (laughs) - anything to do with the trip that he wanted me to take.

S: I see, Mr. Secretary. Well, I'll tell him.

H.M.Jr: Tell him I've got a rain check on his trip. This is just a little side one.

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S: Tuesday you're going to Aberdeen, sir?

H.M.Jr: I'm going down Tuesday morning leaving here about 8:30.

S: Oh, yes. Well, you'll enjoy that. They'll give you an interesting show but of course the Army is elsewhere.

H.M.Jr: I know, but I just wanted the General to know because he has been very kind.

S: Thank you, Mr. Secretary.

H.M.Jr: Now, the other thing was that the English told me about the Boeing 17 making its first trip over Germany and I spoke to Mr. Stimson about it at Cabinet and he said that they had a cable in describing its performance. Hello?

S: Yes, sir.

H.M.Jr: And if permissible, I'd like to have a copy of it.

S: That's the Boeing, the B-17.

H.M.Jr: Yes. It made its first flight over Germany with a load of bombs and I gather the performance was quite remarkable, and it is so seldom that we ever hear that they like our planes I'd like to know about it.

S: (Laughs). Yes, Mr. Secretary. I'll chase that up and get it over to you tomorrow morning.

H.M.Jr: Up to now - well, forget it. Monday will be time enough.

S: We haven't had - General Maloney came back the other day. You know it's unfortunate, I mean the innate cussedness of inanimate objects - he said that while he was there word came into the War Office

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that our first tank had arrived - you may have heard this.

H.M.Jr: No, I haven't.

S: Our first tank had arrived, it was unpacked at the dock, and a mechanic hit the turret with a hammer and a piece of metal about the size of a pie plate dropped off. I expect in 5,000 tanks that wouldn't happen, but it happened on the first one that landed in Britain.

H.M.Jr: Well, I'll be darned.

S: Well, they took it pretty well. They said they hoped it wasn't a bad omen but there you are. Now, isn't that too bad?

H.M.Jr: Well, it's too bad and on the other hand when they get something good, they never say so either.

S: That's right. I know that. They're cantankerous about it.

H.M.Jr: That's right.

S: Well, thank you for calling us, Mr. Secretary, and I'll get this thing over to you tomorrow.

H.M.Jr: Thank you.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 25, 1941.

TO Secretary Morgenthau

FROM Mr. Haas

Attached to this memorandum is Mr. Knudsen's letter to Secretary Knox commenting on the charts of airplane and airplane engine production. Mr. Knudsen is essentially correct in pointing out that in general the trend in airplane and airplane engine production has been upward in recent months. With respect to pursuit planes, however, the best that can be said is that the movement has been sidewise since the end of last year.

The upward movement in the trend of production of bombers and military trainers may not show up in any particular two-week period, it might be pointed out, because the flow of finished products from the production lines of the various plants is quite uneven. The aircraft companies, it appears, deliver their planes and engines in "bunches" -- a whole group of the same or similar models being delivered within a few days of each other following the completion of tests or the installation of parts, the delivery of which had been delayed. The effect of these day-to-day fluctuations may be eliminated from the delivery data by the use of a period somewhat longer than two weeks, and I am attaching a table that adds together the figures that appeared on our charts so that they represent four-week periods.

Attachments

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Deliveries of Airplanes and Airplane Engines,
June 9, 1940 - April 12, 1941,
by Four-Week Periods

	Bombers	Pursuits	Military trainers	Engines over 1000 h.p.
June 9 - July 6	98	171	256	420
July 7 - Aug. 3	119	170	227	687
Aug. 4 - Aug. 31	109	156	270	743
Sept. 1 - Sept. 28	44	165	343	911
Sept. 29 - Oct. 26	53	166	390	1,168
Oct. 27 - Nov. 23	77	226	253	1,044
Nov. 24 - Dec. 21	124	231	315	1,247
Dec. 22 - Jan. 18	175	231	367	1,282
Jan. 19 - Feb. 15	154	264	478	1,406
Feb. 16 - Mar. 15	275	203	527	1,569
Mar. 16 - Apr. 12	304	224	575	1,661

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

April 25, 1941.

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Copy

THE SECRETARY OF THE NAVY

WASHINGTON

April 21, 1941

My dear Henry:

I enclose herewith letter from Bill Knudsen, together with charts to which his letter refers. As you will note, in requesting this data, I mentioned the charts which you submitted to the War Cabinet meeting on April 15. Apparently, based on the production charts used by O.P.M. aircraft production is on the increase.

Yours sincerely,

/s/ Frank Knox

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

Enc.

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OFFICE OF PRODUCTION MANAGEMENT

Social Security Building

Washington, D. C.

April 16, 1941

Honorable Frank L. Knox
Secretary of Navy
Washington, D. C.

My dear Mr. Secretary:

This is in reply to your memorandum inquiring as to the reason for the apparent drop in production of aircraft during the past two weeks, as indicated by the charts submitted by Secretary Morgenthau at the War Cabinet meeting April 15.

You will note that these charts, which are returned herewith, illustrate deliveries as reported for bi-weekly periods, and the resulting chart lines have in the main a saw-toothed character. If the deliveries reported at about the middle of one month are compared with the deliveries reported at about the middle of previous months, it will be observed that this recent "mid-month trend" is upward. This has been emphasized by superimposing red lines on the charts in question.

In other words, reports of aircraft deliveries obtained for portions of the month should not for the present be taken to indicate the trend for the full-month period. Aircraft production contracts employ monthly schedules, and the efforts of the manufacturers are directed toward the meeting of a monthly quota rather than a bi-weekly quota. Production lines are not yet turning out aircraft in an even daily or weekly flow, but every effort is being made by this office to so plan and schedule the flow of materials to the aircraft plants that in turn the production therefrom may flow more evenly.

Attached herewith are three pages from a monthly report (Report No. 12-C) prepared by the Aircraft Section of this office. Examination of the bar charts at the lower right corner of these pages indicates that there has

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been a rather steady increase in aircraft production. February with its shorter number of working hours is the exception.

These latter charts employ data derived from the Army Air Corps Consolidated Statistical Report, in the production of which I understand your Department is cooperating. You may be sure that I shall be very glad to supply you and other members of the War Cabinet with reports of the Aircraft Section of this office if you so desire.

Very truly yours,

/s/ Wm. S. Knudsen

Wm. S. Knudsen
Director General

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TOTAL

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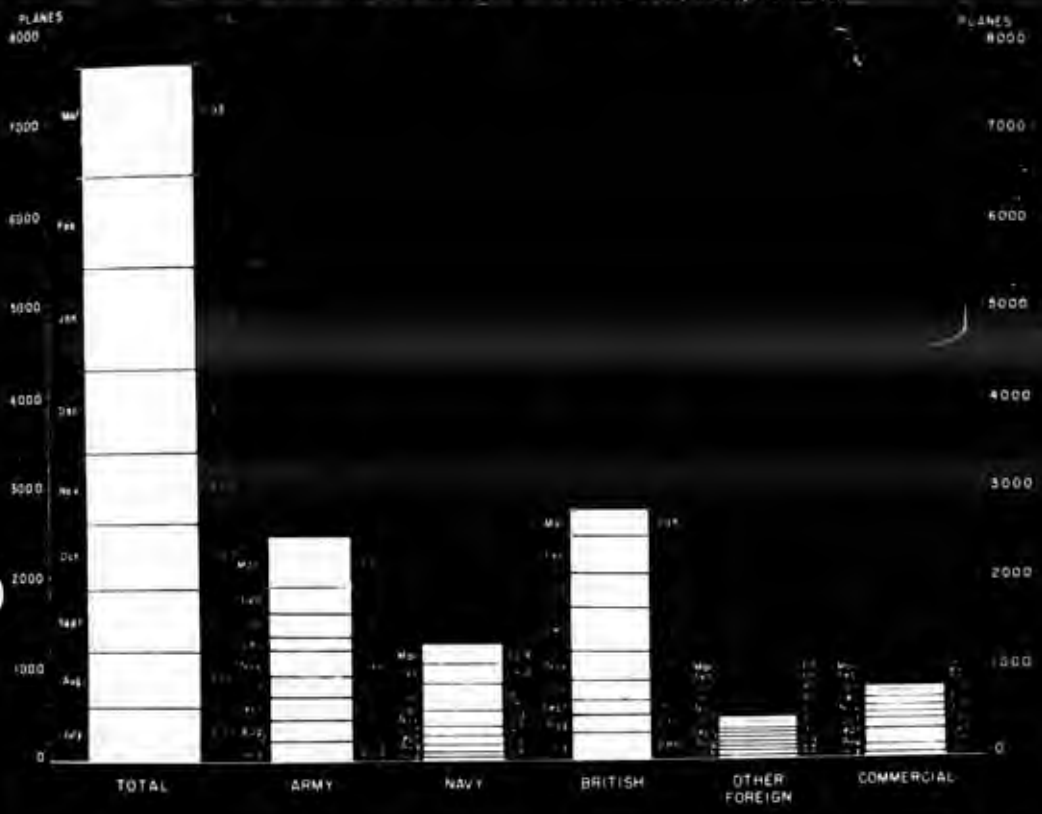
PAGE 4

ACTUAL AIRPLANE DELIVERIES BY MONTHS, JULY, 1940, TO DATE



DELIVERIES AHEAD OR BEHIND CONTRACT, JULY, 1940, TO DATE

CUMULATED

MANUFACTURERS' DELIVERIES

OFFICE OF PRODUCTION MANAGEMENT
AIRCRAFT PRODUCTION SECTION
APRIL 17, 1941

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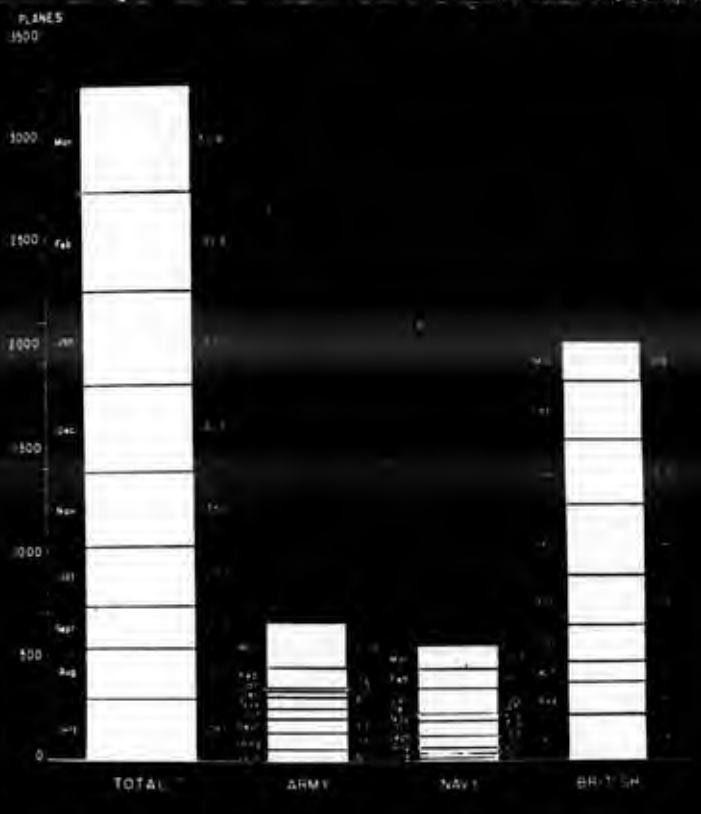
TACTICAL (ALL COMPANIES) CONFIDENTIAL

ACTUAL AIRPLANE DELIVERIES BY MONTHS, JULY, 1940, TO DATE



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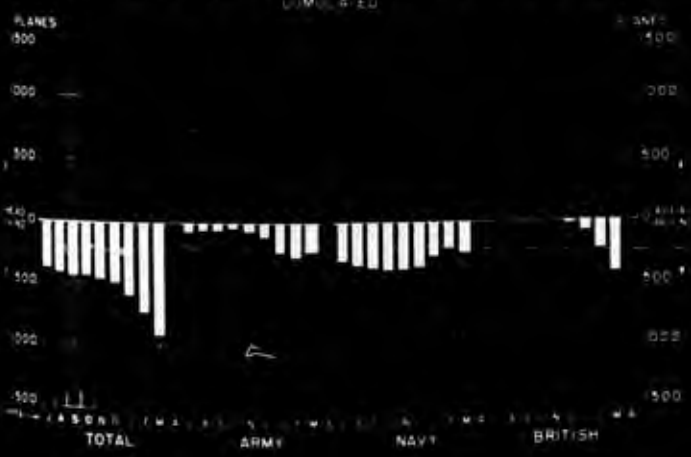
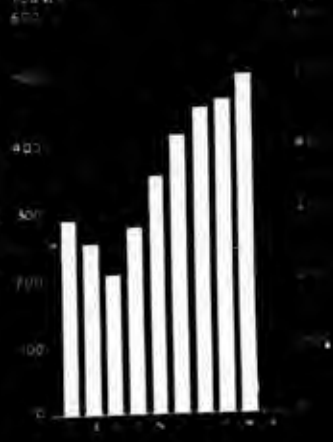


MANUFACTURERS' DELIVERIES



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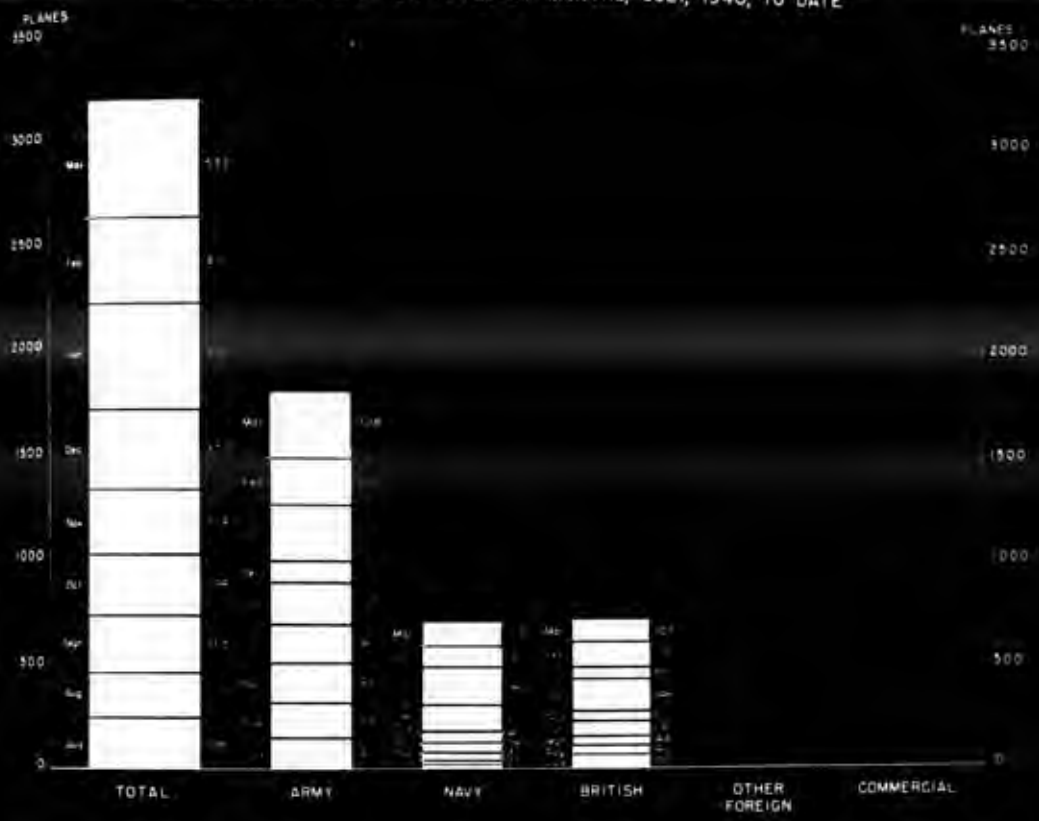
OFFICE OF PRODUCTION MANAGEMENT
DRAFT PRODUCTION SECTION

Regraded Uclassified

TRAINER (ALL COMPANIES) CONFIDENTIAL

ACTUAL AIRPLANE DELIVERIES BY MONTHS, JULY, 1940, TO DATE



DELIVERIES AHEAD OR BEHIND CONTRACT, JULY, 1940, TO DATE

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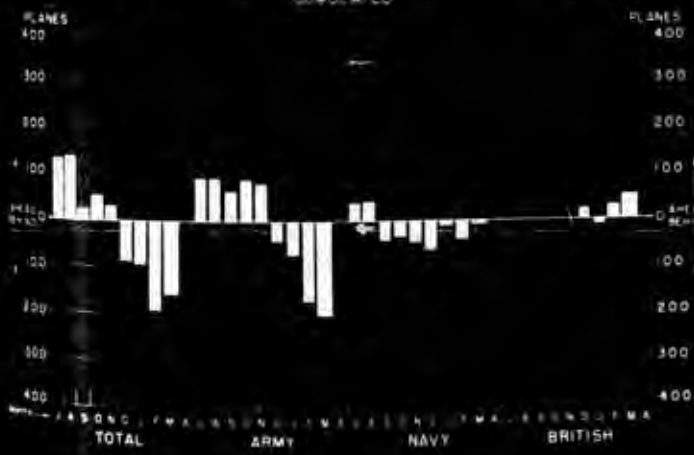
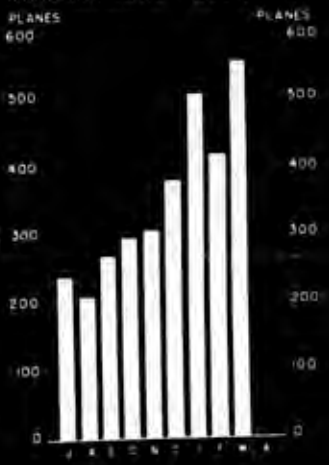


MANUFACTURERS' DELIVERIES



OFFICE OF PRODUCTION MANAGEMENT
AIRCRAFT PRODUCTION SECTION

CONFIDENTIAL

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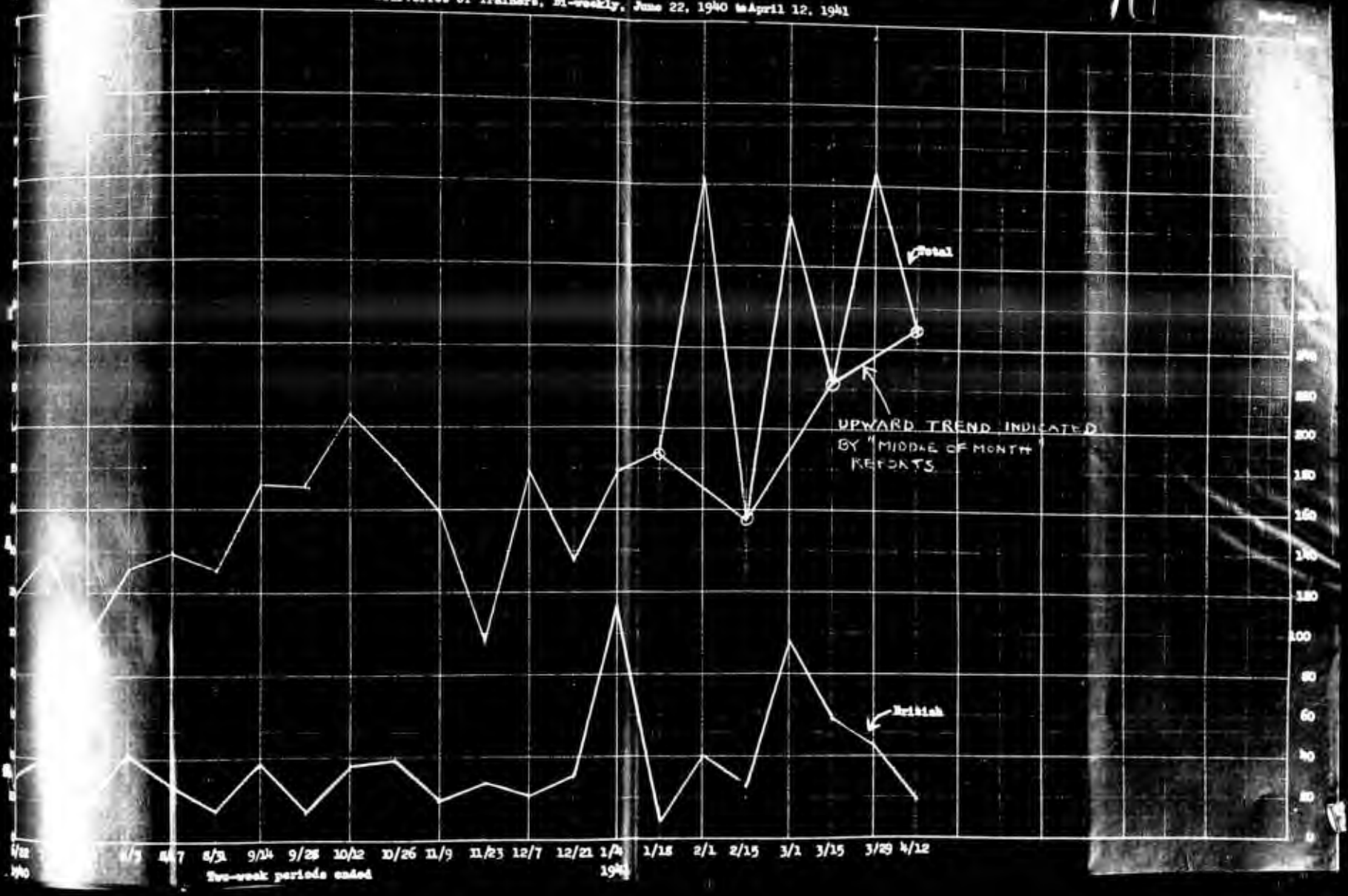
Deliveries of Trainers, Bi-weekly, June 22, 1940 to April 12, 1941



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Deliveries of Airplane Engines over 1,000 H.P., Bi-weekly, June 22, 1940 to April 12, 1941

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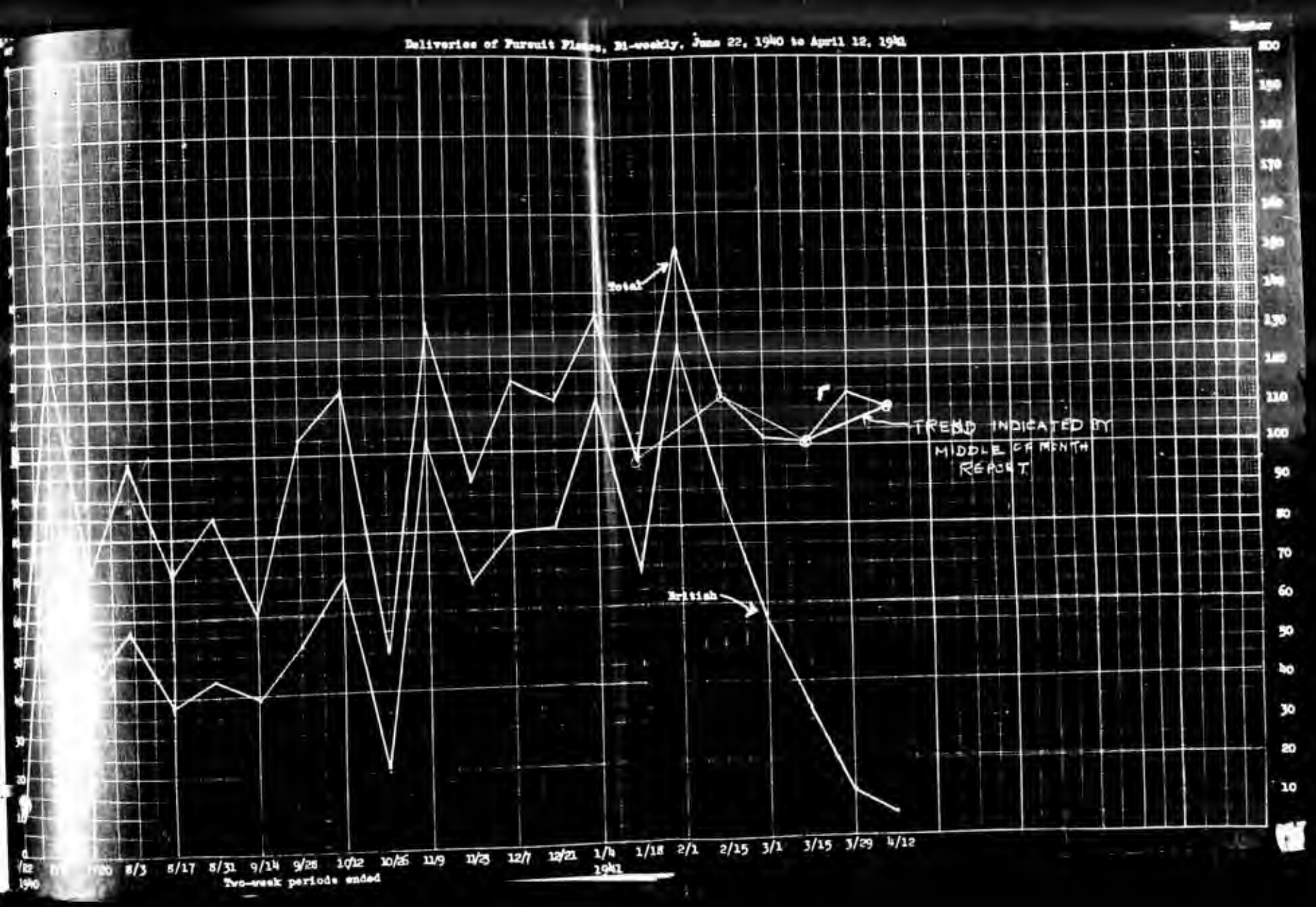

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 25, 1941.

TO Secretary Morgenthau

FROM Alan Barth

THE DEMAND FOR LEADERSHIP

Counterattack

This has been the isolationists' week. As expected, they cited the Greco-British defeat as proof that war against the Axis is futile. Colonel Lindbergh, echoed by Senators Wheeler, Walsh and Nye, proclaimed that "it is now obvious that England is losing the war" and that "we cannot win this war for England."

It seems improbable, judging from a study of newspaper response to their arguments, that they have appreciably deflected the current of American thinking. The only notable convert to their point of view during the past week was Dr. Felix Morley. Writing in The Wall Street Journal, he reasoned that a complete victory is impossible for either side and that therefore the United States should negotiate a peace recognizing German supremacy on the Continent of Europe.

It is a point of view ill-attuned to the national psychology; to tell Americans that they can't win a scrap is almost a way of daring them to have a try at it. The latest Gallup poll shows

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clearly that the public does not accept the basic isolationist premise. Asked prior to the Balkan invasion which side will win the war, 78 per cent picked Britain, while only 4 per cent believed in an Axis victory. In response to the same question after the Balkan campaign was under way, the division shifted to 57 per cent for Britain, 11 per cent for the Axis, with a considerable jump in the percentage of those undecided. The popular conviction that the Axis can be beaten with American assistance was reflected in an earlier Gallup poll revealing that 71 per cent of the public favors convoying by the United States Navy, if necessary to ensure victory.

Editorial reaction to the isolationist appeals of the past week has been overwhelmingly hostile. Editorial writers, columnists and radio commentators in general, have manifested a sense of obligation to check defeatist sentiment. Without denying the gravity of the setback in Greece, they have pointed out consistently that it is not decisive as to the outcome of the war. A great deal of indignation has been expressed, not only over Lindbergh's reasoning, but also over the delivery of his speeches at a time when it was felt that American morale ought to be sustained.

In reporting Lindbergh's New York speech, newspapers made rather prominent mention of the noisy presence in his audience of Bundists and Christian Mobilizers. No doubt this was calculated

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further to alienate the affections of the mass of Americans from the isolationist position.

Messrs. Lindbergh, Wheeler and Nye have come in for rather rough handling in many newspapers. Their minority position is no longer accorded the tolerance it enjoyed during the period when the Lend-Lease law was under debate. Feeling has become so inflamed, in fact, that the objectivity which is supposed to characterize the news columns of American papers is sometimes conspicuously lacking in accounts dealing with the activities of the America First Committee and other organizations opposed to the Government's foreign policy. It is perhaps worth noting, however, that the double-barrelled indictment of all of the foreign policy opponents of the Administration delivered not long ago by Secretary of the Interior Ickes met with almost universal editorial disapproval.

Skepticism

While there has been little growth of defeatism as to the ultimate destruction of the Axis, newspapers have shown decided discouragement concerning the immediate prospects for the British. There is a widespread feeling among commentators that they have been deluded -- or have deluded themselves -- with false hopes. They no longer cheer themselves with thoughts that Italy may collapse, that the Russians may enter the war against Germany, that

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conflict on a second front may exhaust Nazi resources. On the contrary, they now foresee complete German victory in the Mediterranean and a likelihood that Spain, France and Turkey will soon join the Axis forces. Indeed, this gloomy "realism" leads the commentators to discount or doubt even the more heartening reports from abroad.

It has also, in some measure, shaken complacency over the progress of rearmament at home. There is considerable discontent with the pace and scope of American production. The renewed demand for a curb on strikes is perhaps an outgrowth of a general sense of frustration. The one great fear that obsesses commentators everywhere is that America's contribution to the defeat of Hitlerism may be "too little and too late."

Direction

Such doubts and fears appear to have produced a treadmill quality of mind, a loss of that feeling of direction which animated the American public immediately after passage of the Lend-Lease law. There is a depressing awareness of danger, but no clear comprehension of its nature or of the steps which must be taken to combat it.

The thought which has dominated newspaper editorials of the past week is that the nation now wants and needs a strong, affirmative statement of purpose by its President. A great majority of

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the commentators agree that the public is ready to be told the facts, however harsh and disagreeable they may be; ready also to be told what must be done, however great the dangers of the course proposed. The plea is for leadership.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 25, 1941.

TO Secretary Morgenthau

FROM Herbert Merillat

PRESS REACTION TO TREASURY TAX PROGRAM

Before the Treasury's specific tax proposals were announced, press comment on the 3½ billion dollar revenue goal continued to be favorable in all parts of the country. No one pretended to be happy at the prospect of heavy taxes, but there has been sober recognition that, so far as possible, it is better to pay defense costs through current taxation than to borrow the necessary funds. There have been some sour notes. The papers most critical of the Administration's fiscal policies have taken the occasion to say that heavy taxes now are an inevitable result of extravagance in the past, but grudgingly concede that the tax goal is realistic and sound. A few bitter-end isolationist papers proclaim that a staggering tax burden will be the price of our "adventure" in bolstering British resistance. But the overwhelming majority of papers have applauded the announced revenue goal as realistic, if unpleasant. No one has suggested that the goal was set too high.

However, the love feast now is over. It was agreed that the Treasury's defense bond program is well conceived, that heavy new taxes are necessary and desirable, and that the outline of tax

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policy in your statement before the Ways and Means Committee is sound. But this almost unprecedented harmony on fiscal matters was shattered when the Treasury's tax proposals became known. It is now clear that when the press spoke of the need of paying-as-we-go, it had the wage earner in mind as the man who would pay. Of the papers so far canvassed (all from the Eastern seaboard cities), only PM has a good word to say for the Treasury's program.

It is said that the Treasury's recommendations fail to achieve the objectives prescribed by you -- fair distribution of the tax burden and curtailment of purchasing power to encourage production of war materiel and prevent inflation. The Administration is accused of political cowardice in failing to recommend taxes on low incomes and of sinister designs to liquidate the middle class. Wage earners and farmers, the chief beneficiaries of preparedness prosperity, it is said, escape with swollen pocketbooks intact. More specifically, these are the criticisms made: the failure to broaden the income tax base and the sharp increases in surtaxes result in a disproportionate burden on present income taxpayers; the absence of income or sales taxes on low incomes means that curtailment of consumption will be negligible; heavy inroads will be made on corporate earnings, but wage earners and farmers will not pay increased taxes. Accordingly, papers which previously had been reluctant to make specific tax recommendations

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now call for lower personal income tax exemptions and broader sales levies.

The press shows no disposition to analyze the technical difficulties involved in a broader income tax base and a general sales tax, or to publicize the present tax load borne by people in the low income brackets. Rather it paints a picture of a tax-free low-income group which could easily be made to bear its "proper share" of taxes by the simple device of lowering exemptions or imposing a general, or a greater number of selective, sales taxes.

Corporation Taxes

Although the interest of most papers naturally centers in the personal income tax and excise tax recommendations, the financial journals and other oracles of business have much to say about the inequity of the proposed increases in corporation income and excess profits tax.

Comments on reported Treasury proposals to reduce both the average earnings credit and invested capital credit under the excess profits tax law assert that such a reduction will result in penalties on many corporations which have not profited from the defense program and will cut into normal earnings. It is said that increases in the present corporation taxes accentuate the inequity resulting from failure to take into account the various earnings-to-capital ratios of corporations. But there has been no suggestion

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that the original Treasury excess profits tax proposal, which did just that, should be revived.

Non-defense Spending

Your suggestion to the Ways and Means Committee that the possibility of cutting non-defense and non-relief expenditures be carefully studied has been welcomed in the press, but there is skepticism as to whether the Administration and Congress will follow up the recommendation. In recent weeks, the demand for reduction of non-defense spending has been growing and editorial comments on the willingness of the public to pay more taxes generally add that taxpayers expect government economies as part of the emergency fiscal program. Press suggestions for cuts in such expenditures are seldom specific. The items most generally assailed in the press -- increased parity payments to farmers and the St. Lawrence waterway project -- constitute added expenditures rather than expenditures already covered in the budget.

Defense Bonds

As May 1st approaches, the sale of defense bonds is again receiving wide publicity. Some writers have expressed the opinion that the Treasury's tax proposals may have an adverse effect on the sales program. The rumor that a forced loan plan is under consideration has gained such currency in all parts of the country that it too may affect sale of the bonds.

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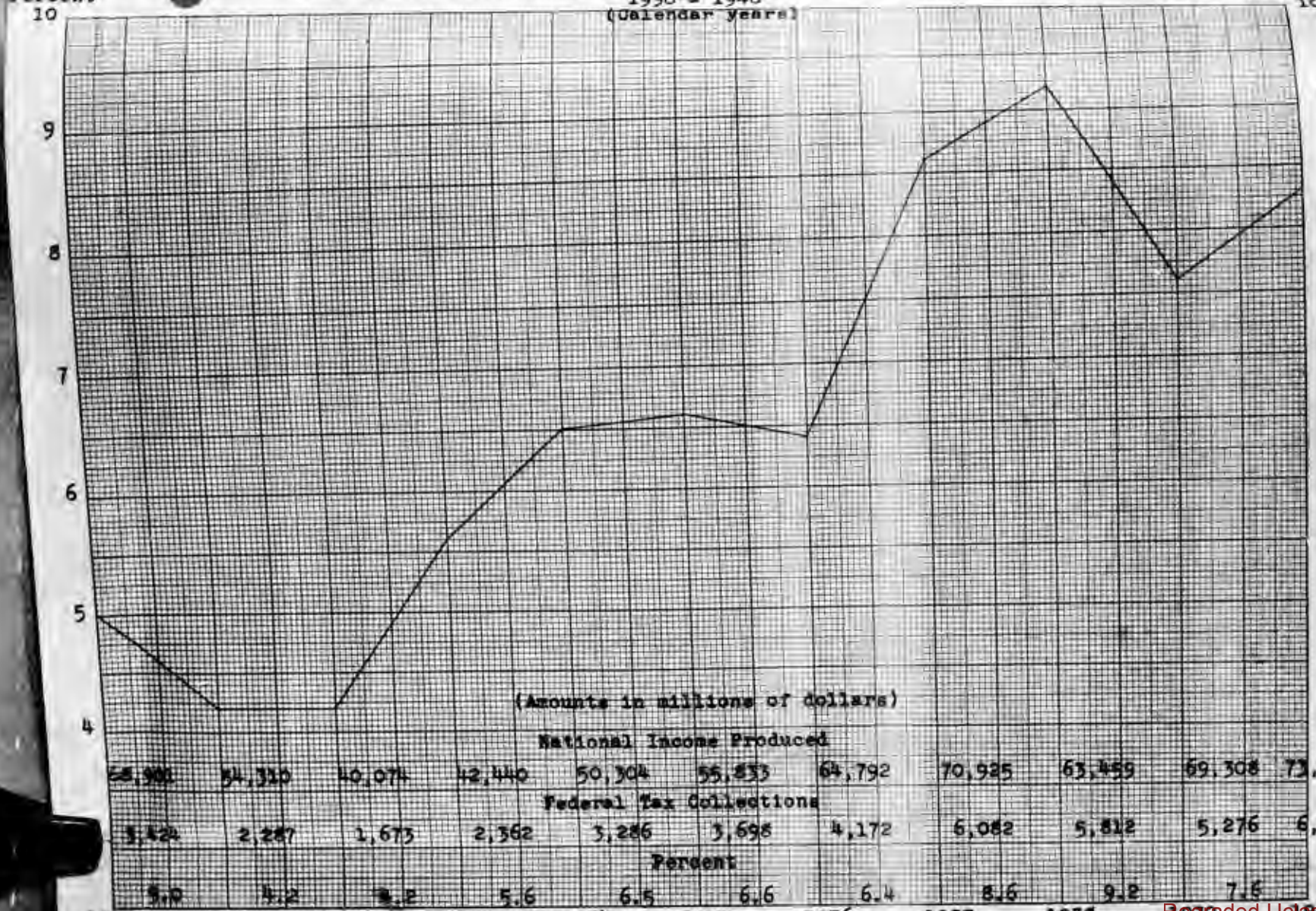
Federal Tax Collections as a Percent of National Income Produced

1930 - 1940

(Calendar years)



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April 25, 1941.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

I called Sumner Welles on Wednesday about the Magruder matter. He thanked me and said he would talk to the President. He called me today to tell me that he has spoken to the President and the President said that if a promotion were available for Magruder and Magruder wished to accept it, that would be all right with him, but that until and unless Magruder decided of his own free will that he wished to retire, his continuation in his present position is what the President desires. I told Mr. Welles that I understood this to mean that it was not necessary for us to take the matter up with Magruder at all and he said that was the way he understood it.

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PARAPHRASE OF TELEGRAM

No. 371, April 25, 6 p.m., from
Embassy, Buenos Aires

The 160,000,000 Argentine peso credit proposal was formulated, it appears, by the Spanish Government and is intended for the refunding of various purchases by Spain of products of Argentina. The proposal has not progressed thus far beyond the conversation stage and the question of satisfactory guarantees is the chief difficulty. Spanish payments have heretofore been guaranteed through setting aside a portion of the remittances which Spanish utilities in Argentina have ordinarily been required to send to Spain or through earmarking of the peseta debt service of Argentina.

The Argentine-Spanish agreement which the Central Bank is about to sign on the part of Argentina involves the former type of guarantee. There is an agreement between the Spanish American Electricity Company and the Spanish Government with regard to certain payments which as a result of the Spanish Civil War have been in arrears. The Argentine branch of this company (the C.H.A.D.E.) under the terms of this agreement is to pay direct to the Central Bank of Argentina in five equal annual installments the sum of 35,000,000 pesos to cover 2,000 tons of frozen meat and 380,000 tons of wheat which are to be shipped to the Spanish Government. Incidentally, the price of wheat was fixed in this operation at 6.375 pesos on freight car per 100 kilograms at the Port of Buenos Aires.

ARMOUR

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(CONFIDENTIAL)

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PARAPHRASE

A telegram (no. 53) of April 25, 1941 from Consul Reed at Hanoi reads substantially as follows:

On April 24 the economic agreement between Japan and Indochina was initialed or signed and the Inspector General of the Bank of Indochina is going back to Indochina. As yet details of the final agreement are not known. The above information was received from a person who is usually reliable.

That Japan will in the near future start a pressure toward the south (naval bases in the southern part of Indochina being mentioned) is the firm conviction expressed by the highest Indochinese representative at Tokyo in a letter of which the above-mentioned informant has direct knowledge.

Copy:bj:4-30-41

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APR 25 1941

Dear Mr. Welles:

In a letter of February 28, 1941, you raised a number of issues connected with the financing of a proposed railway which is to be constructed jointly by the British and Chinese Governments from Lashio to Kunming.

I agree that it is desirable that the building of this railway should be undertaken and completed as rapidly as possible.

With respect to your inquiry as to whether there is any legal barrier which prevents China from using the dollars which it obtains from this Government to buy rails and other railway construction materials in this country, I am informed that there is none.

On the basis of information now available to the Treasury, this Department believes that the funds recently made available to China by the Export-Import Bank and other holdings of dollars by the Chinese would be the most appropriate sources for the proposed expenditures.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Sumner Welles,
Under Secretary of State,
State Department,
Washington, D. C.

VFG:lcm
4/3/41

By Messenger 4/26 - 9:45 am

File to Mr. White
Copy to Mr. Thompson

Regraded Uclassified

Treasury Department
Division of Monetary Research

Date March 6, 1941

To: Mr. Coe
Mr. White

From: Mr. Taylor

Subject: China. Burma Railroad (Lashio to Kunming)

(1) British Aide-Memoire, Feb. 17, U.K. ambassador at Chungking advised Chinese Gov't.: (a) U.K. will provide finances to allow Burma to construct railroad from Lashio to border; (b) In return China will agree to settlement of Burma-Yunnan border dispute, "on the lines of the offer already made by the Gov't. of Burma": (c) China will construct railway from border to Kunming: (d) If U.K. cannot provide sufficient rails, bridging materials & other steel the Chinese Gov't. will finance these purchases from dollar sources, to be replaced or repaid when U.K. is able. It is proposed to use immediately 132 kms. (82.5 mi.) of rails belonging to China, now in Rangoon: (e) Currently political and strategic considerations only necessitate construction, but it is hoped, when normal conditions are restored, that China will direct enough traffic to the railroad to allow its continued use.

(2) U.S. State Dept. Aide-Memoire, Feb. 28.(a) Questions whether U.S. loans to China may be used for financing U.K. purchases of steel rails, bridging materials, etc. or even for purchase of these items by China. Matter will be taken up with other interested agencies of the Gov't.: (b) Any attitude taken must not be construed as approval of or assent to border settlements.

(3) Chinese Ambassador, conversation with State Dept. Feb. 17. It is likely China would wish use of its American credits for purchase of railway materials.

(See page 2)

MR. WHITE
Branch 2058 - Room 208

Regraded Uclassified

Treasury Department
Division of Monetary Research

Date.....19

To:

- 2 -

(4) Cable. U.S. Consul. Rangoon. Feb. 19. Reported that: length of British section of railway to be built, 110 miles; lowest estimated cost £ 2,000,000; time of completion, 2 years.

(5) Under.Sect.Welles to Treasury, Feb. 28. (a) Could U.S. loans to China be utilized to purchase materials for construction of the Chinese section of the railroad? and to finance U.K. steel purchases? (b) Would railroad be completed in time to aid China's war efforts? It is urged that favorable "psychological" effect upon Chinese morale be considered.

(Dept. of State. Mr. Welles to Treasury. 2/28/41)

MR. WHITE
Branch 2058 - Room 208

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(COPY)

In reply refer to
845C.7793/

DEPARTMENT OF STATE

Washington

February 28, 1941

My dear Mr. Secretary:

There are enclosed copies of an aide-memoire left with the Department of State by a member of the staff of the British Embassy on February 17, of a memorandum of conversation on February 17 between the Chinese Ambassador and an officer of the Department of State, of a paraphrase of a telegram dated February 19, 1941, from the American Consul at Rangoon to the Department of State, and of a memorandum of conversation between Mr. Butler, Minister-Counselor of the British Embassy, and an officer of the Department of State, in regard to the proposed construction of a railway between Lashio, Burma, and Kunming in China. There is enclosed also a copy of this Department's preliminary reply of this date to the British Embassy.

The project outlined in the British Embassy's aide-memoire raises a number of considerations, among which may be mentioned the following: (1) The statements made in paragraph numbered five of the British Embassy's aide-memoire and the information communicated to the Department by the Chinese Ambassador indicate that the cost of the purchase of materials for the construction of the proposed railway

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

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railway would have to be met, at least in considerable part, from funds made available to the Chinese Government by the Government of the United States. The Government of the United States has made available to the Chinese Government various loans and credits for certain purposes. There is raised the question whether these loans and credits could be appropriately utilized to purchase materials for the construction of the China section of the proposed railway, should the Chinese Government so desire. There is raised the further question whether these loans and credits could be appropriately used for supplying steel materials to be used in the construction of the British section of the proposed railway, should the Chinese Government so desire. (2) It would seem important to estimate whether the proposed railway could be completed within a period of time which would make utilization of the railway important to China's defense effort or whether completion would take so long as to make it likely that the railway would be useful mainly as a peace-time enterprise. It would also seem important to consider, even should completion of the railway require an extended period of time, the favorable psychological effect which the undertaking of the project at this time would have upon Chinese morale. (3) This Government is of course following a policy of rendering to the British Government and to the Chinese Government

all

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all appropriate and practicable assistance.

An early expression of your views in regard to point numbered one above, together with such further comment as you may feel in position to offer, would be appreciated.

A similar letter is being sent to the President of the Export-Import Bank.

Sincerely yours,

For the Secretary of State:

/s/ Sumner Welles

Under Secretary

Enclosures:

(~~See following page.~~)

1. Aide-memoire from British Embassy, February 17.
2. Department's reply thereto.
3. Memorandum of conversation, February 17.
4. Paraphrase of telegram from Rangoon, February 19.
5. Memorandum of conversation, February 24.

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An early expression of your views in regard to point numbered one above, together with such further comment as you may feel in position to offer, would be appreciated.

A similar letter is being sent to the President of the Export-Import Bank.

Sincerely yours,

For the Secretary of State:

/s/ Sumner Welles

Under Secretary

Enclosures:

(~~See following page.~~)

1. Aide-memoire from British Embassy, February 17.
2. Department's reply thereto.
3. Memorandum of conversation, February 17.
4. Paraphrase of telegram from Rangoon, February 19.
5. Memorandum of conversation, February 24.

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(COPY)

Handed to me by Mr. Butler
of the British Embassy,
February 17, 1941

SKH

AIDE MEMOIRE

His Majesty's Ambassador at Chungking has been instructed to make a confidential communication to the Chinese Government on the subject of the Burma-Yunnan Railway project on the following lines:

1. His Majesty's Government have decided that subject to satisfactory assurances from the Chinese Government on the matters mentioned in paragraphs 3 to 6 inclusive they will themselves provide the finance required to enable the Government of Burma to construct the sections from Lashio across the Salween River to the frontier and on receipt of a satisfactory reply from the Chinese Government will request the Government of Burma as a matter of urgency to complete the necessary surveys in Burma and start the construction of the sections already surveyed.

2. With their present preoccupations there are few ways in which His Majesty's Government can render practical assistance to the Government of China, and they gladly take this opportunity to help them in a project on which Chiang Kai-shek sets so high a value. His Majesty's Government realise that without such a railway it is impossible for the Government of China, so long as they are denied access to the sea otherwise than through Burma, to import many heavy and bulky articles of which they have serious need and which cannot be conveyed by road over a mountainous route. You should impress on the Chinese authorities the importance of this consideration which makes it imperative that the difficult section of the line in the neighbourhood of the Mekong River should be covered by the railway and not by road, as the Chinese Ambassador's memorandum of December 17th suggests is the present plan.

3. His Majesty's Government confidently expect that in return for their offer of help to the railway project the Chinese Government will agree to settle the outstanding question of the undemarcated Burma-Yunnan frontier on the lines of the offer already made by the Government of Burma. Though the Government of Burma will not themselves be responsible for building the railway out of their own resources, the construction of a railway must entail for them various new obligations. The ultimate revenue prospects of the railway are so uncertain that the Government of Burma would have no incentive to involve themselves in these obligations unless they were enabled, by adjustment of the frontier on the lines suggested, to establish their

administration

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administration east of the Salween in a satisfactory manner. As you know this requirement has been taken a considerable way in discussion with the Burma mission.

4. As regards the section in British territory, His Majesty's Government will accept the whole liability for the construction and any operational loss, provided that the Chinese Government undertake the construction as soon as possible of the section of the line from the Burma frontier to Kunming out of their own resources or out of dollar credits available to them in the United States.

5. Provision from the sterling area of the requisite steel material as and when required may present difficulty. His Majesty's Government must ask the Chinese Government that if at any stage any rails, bridging material and other steel needed for the Burma section cannot be provided from sterling sources as required, the Chinese Government will finance the purchase from dollar sources with their dollars on the understanding that either an equivalent amount of materials from the sterling area will be made available by His Majesty's Government later when our supply position has sufficiently eased or that the Chinese revenues will receive an appropriate share of future profits from the Burma section in compensation. For example, in order to prevent any delay to construction in Burma, the 132 kms. of rails belonging to the Chinese Government which are now lying in Rangoon should be used for construction in Burma on the understanding suggested above in regard to compensation.

6. Though it is proposed that the project be pursued at this juncture without regard to financial return and purely on political and strategical grounds, it is necessary in connexion with such a long-term undertaking as a railway to look to its ultimate revenue prospects. It is hoped therefore that when normal conditions are restored throughout China, the Chinese Government will endeavour to direct a sufficient volume of trade from and to the provinces of South West China to use the railway now projected. The further financial success of the Kunming-Lashio Line must depend to a large extent on the successful development of mineral resources, so situated that their natural outlet would be towards Rangoon.

BRITISH EMBASSY
WASHINGTON, D.C.
February 17th, 1941.

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AIDE*MEMOIRE

Reference is made to the aide-memoire left by Mr. Butler of the British Embassy with Mr. Hornbeck on February 17 and to Mr. Butler's conversation with Mr. Hornbeck on February 24, in regard to the proposed construction of a railway between Lashio, Burma, and Kunming, China.

This Government has noted with interest that the British Government is prepared, provided it obtains satisfactory assurances from the Chinese Government in regard to certain matters, to provide the finance required to enable the Government of Burma to construct the sections of the proposed railway from Lashio to the Chinese frontier and to ask the Government of Burma as a matter of urgency to complete the necessary surveys in Burma and start the construction of the sections already surveyed.

It is noted that the British Government has stipulated that, if at any stage rails, bridging material and other steel needed for the Burma section cannot be provided from sterling sources as required, the Chinese Government shall finance the purchase from dollar sources with their dollars. This presumably would involve dollars made available by this Government under credits to the Chinese Government. The question whether credits made available to the Chinese Government by this Government may appropriately and advisedly be used for this purpose (or for the purchase of

materials

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materials for construction of the Chinese section) is being taken up with other interested agencies of the Government, and the Department of State will expect to communicate further with the British Embassy following the receipt by it of the views of those agencies.

With regard to that stipulation in the British proposal which makes the British Government's consent to and approval of the project under consideration contingent upon acceptance by the Chinese Government of the settlement of a boundary dispute between the British and Chinese Governments "on the lines of the offer already made by the Government of Burma", this Government desires that any attitude which it may take with regard to the Burma-Yunnan railway project be not construed as expressing approval of or as assenting to such a stipulation.

Department of State,

Washington, February 28, 1941.

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DEPARTMENT OF STATE

Memorandum of Conversation
Division of Far Eastern Affairs

Date: February 17, 1941.

Subject: Construction of the Burma-Yunnanfu railway

Participants: The Chinese Ambassador

and

Mr. Hamilton

Copies to:

During the course of a call by the Chinese Ambassador he mentioned that he had received a telegram from the Chinese Ambassador at London to the effect that the British Government had decided to make funds available for the construction of the railway from Lashio to the Burma border, a distance of about eighty miles. The Ambassador stated also that he thought the Chinese Government would wish to utilize a portion of the American credit to complete the construction of the railway from the Burma border to Yunnanfu.

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(CONFIDENTIAL)

PARAPHRASE

The following is the substance of a confidential telegram dated February 19, 1941, from the American Consul at Rangoon:

The British Government has decided, according to information received in Rangoon from the Chinese Embassy in London, to construct at Imperial expense, and as a strategic line, the Burma section of the Burma-Yunnan Railway. The lowest estimate of the cost of the Burma section, which will require two years for completion, is 2,000,000 pounds and the length of the section will be about 110 miles. The British Government is said to have informed the Chinese Government that Britain cannot at present help the Chinese in the construction of the Chinese section of the railway, either in regard to materials or money.

According to Burmese budget estimates just presented, nearly twenty-four percent of all of Burma's revenue will be required by defense services during the coming fiscal year. Burmese expenditures during the coming year are estimated at Rupees 182,800,000 against a total income of Rupees 168,900,000. Due mainly to defense measures the fiscal year is expected to close with a deficit of more than 11,000,000 rupees.

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DEPARTMENT OF STATE

Memorandum of Conversation

Date: February 24, 1941.

Subject: Burma-Yunnan Railway

Participants: Mr. N.M. Butler of the British Embassy
Mr. Hornbeck

Copies to:

Mr. Butler, Minister Counselor of the British Embassy, called on me this afternoon at his request.

Mr. Butler referred to a memorandum which he had left with me a few days ago on the subject of the Burma-Yunnan railway. He inquired whether I could give him any indication of our reactions. I replied that, immediately after he had left with me the memorandum under reference I had sent it on to other officers primarily concerned; that in the interval I had been away; and that since my return yesterday I had had no opportunity to canvass the situation. Mr. Butler requested that we inform him as soon as possible at least of our informal reactions. I said that I would try to find out today how the matter stands and I would let him know in due course.

PA/H:SKH:ZMK

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

For Miss Chauncey

DATE April 25, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£52,000
Purchased from commercial concerns	£ 2,000

Open market sterling was first quoted at 4.02-1/4. In the early afternoon, the rate moved to 4.03 and closed at that level. Transactions of the reporting banks were as follows:

Sold to commercial concerns	-0-
Purchased from commercial concerns	£13,000

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

Canadian dollar	11-7/8% discount
Swiss franc	.2321
Swedish krona	.2384
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2350
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	4% discount

In Shanghai, the yuan advanced 1/32¢ to 5-3/16¢, and sterling was 1/2¢ higher at 3.90-1/2.

We sold $5,484,000 in gold to the Central Bank of the Argentine Republic, which was earmarked for its account.

On April 18, we reported the issue of Treasury licenses permitting the Federal Reserve Bank to transfer $939,155 in gold from B.I.S. account #2 (their own gold) to the Bank of Portugal's account. Today, the Treasury amended the above licenses, which had been issued under the Gold Reserve Act and Executive Order No. 6389, as amended, so that the Federal would transfer only $636,080 in gold from B.I.S. to Portuguese account. Similar licenses were issued permitting the Federal to transfer the difference of $303,075 in gold from B.I.S. account #2 to the account of the Bank of Sweden.

No new gold engagements were reported.

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

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

We made two purchases of silver totaling 100,000 ounces under the Silver Purchase Act, both of which consisted of new production from foreign countries, for forward delivery.

CONFIDENTIAL

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WAR DEPARTMENT
OFFICE OF THE UNDER SECRETARY
WASHINGTON, D. C.

April 25, 1941.

The Honorable,

The Secretary of the Treasury.

Dear Mr. Secretary:

I have just been furnished a copy of your letter of April 16, 1941 to the Secretary of War in which you express your feeling of appreciation for my work as a member of the President's Liaison Committee.

I wish to thank you for your kindness and thoughtfulness and I may also add, your generosity.

Sincerely yours,

J. H. Burns

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

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APR 25 1941

Dear Harry:

Since the Liaison Committee on foreign purchases has been discontinued and responsibility for coordination of foreign with domestic needs now rests with you and with the State Department, I should like to have the members of the Treasury staff relieved of all further responsibility for preparation of statistical reports relating to these matters.

I make this request particularly in view of the increasing volume of work before the Treasury in connection with financing and tax problems, and I should appreciate having the arrangement effective not later than May 1, 1941.

Sincerely,

(Signed) Henry

Honorable Harry Hopkins,

The White House.

By Messenger 4:50 pm

File to Mr. Thompson

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WWT:dm

Regraded Uclassified

APR 25 1941

MEMORANDUM TO THE PRESIDENT:

As you know, the stabilization and dollar devaluation powers expire on June 30, 1941.

Annexed are drafts of letters from you to the Vice President and to the Speaker of the House, recommending the enactment of legislation extending these powers for another two years. We will also take the matter up informally with the House leaders and provide them with a draft of the legislation.

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

By Messenger 12 noon

HMurd - 4/22/41.

File to Mr. Foley
Copy to Mr. Thompson

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My dear Mr. Wallace:

The powers conferred by section 10 of the Gold Reserve Act of 1934, as amended, dealing with the stabilization fund, and the powers specified in paragraph (b) (2) of section 43, title III of the act approved May 12, 1933, as amended, relating to the fixing of the metallic content of the dollar, will expire on June 30, 1941.

The existence and use of these powers have enabled the Government to take important steps in the field of international monetary and economic cooperation and to safeguard the country's interests. Unfortunately, present world wide circumstances, including the international monetary and economic situation, is not such as would warrant the termination of such powers. Under all the circumstances, I believe that it would be in the nation's interest to extend these powers until June 30, 1943.

The Secretary of the Treasury and other representatives of the Treasury Department would, of course, be available to discuss in detail with the appropriate committees of the Congress the problems relating to the extension of such powers.

Very truly yours,

Hon. Henry A. Wallace,

President of the United States Senate.

My dear Mr. Rayburn:

The powers conferred by section 10 of the Gold Reserve Act of 1934, as amended, dealing with the stabilization fund, and the powers specified in paragraph (b) (2) of section 43, title III of the act approved May 12, 1933, as amended, relating to the fixing of the metallic content of the dollar, will expire on June 30, 1941.

The existence and use of these powers have enabled the Government to take important steps in the field of international monetary and economic cooperation and to safeguard the country's interests. Unfortunately, present world wide circumstances, including the international monetary and economic situation, is not such as would warrant the termination of such powers. Under all the circumstances, I believe that it would be in the nation's interest to extend these powers until June 30, 1943.

The Secretary of the Treasury and other representatives of the Treasury Department would, of course, be available to discuss in detail with the appropriate committees of the Congress the problems relating to the extension of such powers.

Very truly yours,

Hon. Sam Rayburn,

Speaker of the House of Representatives.

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A BILL

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (c) of section 10 of the Gold Reserve Act of 1934, approved January 30, 1934, as amended, is further amended to read as follows:

"(c) All the powers conferred by this section shall expire June 30, 1943, unless the President shall sooner declare the existing emergency ended and the operation of the stabilization fund terminated."

Sec. 2. The second sentence added to paragraph (b) (2) of Section 43, title III, of the Act approved May 12, 1933, by section 12 of said Gold Reserve Act of 1934, as amended, is further amended to read as follows: "The powers of the President specified in this paragraph shall be deemed to be separate, distinct, and continuing powers, and may be exercised by him, from time to time, severally or together, whenever and as the expressed objects of this section in his judgment may require; except that such powers shall expire June 30, 1943, unless the President shall sooner declare the existing emergency ended."

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NAVY DEPARTMENT

CONFIDENTIAL

HOLD FOR RELEASE
MORNING PAPERS
FRIDAY, APRIL 25, 1941

ADDRESS OF
FRANK KNOX, SECRETARY OF THE NAVY
AT THE
ANNUAL DINNER OF THE BUREAU OF ADVERTISING
OF THE
AMERICAN NEWSPAPER PUBLISHERS ASSOCIATION
THURSDAY, ~~APRIL 24~~, 1941
AT THE
WALDORF-ASTORIA, NEW YORK

Mr. Toastmaster, Ladies and Gentlemen:

I feel a very natural gratification over the opportunity to address you. My satisfaction flows not alone from the honor you have done me but because of the opportunity which this rostrum affords for a frank discussion of the situation which confronts us all. If I could have my choice among all the audiences which might be assembled, I should have unhesitatingly chosen this audience for what I have to say. Of course, that feeling is a very natural one for me since I am a member of the same profession as yours, and hold that the free press of America, which you represent, wields a greater influence upon our national destiny than any other single agency in our complex modern society.

Having thus made confession of my sense of indebtedness to you for this opportunity, may I express also the deep sense of personal responsibility I feel in coming before you, as a life-long member of your profession, who for the moment, is charged with a grave public responsibility. This sense of gravity is increased when I remember that my official responsibility has to do with the maintenance and swift enlargement of the nation's first line of defense in a world devastated by war - war whose dark shadows gather in threatening clouds upon our own horizons.

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From me, my fellow craftsmen, you have a right to expect utter frankness; and from me, as Secretary of the Navy, engaged in constructing the greatest Navy the world has ever seen, you have a right to expect the sober truth.

Because I am a newspaper man as well as a public official, may I say that I have a very lively interest in the establishment and maintenance of the friendliest and frankest possible relationship between the Navy and the press. As a newspaper man, who has known no other occupation, and who feels a great sense of pride in his profession, I am utterly and unreservedly opposed to any form of compulsory censorship, especially in time of peace. In time of war, necessarily, there must be certain vital military information which no loyal and patriotic newspaper man would want to publish anyway, withheld from publication; but even in time of war, with this single qualification, I am opposed to censorship! I believe the end desired can be achieved by a purely voluntary cooperation between the War and Navy Departments and the newspapers. To the establishment of such a relationship, I am already bending my efforts and shall continue to do so as long as I continue to serve as your Secretary of the Navy. In a democracy, in a time of grave national peril, unity is imperative. You do not achieve unity, whether in the field of labor, of capital, or of public relations, when you resort to compulsion! Unity may be achieved only through the processes of mutual understanding and close cooperation.

While the relationship which should exist between those charged with the national defense and the various organs of publicity is of the gravest importance, I would turn your thoughts tonight to a far graver question. I am going to ask you to survey with me the world situation. If our survey is to be of use, it must be utterly realistic and objective. It should savor neither of a destructive pessimism nor a blind, unreasoning optimism. When grave danger threatens to all that we cherish, we can afford to indulge in neither wishful thinking, nor in cowardly defeatism.

As Secretary of the Navy, of course, I do have access to intimate details

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of information, from all parts of the world, that are not available to all, but this larger and more intimate knowledge in nowise changes the general aspect of the world situation as it is set forth daily in your publication and mine.

What we all see is an America which is gradually becoming encircled by military powers whose ideals, institutions and methods are all of them irreconcilably antagonistic to our ideals, institutions and methods. These same powers have also openly and repeatedly proclaimed themselves our enemies, and these openly avowed enemies have joined themselves together in a pact which they do not hesitate to say is aimed at us, and at us alone!

The only reason that this hostile pact, admittedly aimed at us, has not resulted in open warfare upon us has been because it does not suit the present purpose of these powers to engage in war with us. Whenever, in the judgment of the axis powers, it better suits their purpose to begin hostilities, hostilities will begin, and nothing that we can do, save prostrating ourselves in abject surrender, will change this.

For months, there has been almost complete suspension of all direct contact between the United States and all of Europe, save Britain alone. Across the course of the ships that ply this single route have been flung an enlarged fleet, no one knows how numerous, of submarines - submarines which, due to scientific discoveries, are vastly more effective than they were in the last war. The sea-going range of these submarines has been immensely increased, and the field of their activity steadily expands Westward, far over the line which divides the Atlantic between Europe and America.

Possession of convenient bases on the French Coast has added a whole fleet of surface raiders - ships of high speed, and some of them of great gun power, which prey disastrously upon the commerce between Britain and America. Finally, from bases in northern Norway and western France, huge fleets of heavy bombers circle back and forth to add terror from the skies to the dangers that lurk along the sea lanes leading to a beleaguered England. Steadily the toll of lost ships

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mounts far faster than replacements can be made.

To the southward of conquered Europe lies the Mediterranean, an accustomed highway for our ocean commerce in times of peace. Today the Mediterranean is forbidden waters. On its bosom ply only the craft that carry supplies to fighting armies, and the British and Italian men of war who fight for its control. Gone is all of our contact with the nations that border that sea.

The great continent of Africa, is itself a field for contending armies, offers no ports for our merchant marine trade. Its western coast, which thrusts itself halfway across the South Atlantic, affording an excellent base for operations against the southern half of the Western hemisphere, is denied our commerce. Whether we swing eastward around the Cape of Good Hope or to the westward through the Straits of Magellan, we find enemy raider-infested seas. At the end of our journey, go we westward or eastward, we encounter an axis partner who openly proclaims he entered that partnership in an effort to prevent us from interfering with their policies of ruthless military aggression.

The latest link in this chain of encirclement that is being forged by the axis powers is the recently announced agreement between Russia and Japan. The most interesting feature of this agreement is that it constitutes a clear gain for the axis powers. Russia gains little, or nothing, and Hitler has made a long stride toward his objective in the Far East - the involvement of Japan in war with Britain, and ultimately with us.

Russia was not in any peril of attack by Japan. Japan not only has her hands full, and more than full, in her attempt to subjugate Southern China by force of arms, but her aspirations are not northward. They are southward. Japan imperatively needed assurance, that she would not be attacked in the north while she was pressing her designs in the south. Just how much assurance Japan feels that her Manchukuo border is safe, I do not know, but whatever that assurance may be it enhances the likelihood of an expansion of hostilities by Japan into a region which is one of the sources of critical war materials for both Great

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Britain and ourselves. The conclusion of this pact is certain to strengthen the hand of the war party in Japan and foster the aims of those Japanese militarists who regard the present world situation as a golden opportunity never to come again for the establishment of Japanese military and political control of Eastern Asia.

Japan's promise, on the other hand, not to help Hitler if Hitler should attack Russia, is an empty promise. Japan could not help Russia in Europe if she wanted to, and Hitler does not need the help of Japan for such a purpose.

The end, therefore, of this deal between Russia and Japan which tightens the circle around us, leaves Russia quite as likely an object of attack by Hitler as she was before the deal was made, and Japan free from any Russian interference in the Far East. Summed up in military terms, the Russo-Japanese agreement makes Japan more secure as she pursues her dream of domination of all Eastern Asia; leaves Russia no stronger in the event of an attempted Nazi seizure of The Ukraine; and leaves us far more gravely threatened with war on our Pacific front.

Thus, everywhere as we estimate the situation the world around, the pressure on us grows -- through Libya; through Egypt and the Suez; through Yugoslavia and across to the sea; from the western coast of Africa to South America; through the Pacific to the Dutch Netherlands and, most vital of all, across the broad North Atlantic from German bases in France and Norway now to Greenland. German strategy -- world strategy, carefully planned and efficiently executed - is becoming clearer each day. German aspirations for world dominion can no longer be mistaken. The jaws of the Nazi trap are closing.

How long will we remain bemused and stupified while the Axis powers press their plans for our isolation and ultimate defeat? Wherein lies the difference between what Germany has done to her earlier victims and what she is doing to us? First, the bland and hypocritical assurance that she has no hostile plans. That is what she told Poland when she signed the Polish non-aggression pact.

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Then, the organization of a skillfully integrated information service that would lay bare our weaknesses, our internal divisions and our vulnerable spots just as she did in France; and then, the organization of her fifth columns, not yet loosed to the maximum but sufficiently active to warn us unmistakably of their presence, just as she did in Norway. Next, a steady encirclement and seizure of vantage points from which to launch her attack, just exactly as she has just done in Yugoslavia. Why, we even emulate the Axis victims in our psychology. We think we can escape while all the rest of the world suffers. We keep alive a wretched partisanship when a united patriotism should characterize our thinking. We refuse to believe that the Axis powers even intend to attack us, or could be successful if they did. We refuse to face the realities of the situation in South America, the protection of which from successful invasion is a primary condition of our defense.

In that great region to the south of us, readily available as a base for an attack upon us, there is neither the military nor naval power to resist against invasion. In our fatuous complacency we ignore that in the present economic set-up, the tug of self interest comes from Europe and not from North America. We fail to give due consideration to the size and significance of the subversive, pro-Nazi elements in many of the countries in that region — subversive elements that would speedily promote revolutionary chaos to the advantage of the Axis itself. Many of us fail to face what it will mean to our security if the Axis powers once gained a foothold close to our borders. We ignore what that might mean to the safety of the Panama Canal, the most vital line of communication under the American flag. Too few of us realize, and still fewer acknowledge, the size of the disaster to American hemispheric safety if Germany, already the conqueror of France, should establish herself in Dakar, a French Colonial possession. From there, with her surface ships, submarines and long-range bombers, a victorious Germany could substantially cut us off from all commerce with South America and make of the Monroe Doctrine a scrap of paper.

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Finally, some of the very blind among us refuse to see what will be the inevitable result if the final link in the chain of our encirclement is forged and the battle of the Atlantic is lost and England succumbs with her fleet sunk or captured.

This is but a partial, withal a brutally blunt, summary of the strategy of encirclement of which we are the victims.

Before we attempt an inventory of the measures we could take to meet this growing menace, this obvious encirclement, let us thoroughly digest this fact: Suppose this should happen - that our encirclement and isolation was complete and England had fallen, we then will be given but two choices — the choice of surrender or the choice of fighting. We won't surrender and we will fight. No one who knows about America and Americans doubts that. Consequently, we must fight ultimately unless we find and put into effect measures that will enable Britain to win without our fighting. We have already gone far in this direction. We have declared that the fight that England is making is our fight. We have likewise affirmed that the enemies she is fighting are our enemies. We have denounced, without reserve, Axis aggression, Axis faithlessness to treaties, Axis brutal and murderous disregard of international good faith, and we have said, with an overwhelming public approval of this statement, that we are in the fight to stay until victory for human liberty, for justice and for good faith is won.

We have made our productive facilities available to those who are fighting the Axis. We have loaned them much of our military equipment although we had insufficient for our own defense. We have passed the Lease-Lend Bill and appropriated seven billion dollars to implement that bill by an almost unanimous vote of our Congress. We have opened up our yards and docks for the repair of British men-of-war and merchantmen. We have taken over Greenland. We will build air and naval bases there. We have seized Axis ships and propose to make them available for British use. We have removed restrictions on American flagships sailing to the Red Sea so that we might relieve Britain of the burden of supplying the armie

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fighting in that theatre.

All of these things we have done, and some of these things constitute acts of war. Hence, we are now at war with the Axis powers in everything but actual fighting. We have gone a long way, and all of it with the support of an overwhelming public opinion. The latest test of public opinion discloses the America nation to be 70 per cent for aid to Britain even at the risk of war.

Having gone thus far, we cannot back down. There is no retracing our steps We have committed ourselves in this world struggle. If we should attempt to back down now, England would go down to catastrophic defeat and we would face a worldwide victorious Germany and her allies whom we should have to fight alone.

We have declared that the aggressor nations must not be permitted to win. We have irrevocably committed ourselves to see that that is prevented. We have put all of our resources into the scales to bring defeat to those who would rule the world by force. We have acknowledged that our destiny, just as much as the destiny of the British Empire and the ultimate destiny of the conquered peoples of the Low Countries, of Scandanavia, of France and of the Balkans are at stake.

Having gone thus far, we can only go on.

Hitler cannot allow our war supplies and food to reach England — he will be defeated if they do. We cannot allow our goods to be sunk in the Atlantic — we shall be beaten if they do. We must make our promise good to give aid to Britain We must see the job through. We must insure the delivery in England of the goods she needs to win. All of this is needed for our own safety and our future security. This is our fight. The American people have recognized the catastrophic quality of a Totalitarian victory and by overwhelming majority they have endorsed every step along the progress we have made to our present posture.

Proclaiming, as we do, our faith in the ultimate victory of the good over evil, our devotion to the cause of human liberty, our century and a half of the pursuit of justice between men on terms of equality, we can no longer occupy the immoral and craven position of asking others to make all the sacrifice for this victory which we recognize as so essential to us. Our manhood and our self-respect demand that we shall assume our part of the burden.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 25, 1941

TO Secretary Morgenthau

FROM A. M. Kamarck

Subject: The Situation in the Middle East
(Summary of the appended cable from the military attache at Cairo based on information supplied by General Wavell)

1. Our military attache is of the opinion that Cairo is not now actively endangered but by the middle of May the axis will be capable of launching a major offensive.

2. About the maximum military forces that can be supplied in an attack on Egypt using Tripoli, Benghazi and direct air transport is about 150,000 men with 600 tanks or 110,000 men with 1,200 tanks.

The axis now has in North Africa about 110,000 men with 650 tanks. A full-sized German Panzer division with 425 tanks which are included in the total of 650 is now on its way from Tripoli to the front. It is expected to reach Tobruk on May 8.

The Germans can land one of the new-type reduced-size Panzer divisions (200 tanks) in North Africa every five weeks.

3. The British have a total of 50,000 men in North Africa, 50 to 100 tanks and armored cars, and less than 100 airplanes. At present, the British have superiority in the air.

There is an acute British deficiency in tanks, armored cars, anti-aircraft guns and motor transport. An urgent need is also felt for more airplanes. Even now, there are not enough available for army and naval cooperation missions. As soon as the Balkan campaign is over, the axis will be able to shift large numbers of planes to North Africa.

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Our military attache is of the opinion that the axis attack can be resisted if enough air and naval forces are made available to prohibit the use of the axis water lines of communication from Italy. Under these circumstances the Germans could supply by air about 25,000 men and 600 tanks in a campaign against Egypt.

4. The whole political position of the English in the Middle East is weak and depends on successful resistance to the Germans in Egypt.

(a) Egypt The Egyptians while they would prefer English domination to German would rather have neither. They refuse to enter the war because of fear of British defeat, their belief that it is not their war, and because the British refuse to promise to evacuate Egypt after the war. The Egyptians may become violently anti-British if another blunder is committed such as once more threatening to dethrone the King if he refuses to declare war.

(b) Palestine The Arabs are dissatisfied and the British fear to placate them at the expense of the Jews. A serious reduction of the British garrison would be an opportunity for a successful revolt.

(c) Iran Popular sentiment is anti-British. There is a strong German fifth-column. The Iranian leaders fear the Soviet Union most, England next, Italy not at all. There is little fear of Germany but a great deal of respect.

(d) Iraq The new government is pro-German. The situation is threatening but fluid.

(e) Afghanistan Both the Russians and the British are feared. The officials appease the British for support against Russia. German prestige is strong. However, the British report the situation as satisfactory.

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By authority A. C. of S., G-2
Date APR 24 1941 (BPH)
Initials

Paraphrase of Code Cablegram
Received at the War Department
at 17:58, April 20, 1941.

Cairo, filed 22:50, April 17, 1941.

(This is a continuation of a cable from Cairo received at the War Department at 8:16, April 18, 1941.)

General Wavell desires to emphasize that the following information would be most dangerous and might lead to disaster if it fell into hostile hands.

1. General Wavell has forwarded by cable a message to the War Office at London strongly appealing for antiaircraft artillery, tanks, motor transport and armored cars. As the situation stands the Axis forces have a pronounced superiority in this armament in Libya. It is of paramount importance that reinforcement in this equipment be effected. The necessity cannot be too much stressed.

2. Forces at Tobruk consist of approximately four infantry brigade groups and 25 mixed mechanized vehicles. Elsewhere in the Western Desert there are eight infantry brigade groups with 30 mechanized vehicles and in Egypt three infantry brigade groups. This does not include antiaircraft which is deficient in automatic and light equipment. It is estimated that forces available for reinforcement within two months are forwarded from brigade groups with 50 tanks.

3. An infantry brigade group consists of three infantry battalions, 1 regiment artillery, and 1 company of engineers - a total of 3900 men. The artillery regiment has from 16 to 24 guns of the

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25-pounder class. There is also one battery of from eight to twelve antiquated 9-pounder guns. Despite the 3000 that this force represents, it is not as strong as would be expected owing to the shortage of equipment which causes it to be unbalanced.

4. Attitude of the Egyptian People.

The Egyptians favor a British victory and are willing to aid, but not to sacrifice, to that end. They cannot be activated to take an active fighting position. Potential anti-British leaders under the leadership of Ali Maher receive support from palace influence. The Prime Minister at the moment is confident of British success and accordingly under his orders the Egyptian Army, including a large part of the volunteer force, is lending support and equipment. The King, however, is nervous and it is thought probable that if he concludes that the Germans will capture Egypt he will turn pro-German. The Egyptian people are fundamentally anti-British because they do not favor domination. In the event, however, of a threatened occupation by another nation, they would prefer the British to any new master. Egypt has been kept out of the war by fear of a British defeat, belief that their interests have nothing to do with the present conflict, lack of preparedness and the refusal of the British authorities to make commitments to evacuate the country at the end of the war.

5. It is considered that there is little likelihood of an anti-British uprising in Egypt, unless the situation in the Middle East theater becomes very much more threatening. The stands of the British and the Egyptians are irreconcilable. The former feel that they are fighting Egypt's war and the latter that no war would have occurred if the British had evacuated Egypt.

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6. If during the present emergency the British should commit a blunder such as once more threatening dethronement if the King refuses to declare war, violent anti-British feeling would result. Blame would be attached to the British if the Germans should bomb Cairo on the grounds that they had refused to evacuate the military forces in that city and thus prevented it from being considered an open town.

7. The feeling of the Egyptians towards Germany is neither pro nor anti. The public is apathetic but tremendously impressed with the power of Germany and its anti-Semitic activities. The fact that Egyptians are already a subject race tempers the effect of the threat of German domination by force as presented by the British, without, however, lessening Egyptian fear of German occupation.

8. The ability of German air squadrons to operate in Libya and Egypt is contingent on their maintenance which in turn depends upon communications between Sicily and Libya. Supplies are rapidly being landed at Tripoli. If the British Air Force and the Navy can begin operations against this line of communications immediately with reasonable success, the British do not anticipate being overwhelmed in the air provided aircraft continues to arrive steadily from America. At present the two British fighter and three bombing squadrons hold superiority in the air over the Western Desert. With the exception, however, of resistance in the Balkans Germany will be able to act against the British in Africa with overwhelming air superiority.

9. The situation in Palestine is a serious threat to the British. The Arabs are dissatisfied because of the Jewish problem and

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the British fear to placate the Arabs at the cost of the Jews under present conditions. The British can expect neither aid nor loyalty from the Arabs and the serious reduction of British troops coupled with the greater assistance which could be secured in Iraq presents an opportunity for a successful revolt. If the British position in Egypt should become dangerous their position in Palestine substantially becomes equally so.

10. Iran. A powerful Nazi Fifth Column estimated in numbers of 3,000 exists in Tehran which brings pressure on the government to cancel the British oil leases. Tehran and Ashura are the principal centers of German activity in Middle East. Sentiment in the country is anti-British. Soviet Russia is the object of great fear to the leaders, Britain less so and Italy not at all. The feeling towards Germany is remotely of fear but more immediately of great respect.

11. Afghanistan. Soviet Russia and Britain are alike feared in Afghanistan. The people are distrustful of strangers, but officials appease Britain in hope of support against Russia. Germany has furnished trade and technical aid and on that account and on account of the respect for Nazi power, their prestige is strong. The German propaganda machine will make the utmost of British defeats. Despite the contradiction involved, British S-2 reports the situation as satisfactory.

12. Iraq. The attitude of the officials of the new government is pro-German. Although the opposition is driven under ground, the present Prime Minister is uneasy. The British anticipate that German intervention will take the form it took in Russia. Nazi influence

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brought to bear successfully on the Army secure that the English are attempting to drive Iraq into the war. However, if British authorities can appoint the de facto Government, the Germans will not be able to provoke anti-British action. The situation in general is threatening but the British consider it final.

13. It is my own opinion the Axis may attempt a rapid mechanized advance supplied from the air by way of the route: Sollum, the oasis, El Hagfra, Wadi-Shiaza. This is a good desert road and it is the route that Generals Wilson and O'Connor feared would be employed by the Italians in their invasion. The movement will take place, if at all, as soon as the Germans have overwhelming air superiority.

14. One German Armored Division and one German Colonial Armored Division can be maintained indefinitely as far east as the Nile Delta by use of the available 150 Junkers 52 transport planes. Until the use of Benghazi as a port becomes practicable only one armored division, one German colonial armored division and one Italian motorized division can be maintained east of Sidi Barrani. After the reopening of the port of Benghazi two additional Italian or one German armored division can be maintained.

15. If the Germans are able to maintain their present rate, one completely self-contained colonial armored division with its motor transport can be landed every five weeks.

16. [illegible]

17. [illegible]

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5th German Colonial Division (196 tanks)
132d Italian Ariete Armored Division (74 tanks)
102d Italian Trento Motorized Division
27th Italian Brescia Infantry Division

b. Reserve, Strike Force.

17th Italian Pavia Division

c. Tripoli.

15th German Armored Division (40 tanks of which 136 are medium)

17. The last mentioned division in preceding paragraph completed debarkation April 18 and is capable of reaching Tobruk by May 8.

18. The Italian heavy tank is M-13. The heaviest tank in German use is Mark 4.

19. Conclusions.

a. The situation in Egypt is potentially full of peril if Britain suffers reverses, and to the extent that British prestige deteriorates the Germans' positions in Afghanistan, Iraq, Iran and Palestine, in fact, throughout the entire Near East, will be greatly advanced. The failure to retain Egypt conceivably could mean the loss of the war.

b. The ability to defend Cairo is directly contingent on time and movement. It will be held if the present deficiencies in material and aircraft can be made up in time to meet the attack. British forces of all arms in Egypt are sufficiently strong in numbers to successfully resist major offensive operations but equipment is deficient. The air strength

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is too thinly scattered and is too small adequately to support sea and land forces in naval operations. Guiro is not entirely endangered at this moment but by middle of next month the Axis will have capabilities for a major offensive. The attack can be successfully resisted if air and naval forces were made available to interdict the Axis line of supply between Sicily and Africa.

FELLERS

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

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 25, 1941

TO Secretary Morgenthau

FROM A. M. Kamarck

Subject: Weekly Military Report

1. The bombardment of Tripoli by the British fleet on April 21 must have unquestionably seriously damaged this chief supply port of the axis Libyan armies.

According to reports, 1,000 tons of shells struck the harbor and city. This quantity of high explosives concentrated on a relatively small target is about double the weight of bombs dropped by the Germans on London on April 17 in their biggest raid of the war to date.

The Nazis in the heavy eight-hour raid used 450 bombers. On the average, these bombers would each carry a ton of bombs. This would give a total of around 500 tons of high explosives dropped on London during the attack.

The bomb-load of a single plane is about equal in weight to that of one shell of a 15-inch gun. Actually, of course, the destructive effect of a one-ton shell is much greater than that of a one-ton bomb. This is because a shell is propelled by a powder-charge whereas a bomb must depend on gravity alone. The accuracy of naval bombardment is also superior to that of bombing since gunfire can be corrected and adjusted on the target.

In view of the foregoing considerations and our partial knowledge of the extensive havoc done by 500 tons of bombs in London, it is evident that 1,000 tons of shells must have resulted in considerable damage to Tripoli.

2. The recent reports illustrate very well the clever German tactic of blanketing their next objective in a multiplicity of objectives: We have received information from every part of Europe purporting to name the next place Hitler will strike and each report has named a different goal.

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(a) Istanbul and other Balkan sources are convinced Turkey is next.

(b) London military sources see signs that a German invasion of England will be undertaken around the first of May.

(c) The consensus of Vichy opinion is that Gibraltar may be next after Suez.

(d) "Reliable" sources in Rome informed our military attache that the Germans intend to strike across the Egyptian desert from the Jarabub oasis against Cairo.

(e) From the report of our Berlin military attache, it is evident that the German army is being concentrated against Russia.

(f) The Nazis are reported as making extensive photographic reconnaissance of Malta. This tends to have the implication that Malta is next.

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