Hello.

Mr. Acheson.

Hello, Henry.

How are you?

Very well. How are you?

I'm alive.

I heard you were away over the weekend. I tried to get over to see you on Saturday.

Oh.

Are you going to be free sometime between now and lunch?

Oh, that's kind of difficult. Something that you want me to know before I see the President?

Oh, no. I didn't know you were going to see the President.

Well, I'm lunching with him; I thought maybe .......

Oh, no. I just meant this morning. Your people are coming over here at 3:00 or 4:00 on another matter this afternoon, but I wanted to start off with a few minutes talk with you and bring Frank Shea with me. We have talked with our bosses and have gotten permission to re-open this question of doing something on the freezing.

Uh-oh. I brought it up at Cabinet on Friday. I did.

Yes. Mr. Hull told me that you had mentioned that and that he had said he had asked me to do something about it.
H.M. Jr: He said he had washed his hands of it.

A: (Laughs). Well, I don't think that is exactly the situation.

H.M. Jr: That's what he said.

A: But I have been talking with him for some time on the idea of letting me go over and see if we could work out some kind of a system for getting something done, and I don't know whether we've gotten anywhere or not.

H.M. Jr: Take a couple of minutes now because I can't do it - do you want to take a minute or two or do you have to have Frank Shea?

A: Oh, no, I don't have to have Frank ......

H.M. Jr: I can see you at 3:15. Is that too late?

A: Well, I have some people coming in at 3:00 and 3:15 and then your people are coming over at 4:00.

H.M. Jr: On this subject?

A: No, they were going to talk about that .........

H.M. Jr: Well, you couldn't come immediately. I mean, could you get over here at quarter of 12:00?

A: Absolutely. Certainly I could.

H.M. Jr: Well, I can see you at quarter of 12:00. Do you want anybody here from my office?

A: May I bring Frank with me?

H.M. Jr: Frank Shea.

A: Yeah.
H.M. Jr: Well, now, who should I have?
A: Well, why don't you let us talk with you and then you send us anywhere you like, but what we wanted to do was to tell you personally what we had in mind, rather than tell somebody who might not tell you straight.
H.M. Jr: Quarter of 12:00.
A: Yeah.
H.M. Jr: O.K.
A: I'll be there. Thank you.
Robert Lovett: Bob Lovett, Mr. Secretary.

H.M. Jr: How are you?

L: I'm fine, sir, thank you.

H.M. Jr: I thought that you had forgot about me.

L: No, indeed.

H.M. Jr: I feel a little bit hurt.

L: I've been bothering you at frequent intervals.

H.M. Jr: No, you were going to let me know after you had seen General Echols and had the conference on the Allison engines.

L: Well, we're still in the process of that. We had Hunt, Evans, and Kreger down here last week and they are sending their men back here tomorrow night with a list of critical priorities and we're going to try to get Allison a few priorities on essential tools. But the situation very briefly, Mr. Morgenthau, is that the most that I can see on that "E" and "F" type engine if 400 a month in September. Now by that time they really ought to be producing 750 to 800 I think, but they don't think they can do it, so that what I said to you as far as I'm concerned still goes. I think that's going to be the tragic element in the air program.

H.M. Jr: Well, now you made an offer of getting the various planes together sometime so I could see it.

L: You bet.

H.M. Jr: Well, now if next Tuesday or Wednesday - I'm at your disposal.

L: Next Tuesday or Wednesday.
Yeah. I'll just knock off a day and go any place you suggest that we can reach .......

Well, I think we can get most of the stuff right in here at Bolling.

You do.

Yes, sir, and I'll call up General Emmons and see if we can't get as many - one of as many different types as we can right in here.

Well, shall we say that we'll do it Wednesday week?

Wednesday the 7th.

Yeah. That's a lucky day. I'll knock off on the 7th.

Well, it will take perhaps a morning.

Well, then we'll say the morning. I'm starting out with McCloy tomorrow morning at 8:30.

Good, up to .......

Where they test - you know - what do you call it .......

Yeah, Aberdeen.

All right, sir, fine.

Well, I'll save the forenoon of the 7th.

Right. That's fine. We'll get something over here at Bolling Field for you to see.

Right. You think that's the best place.

I think so, sir. They may want to go down to Langley for - oh, I don't know.

Well, I can give you all day.
L: Well, if you'll save the morning I think that will be plenty.

H.M. Jr: Right. Now two things, please.

L: Yes.

H.M. Jr: Will you please mention it to Secretary Stimson and also to General Marshall.

L: All right, sir, I will.

H.M. Jr: I'd like Mr. Stimson to approve it before I do it.

L: All right, sir, splendid.

H.M. Jr: Please. And if you'll mention it to General Marshall also ....

L: All right. I'll do that.

H.M. Jr: Thank you.

L: Thank you very much, sir.
April 28, 1941
4:26 p.m.

H.M. Jr: Hello.
Operator: Mr. Alsop.
Joseph Alsop: Hello, Mr. Secretary.
H.M. Jr: How are you?
A: Well, I'm fine, sir. How are you?
H.M. Jr: I'm fine. I'm calling you up because I want to let you know I partially threw down your story in my press conference.
A: Oh, did you, sir?
H.M. Jr: One of the boys said that they heard that I had given up the fight.
A: (Laughs).
H.M. Jr: So I said, well, that was kind of an exaggeration and I said that I never quit fighting.
A: (Laughs).
H.M. Jr: Then I said over the weekend I had gotten a little encouragement on this freezing.
A: Oh, had you?
H.M. Jr: They asked me all this off the record and they said not from the State Department, and I said yes. I just thought I'd tell it to you so that .......
A: Well, that's awfully nice of you, sir.
H.M. Jr: I thought it might cheer you up as well as it did me.
A: Is the picture changing a little over there?
H.M. Jr: Yeah.
A: I hear that there is some talk of a bill that would be introduced, a sort of trading-with-the-enemy act.

H.M.Jr: That I don't know, but on this whole freezing and economic warfare, they are loosening up a little bit. I don't think I told you I had given up the ship, did I?

A: Yes, you did, sir.

H.M.Jr: I guess I was pretty low the day I saw you.

A: (laughs).

H.M.Jr: I just wanted to tell you that what I did was all kind of a joke and it was all off the record, but today Dean Acheson walked in and - I brought this thing up again at Cabinet Friday and evidently it got some results and I think your story helped too.

A: You did really.

H.M.Jr: Oh, I brought it up Friday then I think your story coming on top of that, they thought most likely I had talked to you, and the combination did the result so I want to thank you.

A: Well, sir, what do you think they're going to do?

H.M.Jr: I don't know yet but definitely something.

A: An adequate organization do you think?

H.M.Jr: Well, I think a kind of a committee, you see, going back to what we had - I don't know whether it was three months ago or six months ago.

A: You mean the Treasury Executive Order.

H.M.Jr: More or less, yes.

A: Well, who'll run the committee then?

H.M.Jr: Well, it'd be Hull, Jackson and myself.
A: Well, you'd have to have some kind of administrative organization under that wouldn't you?

H.M. Jr: Well, they didn't - they came in this morning and they said their attitude was now for heaven sakes don't jump on us, give us a chance. You see?

A: Uh-huh.

H.M. Jr: So I said that anything looks good in a stormy sea.

A: Uh-huh.

H.M. Jr: But I did want to let you know that I think your article really helped, and I appreciate it.

A: All right, sir. Well, thank you very much.

April 28, 1941
4:35 p.m.

H.M. Jr: Hello.
Operator: Sullivan.
John Sullivan: Hello, Mr. Secretary.
H.M. Jr: John, get from Miss Chauncey that part of my press statement today where they cross-examined me on this question of surtaxes affecting people who already had tax exemptions, you know.
S: Yes, sir.
H.M. Jr: Read that carefully, what I said, and then talk to me about it. I won't be here in the morning but I'll be here tomorrow afternoon.
S: Then you want me to get in touch with you tomorrow afternoon?
H.M. Jr: Right-o.
S: Yes, sir.
H.M. Jr: Thank you. Read it and have an answer ready for me.
S: I will, sir.
H.M. Jr: How'd things go?
S: All right. It's pretty dull. The attendance isn't nearly as large as they expected. The committee is going after the witnesses and saying you say that we should raise this money but not this way - how should we do it, and although Mr. Doughton thinks the hearings will go two weeks, I think they might end the end of this week or the first part of next.
H.M. Jr: I came out flat-footed against tea, coffee, and sugar.
S: Good for you.

H.M.Jr: Flat. I said that I didn't want to tax the food on a poor man's table.

S: That's the stuff. Jere Cooper is quite upset.

H.M.Jr: What's his trouble?

S: Well, he left a memo with you.

H.M.Jr: What?

S: He left a memorandum with you about an employee, and he got a note from Norman and he was terribly upset about it, but I can talk with you about that tomorrow.

H.M.Jr: Well, look here. Let me get this thing straight. From the day I was in the Conservation Department, which is ten years ago, down to this day, I will not let a politician, Senator or Congressman dictate what I pay to my employees.

S: Correct.

H.M.Jr: And this boy or girl has only been here a short time, and I said after six months we'd take another look at it.

S: That's right.

H.M.Jr: Now what in the hell is the matter with that?

S: There isn't anything wrong with it and I think it is exactly what you should have done. I don't know whether Jere is feeling well or not, but he was upset that he hadn't heard from you and had heard from this fellow Thompson who he didn't know.

H.M.Jr: Well, we'll put on the vaseline.

S: That's right.
H.M. Jr: Remind me to do it tomorrow afternoon and I'll call him up myself.
S: Yes, sir.
H.M. Jr: Remind me and I'll call him up.
S: Right. I hope you have an interesting time in the morning.
H.M. Jr: Shall I do it today yet?
S: I think it might be better, yes.
H.M. Jr: I'll do it right away.
S: All right, and will you let me know?
H.M. Jr: I'll let you read what I say, that's easier.
S: That's fine. Thank you sir.
H.M. Jr: All right.
April 28, 1941
4:39 p.m.

H.M.Jr:  Hello.
Operator:  Congressman Cooper.
H.M.Jr:  Hello, Jere.
Jere Cooper:  Hello, Henry. How are you?
H.M.Jr:  I'm fine. How are things going?
C:  Fine. Fine. We're getting a good start.
H.M.Jr:  Any suggestions or any criticisms?
C:  No, I don't know of a thing so far, Henry. I think it is getting started off as fine as I ever saw it.
H.M.Jr:  Well, if anything comes up I wish you'd call me.
C:  All right. I sure will.
H.M.Jr:  Because I'm counting on you.
C:  Well, thank you so much.
H.M.Jr:  All right.
C:  All right, fine.
H.M.Jr:  Thank you.
C:  All right. You're welcome.
H.M.Jr:  Good-bye.
C:  Good-bye.
April 28, 1941
4:54 p.m.

H.M.Jr: Hello.

Henry L.
Stimson: Henry, I was exploding over a speech when
you called me before, and Schott has just
given me your message. Of course it is
agreeable; I'm glad that you're going .......

H.M.Jr: Well, I just wanted to know. I don't
want to do anything with the Army .......

S: Oh, no, no, no.

H.M.Jr: ....... unless you know in advance.

S: I'll turn him loose.

H.M.Jr: What?

S: I'll turn Lovett loose to help you.

H.M.Jr: Good. Well, what I'm going to try to do
is .......

S: The President turned me loose the other day -
said I could make a speech.

H.M.Jr: Wonderful.

S: (Laughs). I don't know what he'll say
when I show him what I'm thinking of. But
I'm partly egged on to it by your last
memorandum that you sent me.

H.M.Jr: Which one was that?

S: Barth's.

H.M.Jr: Oh, yes.

S: No, I think it is time somebody - the real
trouble everybody is gloomy now because
they're all facing indecision.

H.M.Jr: Barth writes good stuff, doesn't he?

S: Yes. I'm going to speak right out.
H.M. Jr: Fine. No, I'm going to try one day a week to get out and see something.

S: Well, that's good. I'm trying the same thing and if I had known that you wanted to go down, when I went down last week I would have loved to have taken you.

H.M. Jr: Well, I would have liked to have gone. Well, just keep me in mind.

S: All right.

H.M. Jr: Thank you.
Dear Mr. Secretary,

I enclose herein for your personal and secret information copies of the two latest reports received from London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

[Signature]

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.
Telegram from London dated April 25th.

1. **Naval.** Our destroyers seeking convoy reported off the Tunisian Coast, sank Northbound Italian 3,000 ton merchant vessel.

2. Legation Staff from Athens were due to arrive at Melos on 24th.

3. **Enemy aircraft attacked two East Coast convoys night of 24th/25th.** One ship only damaged.

4. **Military. Greece.** Front remains quiet apart from demonstrations by enemy armoured fighting vehicles. There may be indications that the Germans are preparing gun emplacements on the north shore of Maliakos Gulf. On April 23rd there was continuous bombarding of roads particularly from Eleusis to Corinth and to Thebe. Small enemy forces reported in Prevesa.

5. **Royal Air Force. 24th.** Enemy tanker, about 2,000 tons, destroyed off Stavanger and small vessel off Brest. Our fighters shot down two enemy aircraft and damaged a third. One of our fighters missing.

   Night of 24th/25th. 68 bombers sent to Kiel, 22 to Havre, and a few to Ostend, Ijmaiden and Wilhelmshaven. 121 aircraft in all went out, one missing.

6. **Libya. 23rd.** Our fighters engaged large force of enemy aircraft over Tobruk and destroyed eight. Three of ours damaged, two pilots safe.

7. **German Air Force. Night of 24th/25th.** About 70 enemy aircraft over land and 60 others mine laying, or against shipping.
Telegram from London dated April 26th.

1. **Naval.** Two attacks by 25 and 40 aircraft on Malta April 25th. Mines laid, harbour objectives bombed, damage not yet known. One aircraft shot down, one damaged.

2. **Military.** Libya. April 24th. Enemy infantry with artillery support attacked southwest of Perimeter. Attack was broken up 400 yards from our foremost defended localities, many enemy killed.

3. **Occupied France.** Air reconnaissance April 22nd showed no unusual movements on roads, railways, but large number of dumps. This with other information suggests that preparations for movement into Spain probably far advanced. Believed that 7 German divisions including one motorised area Bordeaux-Hendaye, these could be quickly reinforced.

4. **Yugoslavia.** New reported Yugoslav sank ships at 4 points near the Iron Gates causing successful blockage. Attempt to block less important place partially successful. Railway bridge over the river believed demolished causing obstruction.

5. **Bulgaria.** Sofia reported crowded with German wounded. Hospitals overflowing, private houses commandeered.


7. **German Air Force.** Very little day activity April 25th. Night of April 25th/26th. 35 aircraft operating chiefly over northeast England, 35 more probably mining, 5 others engaged against shipping.

8. **Greece.** One Hurricane shot down April 23rd during attacks on landing ground at Argos (Koreas), 13 Hurricanes
were destroyed on the ground. April 24th, German dive bombers attacked Suda Bay damaging buildings.

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

Week ended April 26, 1941

<table>
<thead>
<tr>
<th></th>
<th>JAPAN</th>
<th>RUSSIA</th>
<th>SPAIN</th>
<th>GREAT BRITAIN</th>
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<tbody>
<tr>
<td><strong>PETROLEUM PRODUCTS</strong></td>
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<tr>
<td>Fuel and Gas Oil (including Diesel Oil)</td>
<td>9,900 Bbls.</td>
<td>62,000 Bbls.</td>
<td>39,000 Bbls.</td>
<td>363,010 Bbls.</td>
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<tr>
<td>Crude -</td>
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<tr>
<td>Blended or California High Octane Crude*</td>
<td>144,250 Bbls.</td>
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<tr>
<td>All Other Crude</td>
<td>82,343 Bbls.</td>
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<td>Gasoline -</td>
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<tr>
<td>Gasoline A**</td>
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<td>104,995 Bbls.</td>
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<tr>
<td>Gasoline B*</td>
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<td></td>
<td>105,000 Bbls.</td>
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<tr>
<td>All Other Gasoline</td>
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<tr>
<td><strong>Lubricating Oil</strong></td>
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<tr>
<td>Aviation Lubricating Oil***</td>
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<td>33,172 Bbls.</td>
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<tr>
<td>All Other Lubricating Oil</td>
<td>53,801 Bbls.</td>
<td>1,360 Bbls.</td>
<td>297,021 Bbls.</td>
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<td>Tetraethyl Lead***</td>
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<tr>
<td>&quot;Boosters&quot;, such as Iso-Octane, Iso-Hexane, or Iso-Pentane</td>
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<tr>
<td><strong>SCRAP IRON AND SCRAP STEEL</strong></td>
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<tr>
<td>Number 1 Heavy Melting Scrap</td>
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<td></td>
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<td>21,439 Tons</td>
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<tr>
<td>All Other Scrap</td>
<td></td>
<td></td>
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<td>9,705 Tons</td>
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Office of the Secretary of the Treasury, Division of Research and Statistics.

Source: Office of Merchant Ship Control, Treasury Department.

April 26, 1941.

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

Aviation Gasoline.

As defined in the President's regulations of July 26, 1940.
Delivered to Treasury by Mr. Nicholson

SHANGHAI

April 28 1941

From Jacobson

For Nicholson

Re North China financial situation

Federal Reserve Bank notes continue to be legal tender. Stop Notes Chungking Government banks still serve as medium between FRB and foreign currency. Stop As FRB notes are considered at par with Japanese yen. Federal Reserve Bank and its agents buy U S dollars at twenty three five eights and sell at twenty three seven sixteen. Stop These are the only official rates of exchange but actual business is done at different rates depending on market fluctuations. Stop Since last November authorities have abolished official link rate of thirteen seven sixteenths for U S dollars. Stop Before last November importers and exporters were obliged to declare rates of exchange not lower than thirteen seven eights but owing to less imports than exports, merchants could find no way to meet above official link rate and had to declare false values before authorities so as to meet requirements. Stop With abolition of official link rate, merchants can now declare true link rate at which they buy or sell U S dollars. This has therefore helped merchants considerably in their business transactions. Stop All merchandise exported from North China continues to be under complete control of authorities. Stop One is allowed to export as long as declared value is up to satisfaction of authorities and as long as Federal Reserve Bank can buy ten percent of export value in foreign currency at rate of twenty three five eight for U S dollars. Stop Such articles as furs and bristles can be exported only by military authorities and no one else can export this type merchandise even though willing to meet above mentioned requirements. Stop Authorities have put in strict control over import trade and certain merchandise cannot be imported into North China without first obtaining an import permit from Federal Reserve Bank otherwise customs authorities will not release goods. Stop Any firm or individual applying for such import permit must have record showing that they had imported similar goods before. Stop Since introduction of import control last July there had been great decrease in import trade in North China. Stop Articles of luxury are strictly prohibited even daily necessities are allowed to be imported only in limited volume. Stop Special privileges have been given by authorities for foodstuffs, imports of rice flour, corn, maize etc. Stop Federal Reserve Bank will sell to importers of these commodities ten percent of import value in foreign currency at rate of twenty three seven eights which the bank gets from exporters. Therefore bank does not get any thing from export currency provided such currency is used against import foodstuffs thus food can be obtained at cheaper prices than other imported items. Stop Present value Chinese National yuan has declined fifty one cents FRB that in every Chinese National dollar is equal five one cents FRB. Reasons for this decline of Chinese National currency in North China are as follows (1) Wider circulation of
FRB notes as these notes are considered only legal tender and all merchandise must be purchased with FRB (2) Less demand for Chinese National Currency as Chinese currency can be used only as medium between FRB and foreign currency (3) Strict import control on account this strict control exports have been much greater than imports consequently FRB has increased considerably during past few months (4) Heavy remittances to Shanghai Stop When value FRB notes increased many persons remitted their savings Shanghai with view taking advantage of a premium however value of FRB notes continued to advance and thus no one can afford to have his money returned to Tientsin for in so doing there would be a loss instead of a premium and as a result most persons have very little cash on hand and money market has been exceedingly tight (5) Drug traffic there has been great quantity opium exported from North China to Shanghai and other places in China estimated value this opium is twenty million monthly Stop This opium has to be paid for in FRB notes so demand for FRB notes has increased Stop On other hand the money cannot be brought back to import on account of the control Stop North China financial situation considered very precarious by banking circles and may take turn for worse at any time Stop Learned from reliable source that FRB note issue is about seven hundred fifty million Stop Accumulated foreign currencies obtained from ten percent of exports amount to about U.S. dollars two million three hundred thousand and pounds sterling about one hundred thousand.
PARAPHRASE

A telegram (no. 487) of April 28, 1941 from the American Consul General at Shanghai reads substantially as follows:

The explanation given by Chinese bankers of the fall in exchange rates for Chinese currency on April 28 in spite of the conclusion of the stabilization agreements is that several days ago the favorable aspects were well discounted. Some of the Chinese bankers say that the recent turn of events in the Balkans which have an unfavorable reaction upon Chinese currency have a depressing effect upon the feeling as to the general outlook for the democracies. There are other factors which contribute to the adverse market sentiment in Shanghai. These factors are: the belief that the stabilization fund will not be used in such a way as to bring rates above present levels; the greater uncertainties in the situation in the Far East resulting from the neutrality agreement between Japan and the Soviet Union; and the strengthening Japanese financial and economic controls in Shanghai and the other occupied regions of China.
In reply refer to MA 360H.51/1031/1032

April 28, 1941

The Secretary of State presents his compliments to
the Honorable the Secretary of the Treasury and encloses
paraphrases of telegram no. 362 dated April 25 and
telegram no. 367 dated April 27, 1941 from the American
Embassy at Rio de Janeiro, regarding Yugoslav funds
deposited in the Bank of Brazil.

Enclosures:

Paraphrases of
nos. 362 and 367,
from Rio de Janeiro.
PARAPHRASE OF TELEGRAM RECEIVED


DATE: April 27, 1941, 9 a.m.

NO. : 367.

Reference is made to this Embassy's telegram of the 25th, inst., (5 p.m.), no. 362.

It is now suggested by Nabuco that the Yugoslav Government set up some sort of a directorate of the bank whenever (wherever ?) it is established.

CAFFERY

EN:FL:MSG

EN: COPY
4-27-41
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brazil

DATE: April 25, 1941, 5 p.m.

NO. : 362

The following telegram is confidential:

Reference is made to telegram of April 24, 7 p.m., no. 351 from the Embassy.

I am told by Nabuco that it is the contention of the Bank of Brazil that the National Bank of Yugoslavia made the Yugoslav deposit. Also, the Bank of Brazil believes that if any requests are made whereby the Yugoslav deposit would be affected, such request should be made, in some manner, in the name of the Bank of Yugoslavia. The Bank of Brazil, in any event, will not permit the money to get into the hands of anyone else.

I was asked by Nabuco where the Yugoslav Government is functioning. He does not have any definite suggestions to offer concerning the Yugoslav deposit.

CAFFEY.

MA:LNW

shicony
4-25-41
April 26, 1941
9:25 a.m.

Sen. Joe O'Mahoney:
Hello, Henry.

H. M. Jr:
Hello, Joe. How are you?

O:
Well, I'm pretty good considering all the trials and tribulations we're going through.

H. M. Jr:
That's right.

O:
It's pretty tough.

H. M. Jr:
That's right.

O:
Henry, I suppose you'll ask somebody to talk with me when you're setting up this organization in Wyoming for the bond sales.

H. M. Jr:
Surely. Surely.

O:
Of course that's going to begin pretty soon so I'd like to be called in. I know how important it is to have the proper sort of an individual running it, but it is also important to consider all the implications.

H. M. Jr:
Surely.

O:
Some of the agencies have selected fellows who have been against the President and against the Democratic Party to carry on some of this stuff and it brings bad reactions. Have somebody talk with me, will you?

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

O:
That was a nice article about your father in the New York Times.

H. M. Jr:
Wasn't it? Yeah, I was very much pleased.

O:
When you write him, give him my best, will you.
H.M. Jr: I'll do that.
O: He was always one of my favorites at the headquarters, you know.
H.M. Jr: Thank you, Joe.
O: All right, Henry.
H.M. Jr: Good-bye.
H.M. Jr: I'll do that.
O: He was always one of my favorites at the headquarters, you know.
H.M. Jr: Thank you, Joe.
O: All right, Henry.
H.M. Jr: Good-bye.
OFFICE OF
THE SECRETARY OF THE TREASURY
April 28, 1941

TO: Mr. Gaston
    Mr. Graves
FROM: Secretary Morgenthau

I would like for somebody
to call on Senator O'Mahoney today in
response to his call to me.

(Please return this copy to Room 285.)
MEMORANDUM FOR THE SECRETARY:

In accordance with your memorandum attached (and after discussion with Mr. Gaston), I talked with Senator O'Mahoney with reference to our plans for a State organization in Wyoming.

I advised the Senator that we had so far set up a tentative organization in six States; and that we planned to proceed gradually with additional States, our progress depending somewhat on the results of our experimental work in the six States referred to.

I told him that we would undoubtedly soon reach Wyoming, and that before selecting our personnel for the Wyoming organization, I would call upon him personally to get his suggestions.

The Senator expressed himself as satisfied with this arrangement.

GRAVES.
PHYSICAL TRAINING FOR GERMAN FRONT LINE TROOPS

SOURCE
This bulletin is based upon information from a German semi-official publication released before September, 1940.

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1. GENERAL PRINCIPLES
2. ORGANIZATION
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4. DRESS
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CONFIDENTIAL
PHYSICAL TRAINING FOR GERMAN FRONT LINE TROOPS

1. GENERAL PRINCIPLES

Physical training for front line troops should be recreational insofar as possible, for exercises unwillingly carried out fall in their object. Overstrain must be avoided. The physical training officer must, however, choose games and exercises which are both recreational and health promoting.

If a unit is withdrawn from the line for some time, physical training should at first be mainly recreational but gradually graded up to serious work. Even in this process the recreational aspect may be preserved by means of competitions and displays.

2. ORGANIZATION

The aim of keeping all men continuously employed is best achieved by holding groups down to 20 or 25 men. As far as possible, games and exercises must take the form of competitions, and in particular competitions between teams representing existing groups. For example, gunners may be pitted against drivers. Finals should be made festive occasions if possible.

Two hours, including time consumed in going to and from the sport ground, dressing, and undressing, is the shortest period which can be usefully devoted to physical training. Attention should be paid to hygiene - cooling off after strenuous effort, washing, pedicure, and the like. The disinclination for everything connected with physical training, particularly evident in older soldiers, will soon be overcome if senior officers take part in exercises.

3. GROUND AND EQUIPMENT

Dry meadow land without shell holes is best for physical training, but almost any ground will serve. Simple gymnastic equipment can often be improvised without difficulty. Footballs, hand balls, and punch balls are easily obtainable and can be carried with the unit.

4. DRESS

The usual dress for sport is a cotton shirt, shorts, and gym shoes. In warm weather physical training can be given to troops barefooted and in swimming suits.

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5. FORMS

a. Free Movements

Free movements can be easily carried out almost anywhere. Simple exercises which can be grasped without difficulty should be chosen. Suitably filled sandbags can be used instead of medicine balls.

b. Games

Many games can be played even in gun positions and wagon lines, and these are particularly suitable for older men - for example, tug of war, wrestling and throwing, sack races with feet bound together if sacks are not available, chariot races, tilting, and weight throwing with improvised weights.

Several army blankets laid on top of each other will provide an excellent mat for wrestling. High and broad jumping can be practiced wherever it is possible to dig a pit.

c. Running

(1) Sprint-races up to 100-200 yards.

(2) Obstacle races, either over natural obstacles or obstacles improvised from vehicles, etc.

(3) Cross-country runs. These are often unpopular with the men, but they are particularly valuable for developing endurance. Only younger men should be sent on cross-country runs, and the distances at first should be short with frequent intervals during which men are allowed to walk.

(4) Runs through woods are the best form of cross-country running, and older men can also take part in these. Men are allowed to walk and run alternately and to walk up all hills.

(5) Hare and hounds.

(6) Relay races.

d. Gymnastic Exercises

Wherever equipment is available or can be improvised, gymnastic exercises are valuable.

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e. Weight Lifting
   Weights may be improvised.

f. Bathing and Swimming
   In warm weather no opportunity should be missed for bathing and swimming. Wherever possible, a stream should be dammed and kept free of slime by means of gratings. Every opportunity should also be taken for sun-bathing.

g. Excursions
   Excursions on foot to places of interest in the neighborhood appeal to the older men and reservists.
CONFIDENTIAL

London, filed 19:11, April 28, 1941.

I. Daily Cable.

1. British Air Activity over the Continent.

Daylight, April 27.

British air forces bombed shipping targets off the coast of France and industries in Germany. Missions were performed by fighter patrols over Netherlands and Occupied France.

Night of April 26-27.

Hamburg was attacked by 30 British bombers and 15 additional operated against Le Havre, Brest, and Rouen. A small number of planes bombed the moquito fleet base at Ijmuiden.

2. German Air Activity over Britain.

Night of April 27-28.

German air operations against Great Britain were in minor proportions with Portsmouth as the chief target. A few were active over Devon and Cornwall.

Daylight, April 27.

German operations were on a small scale with a small number of planes over Coventry and the West.

Night, April 26-27.

One hundred thirty German planes were employed in an attack over Liverpool.
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3. Air Losses, British Troops

Two planes were shot down in the course of raids on coastal bases.

British night fighters shot down one plane and damaged another.
Daylight, April 27.
Two planes were destroyed in raids over England.

5. British Air Activity, Middle East Theater.
Bombing missions were performed by British planes based in Egypt on Bengazi and fighter squadrons machine gunned gasoline stations in the vicinity of Bonec.

6. German Air Activity, Middle East Theater.
German bombing operations against ports and shipping in Southern Greece continued heavy.

II. The following is a summary of British Intelligence information as to the morning of April 28.

1. Libya.
German air-borne troops and aircraft have been observed. There are some indications that they may be employed to counter the Free French in Syria.

2. Italian East Africa.
Esenye was occupied by British troops April 27.

On the night of April 26-27 a force of approximately one brigade of Australian troops was successfully evacuated.

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4. Authorities have reports that an attempt will be made on coast employing air-borne German troops.

5. 

Three enemy columns have been observed moving toward the Sallan area, one following the main coast road from Sallan, one (estimated at two hundred motor vehicles with artillery) along the approaches from the Spanish region and another (also with artillery) toward the rear of Railroad from Eritrea.

6. There were no losses reported in Atlantic convoys in the week beginning April 17. All losses at sea were lower than formerly.

7. The 8,000 ton cruiser HMS was damaged by torpedoes and bombs on April 26.

8. Reports dated April 22 from the Franco-Spanish border state that there is no unusual movement of troops in that area but a large number of supply dumps have been established and several German divisions including one motorized division, are known to be in the Barcena-Sanlúcar area.

Distribution:

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

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Paraphrase of Code Reading
Received at the War Department
at 1:33, April 20, 1941.

Changking, filed April 20, 1941.

Small stocks of rice for sale at prices about $30.00 per unit of 56 lbs. above price before last flurry, and rice situation has eased. For present anticipate no further serious trouble.

DISTRIBUTION:

Secretary of War
State Department

Secretary of Treasury
Under Secretary of War
Assistant Chief of Staff, G-3
War Plans Division
Office of Naval Intelligence

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Regraded Unclassified
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Passphrases of Code Cables
Received at the War Department
At 22:45, April 26, 1941.

Ancona, filed April 27.

Please note cable 111 from Belhassy. The request there referred to will, in my opinion, get a negative answer.

Five ships under the German flag, which since 1939 have been in the Black Sea, have within the last five days passed through the Dardanelles in order to unload munitions at ports in Greece. According to reports, the British sank one in the Aegean. The Germans have taken the island of Lemnos. The Germans have the airfield with some improvements recently installed by the British.

KIBS

(O-2 Note: Belhassy No. 111, not yet received, will be circulated immediately on receipt.)

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

CONFIDENTIAL
The Secretary of the Treasury announced last evening that the tenders for $100,000,000, or thereabouts, of 91-day Treasury bills, to be dated April 30 and to mature July 30, 1941, which were offered on April 25, were opened at the Federal Reserve Banks on April 28.

The details of this issue are as follows:

Total applied for - $301,690,000
Total accepted - 100,069,000

Range of accepted bids:

High - 100
Low - 99.972 Equivalent rate approximately 0.111 percent
Average Price - 99.976 " " " 0.097 percent

(23 percent of the amount bid for at the low price was accepted)
April 30, 1941
9:10 a.m.

Frank Knox: ................. and they're holding some kind of legislative hearing out there on this matter of making the fees for contractors doing Navy work subject to tax and I couldn't remember just what the decision was on that thing and I have to wire him ......

H.M.Jr: Well, the thing was - Stimson gave it to somebody - what's his name, he's in the Undersecretary's office - and we gave it to Foley and they're supposed to be working on it and have been working on it for about two weeks and I hadn't heard anything more about it. They were to get together and then go and see Bob Jackson.

K: Who was going to get together?

H.M.Jr: Well, Judge - what's his name ......

K: Forrestal.

H.M.Jr: ......Patterson and Foley were to have gotten together to go to see Bob Jackson. That was the last that I heard, but that was over two weeks ago.

K: Yeah.

H.M.Jr: But let me ask Foley what has happened and I'll let you know.

K: All right, because they're having a committee meeting tonight and this fellow wants to know whether he's to appear before the committee and oppose it, and I don't know what to answer.

H.M.Jr: I called your office to see whether I could give you lunch.

K: You did call up my office?

H.M.Jr: Well, I asked them to ten minutes ago. I don't know whether it got through or not.
K: Wait a minute - let me see.

H.M. Jr: I hope you can make it.

K: Just a second. (Pause). Yeah, I think so. What I had planned to do - I can't take you out with me, can I, and play golf?

H.M. Jr: Not today, no. But I don't want to interfere with your golf.

K: I guess we'd better let it go then because if I stay down town for lunch I get pretty late. I'll go out and get my lunch at the club and get in a little golf this afternoon. I need some exercise.

H.M. Jr: Do that.

K: All right, Henry. Give me a rain check?

H.M. Jr: Three of them.

K: I love to lunch with you.

H.M. Jr: All right.

K: All right. Good-bye.
Treasury Department
Interoffice Communication

Date: April 29, 1941

To: Secretary Morgenthau

From: Mr. Cochran

Strictly Confidential

At 3 p.m. this afternoon the Secretary received Sir Edward Peacock, the British agent charged with the disposal of direct investments in the United States. Messrs. White and Cochran were present.

Sir Edward explained that he desired to make an informal report to the Secretary of the progress that had been achieved since his last report made at the Secretary's luncheon on April 9. Sir Edward said that he had two projects which he hoped shortly to consummate. One of these was the Linnen Thread Company, which had been pending for some time, but which had not been completed since the market went down. It had been anticipated that the Button firm would handle this business, and Mr. Igleheart had been the representative thereof who had discussed the proposal with Peacock. The second concern is that of Keasby and Mattison, who are controlled by the important British asbestos firm of Turner and Newall. Both of these propositions would be direct sales. Peacock thought that two more sales of moderate size concerns coming now would be a good move since he still hopes these may be put through.

Sir Edward referred to the Viscose transaction. He said the investment bankers are still working with their "set up" and hope to come out with the public distribution some time in May. In discussing this case, the Secretary let Sir Edward know that when Harold Stanley and young Dillon were in the Treasury a few days ago to put up a tax proposal, which was subsequently withdrawn, the Secretary had volunteered the personal advice that as the completion of the Viscose sale takes place the New York distributors would do a really good deed to the benefit of the country and to the good name of the New York investment fraternity if they asked a commission less than that stipulated in the contract. The two visitors had taken this suggestion very nicely and had told the Secretary that they would submit the whole proposition to him, once the distribution is affected, before claiming commission. Sir Edward was very much appreciative of the Secretary's intervention, which may conceivably save the British two or three million dollars.

Peacock then referred to the Brown and Williamson negotiation. He felt that it had received a very good press and had been accepted favorably on all sides. Again he thanked the Secretary for his intervention with Mr. Jesse Jones which, Sir Edward understood, had resulted in a just amount having been loaned, which was in fact five million dollars above that which Mr. Jones had been mentioning. The Secretary insisted that he was anxious to help the British in every possible way in their orderly handling of their investments.
Sir Edward then got on the subject of the industrial market, and asked the
Secretary's opinion. A general discussion followed, in which the Secretary ex-
pressed his admiration for the manner in which Mr. Gifford has carried out his
sale of securities during this unsettled period. He did not think we could expect
any great improvement in the market while the dominant factor of the European war
hangs so darkly overhead.

Sir Edward explained to the Secretary that he is depending importantly upon
Mr. Clarence Dillon for advice in his present work. Sir Edward had operated on
the New York market thirty-five years ago, but felt that coming back now he must
have the advice of some dependable and skilled operator. In Mr. Dillon he found
an old friend. Furthermore, Mr. Dillon has definitely withdrawn from the firm of
Dillon and Read and has his own independent office. He is a good friend of the
British cause and is not interested in making any money out of the present business.
Consequently, Sir Edward has spent considerable time with Mr. Dillon, and has let
him examine several of his dossiers, and make recommendations as to the proper
method for handling the cases involved. Sir Edward continues to have the very
helpful assistance of Mr. Gifford, who now has his own work in such good shape that
it does not require all of his time. The visitor wanted the Secretary to know
that he is studying all phases of his problem and does not yet know how to deal
with British insurance companies here and some other types of investments. In
recent days he has, moreover, had cablegrams from the British Treasury asking him
to put at the bottom of his list certain comparatively small concerns operating in
this country which are specially useful in supplying Great Britain with materials
or articles in connection with the war program. Such concerns are the Pacific Molasses
Company; Norman Hoffman Bearings Company; the Baker Perkins Company (which makes
wrappings); the Texas Mining and Smelting Company of Laredo (which is controlled by
the Cookson Lead and Antimony Company of Newcastle-on-Tyne, and produces antimony);
the Oldbury Chemical Company; and F. W. Burke. Most of these are medium to small
companies.

The Secretary told Sir Edward that he appreciated his coming in to make this
report and hoped that he might drop in fortnightly in the future. He said that he
did not feel like making much comment, and certainly not in a position to exert any
pressure, since he does not exactly know how Sir Frederick Phillips stands in this
way of funds. It was explained, however, that Phillips would be in to see the
Secretary tomorrow and presumably would explain his position. Peacock thought that
Phillips would not require more assistance from him in the way of proceeds from the
Phillips would not require more assistance from him in the way of proceeds from the
right. He made the point, however, that
gifford was really the important contributor from the security and investment side.

[Signature]
April 29, 1941
3:30 p.m.

H.M.Jr: Hello.
Operator: Mr. Acheson is in a meeting with Sumner Welles and she can't get him but she can send a note and have him call you.

H.M.Jr: What's that?
Operator: She can send a note in and ......
H.M.Jr: Yeah, send a note in.
Operator: All right.

3:38 p.m.

Dean Acheson: Hello, Henry.
H.M.Jr: Dean?
A: Yeah.
H.M.Jr: I got a call that you wanted to talk to me.
A: I called you this morning about the story that was in the Post of your newspaper conference yesterday. The Secretary spoke to me about it this morning and then I got called by the Swiss and the Swedes and various press associations.

H.M.Jr: Yeah.
A: And I have told them that I did not know what you had in mind, that this matter was under constant discussion between us and we were all going forward to do the best thing we could always, that I didn't know of anything new in the field at all and whenever we had an opportunity we canvassed it, and went on with that sort of talk.

H.M.Jr: Yeah.
A: But it upset the Secretary quite a bit and it has upset the Swiss and everyone, so we're doing a little bit of general and fancy lying around here .......

H.M. Jr: General and fancy lying.
A: (Laughs). Yeah.
H.M. Jr: Well, you're very ......
A: Of course we don't know about anything.
H.M. Jr: Well, of course, what happened, Dean, was this. Kintner and Alsop wrote this story which you may or may not have seen.
A: I saw that on Sunday.
H.M. Jr: Well, the newspaper men threw that into my face and said had I quit fighting. So I said, no, I hadn't and that I had gotten some encouragement over the weekend. Then they asked me off the record where and I said from the State Department, and - let's see what else there was .......
A: Well, that's all there was in the story.
H.M. Jr: Pardon me?
A: That's all there was in the Post report this morning.
H.M. Jr: Well, that was accurate and then I said that I never quit fighting and, as I say, when they threw that in my face I had to answer. I'm sorry Mr. Hull is upset and I'm sorry you people had to do some fancy lying but I did what I did and if I had to do it over again being asked had I quit on this thing, I'd say no I hadn't. I frankly thought Kintner and Alsop's article had something to do, possibly, with your coming over.
A: No, it didn't at all. Not the slightest bit in the world. In fact, he called me
up and wanted to talk with me about that article and read me the first part of it, and I said that I absolutely refused to talk with him or with anybody about matters on which I was constantly talking with you people in the Treasury, and I thought it was wholly undesirable and improper to do it through the press and that anything that we - any communications that we had to make with the Secretary of the Treasury we made directly to him and not anywhere else.

H.M. Jr: Well, you're not upset are you?
A: Well, I am personally embarrassed a little bit because this was pretty much my effort and it is, you know, being turned back on me a bit.

H.M. Jr: Well, I'm sorry if I've embarrassed you personally but if I haven't hurt the cause any I'm glad I did it.
A: Well, I don't think it has helped it much. It's been a little harder but it hasn't really seriously hurt it. But the Secretary said he was going to talk with you.

H.M. Jr: He is going to talk to me.
A: He said he was.
H.M. Jr: Well, I've had no call from him. I'm here if he wants to call me.
A: Well, I don't know, I think perhaps he did this morning or said he was going to call.

H.M. Jr: There has been no call.
A: I told him that I had put in a call for you and that I was going to tell you that it did make it a little harder for me and that I hoped that you'd go easy on the hobnailed boot as you said yesterday.

H.M. Jr: Well, we're not - we're being very gentle in view of the situation which I think is
dear A and I don't mind saying that I think we're neglectful that we don't shut down on the Italian and German funds, and I feel very, very strongly about it and in view of that I think I've been very gentle, but I can only once in a while murmur something like that when they throw it up to me at the press. It was not a planted question, I mean, they asked me.

A: Yeah.

H.M.Jr: They also asked me the question, "Is it true that Greece hadn't got a single bullet or gun from the United States?" and I ducked that when I could have answered that one and placed the responsibility......

A: Alsop told me that his story had been told him by someone over in your place. He said it was no one that I knew or no one who had ever talked with me, and I said, well, I was glad to know that.

H.M.Jr: Well, I don't know what he could mean but, as I say, I can't hide my feelings that I feel very strongly that we move but if it has embarrassed you I'm sorry, but you and I want to lick this fellow Hitler.

A: Absolutely.

H.M.Jr: And I think this is one of the ways to do it.

A: Yeah.

H.M.Jr: But more power to you and please don't lose your interest on account of this.

A: Oh, no. I won't lose my interest a bit but it does make it harder for me when these come out.

H.M.Jr: Well, I'm sorry and for that reason only.

A: You sit on the press for a little while.

H.M.Jr: I'm sorry for that reason only.
A: (Laughs). All right.

H.M. Jr: But I appreciate your frankness and I hope you appreciate mine.

A: I do entirely.

H.M. Jr: Thank you.

A: Thank you.
Tuesday - Tuesday, April 19.

Time: 7:00-7:15 P.M.
Program: Myron Williams' News Commentary. Reports on Defense Savings Drive.

Time: 10:15-10:45 P.M.
Program: "Printing Defense Bonds." Eugene G. Russo, Executive Director Defense Savings Staff, Treasury Department, and Alvin R. Hall, Director of the Bureau of Printing and Engraving, speakers.
MEMORANDUM FOR THE SECRETARY:

RE: Emil Ludwig

In arranging for foreign-language broadcasts, our foreign-language radio people met and talked with Emil Ludwig, who volunteered his services to make foreign-language transcriptions. At the same time, he offered to do anything he possibly could to further the sale of Defense Bonds—such as talking before German-American groups, writing for periodicals in the German language, and taking part in foreign-language broadcasts.

His offer was of course accepted, with the understanding that he would be given appropriate assignments later on.

Ludwig is now in Hollywood. To date, he has not been used in any capacity by the Defense Savings Staff. The release gotten out by Mr. Schwarz's office is attached. It had my approval.

GRAVES.
Emil Ludwig, internationally known biographer and historian, has been enlisted as a special worker among foreign language groups in the Defense Savings program, the Treasury Department announced today.

Mr. Ludwig, who volunteered his services, made only one condition upon which he accepted the appointment --- that he receive no pay.

"When one realizes what a tremendously privilege it is to be a citizen of the United States," he said, "it is a small matter for an individual to offer his very best to any cause which is devoted to the defense of Democratic ideals."

The writer will devote much of his time to explaining the program for defense saving to German-American groups. He is expected to take part in many foreign language broadcasts. The Bonds and Stamps for popular participation in defense financing will go on sale May 1.

Ludwig was born in Breslau, Germany. He started writing for the theater when he was fifteen but did not publish his first biography until his thirtieth year.

---oCo---
MEMORANDUM

April 29, 1941

To: Secretary Morgenthau
From: Oscar Cox
Subject: M of S.

Pending the completion of the work on the problem which you put Sunday evening, you may want to be thinking about the two following major points:

(1) The original legislation and Executive Order 6166 creating the Procurement Division can probably serve as the legal basis for having the supply and related functions handled by the Procurement Division. I am not sure that it would be wise policy to handle the problem this way.

(2) The reenactment of a statute similar to the Overman Act, passed during the last war, may be the best way of handling the problem. A too direct attempt at setting up an M of S may run into a big fight at this time and hamper the defense program. The existing procurement agencies have vested interests and a lot of backed-up support from the industries with which they have been dealing for years. My guess is that they would lobby against the proposed set-up.
There are already other needs for a statute such as the Overman Act. The Re-Organization Act was primarily a non-defense measure. Now there is need for reorganization for defense. Thus, for example, the Coast and Geodetic Survey might serve our national defense interests by being merged with the Hydrographic Office of the Navy rather than being in Commerce. There are other similar changes which also ought to be considered. At the same time, a statute like the Overman Act would supply a clear legal basis for setting up an M of S.

Attached for your information is a copy of the Overman Act.

Oscar Cox
Sec. 3. That the President is further authorized to establish an executive agency which may exercise such jurisdiction and control over the production of aeroplanes, aeroplane engines, and aircraft equipment as in his judgment may be advantageous; and, further, to transfer to such agency, for its use, all or any moneys heretofore appropriated for the production of aeroplanes, aeroplane engines, and aircraft equipment.

Sec. 4. That for the purpose of carrying out the provisions of this Act, any moneys heretofore and hereafter appropriated for the use of any executive department, commission, bureau, agency, office, or officer shall be expended only for the purposes for which it was appropriated under the direction of such other agency as may be directed by the President hereunder to perform and execute said function.

Sec. 5. That should the President, in redistributing the functions among the executive agencies as provided in this Act, conclude that any bureau should be abolished and it or their duties and functions conferred upon some other department or bureau or eliminated entirely, he shall report his conclusions to Congress with such recommendations as he may deem proper.

Sec. 6. That all laws or parts of laws conflicting with the provisions of this Act are to the extent of such conflict suspended while this Act is in force.

Upon the termination of this Act all executive or administra
tive agencies, departments, commissions, bureaus, offices, or officers shall exercise the same functions, duties, and powers as heretofore or as hereafter by law may be provided, any authorization of the President under this Act to the contrary notwithstanding.

Approved, May 20, 1918.
To:        The Secretary
From:     Mr. Young

Reference is made to the report on preliminary performance test of the Curtiss P-40 fighter which contained the following sentence: "In this test the motor was held down to 3,000 r.p.m. on take off at 40 inches manifold pressure and for climbing restricted to 2,600 r.p.m."

In answer to your question as to what percentage of total power this represents, I have been advised that it is about 80 per cent in the first instance and normal permissible in the second.
CONFIDENTIAL

The following information is in response to your cabled instructions of December 23, 1940, to observe the Curtiss P-40 fighter:

1. This plane has finished its preliminary performance test carrying a gross test load of 7,340 lbs. However, it was not operationally equipped. In this test the rotor was held down to 2,000 r.p.m., on take off at 40 inches manifold pressure and for climbing restricted to 2,600 r.p.m. Its absolute ceiling was 32,000 feet and its top speed 354 m.p.h. With its military load its wing loading is 32.5 lbs. per sq. ft.

2. This plane is to be equipped with armor and with four caliber .50 wing free firing guns and two caliber .50 synchronized machine guns.

3. It is the opinion of the test section that below 20,000 feet the P-40 is as maneuverable as the Spitfire or the Hurricane and that over that height it is somewhat less maneuverable. The British will run further tests when the "operational airplane" is completed.

4. The engine and the cooling system are apparently satisfactory. I believe that the P-40 could raise its ceiling by at least 3,000 feet and gain in maneuverability and climb at heights over 20,000
CONFIDENTIAL

if it were permitted to take 200 more m.p.h. out of the engine over 2,000 feet. Partially because of the transparent material used in the canopy the visibility in this plane is much superior to that of either the Hurricane or Spitfire.

5. The speed of the Spitfire II is 365 m.p.h., and its ceiling 37,000 feet. Its wing loading is 25.5 with a service weight of 6,393 lbs.

6. Equipped with the two speed blower the Hurricane II has a speed of 325 m.p.h., and an absolute ceiling of 37,000 feet. The Merlin Mark II engine in this plane allowed 2,000 m.p.h., climb to 25,000 feet over that of 3,000 m.p.h., with a service weight of 6,000 lbs., the wing loading was 26.7 lbs.

7. As it becomes available I will cable further information.


Maj. (R.)

Confidential:

Secretary of War

Chief, Staff Department

Office of Naval Intelligence

Regraded Uclassified
SUMMARY

(1) Treasury bonds have risen sharply in price during the past two weeks (Charts I and II). Taxable issues have continued to show relatively greater strength than tax-exempts.

(2) Weekly reporting member banks in leading cities increased their holdings of guaranteed securities by $346 millions during the week ended April 23 (Chart III). Presumably the greater part of this increase reflects absorption of the two new RFC notes.

(3) High-grade corporate bonds have moved within a narrow range during the past two weeks (Chart II). Municipals gained in price during that period (Chart IV). The volume of new bond offerings to the public during April has been relatively small.

(4) About 56 percent of the $5.0 billions increase during the first ten months of the current fiscal year in the volume of direct and guaranteed Government securities held by private investors was financed by the expansion of bank deposits. The remaining 44 percent (about $2.2 billions) was financed out of "real savings" or from idle bank balances. It is also interesting to note that only a little more than half of the increase of member bank deposits (about $5.0 billions) during the same ten-month period can be accounted for by Government financing operations. The remainder was principally due to the growth of bank loans.
Secretary Morgenthau - 2

I. United States Government Securities

Prices of Treasury bonds have risen sharply during the past two weeks. Notes maturing in 3 to 5 years were also strong, but short-term notes showed little change on the average from the level two weeks ago. Taxable issues continue to give a better performance than tax-exempt of comparable term as is shown by the following table. Average price changes of all issues, without regard to tax-exemption status, are also shown, by maturity classes, in Chart I.

<table>
<thead>
<tr>
<th>Notes</th>
<th>Tax-exempt</th>
<th>Taxable</th>
<th>All issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 3 years</td>
<td>+ .01</td>
<td>0</td>
<td>+ .01</td>
</tr>
<tr>
<td>3 to 5 years</td>
<td>+ .06</td>
<td>+ .15</td>
<td>+ .09</td>
</tr>
<tr>
<td>Bonds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 to 15 years</td>
<td>+ .28</td>
<td>+1.01</td>
<td>+ .28</td>
</tr>
<tr>
<td>15 years and over</td>
<td>+1.08</td>
<td>-</td>
<td>+1.08</td>
</tr>
</tbody>
</table>

(Decimals are thirty-seconds)

The average yield of long-term Treasury bonds, moving inversely to prices, decreased from 1.99 percent on April 14 to 1.91 percent as of yesterday's close (Chart II).

II. Bank Absorption of the New RFC Notes

Weekly reporting member banks increased their holdings of guaranteed securities by $346 millions during the week ended April 25. Of this sum $207 millions was accounted for by banks in New York City, and $139 millions
by banks outside of New York City (Chart III). Inasmuch as
this item in the weekly reporting bank statement ordinarily
changes very little from week to week, it is a reasonable
presumption that practically all of this increase reflects
the absorption by these banks of the two new RFC notes is-
sued on April 17, the aggregate of which was about $844 mil-
lions.

III. High-grade Corporate and Municipal Securities

Prices of high-grade corporate bonds have varied within
a narrow range during the past two weeks. The Dow-Jones
average yield of twenty 20-year municipal bonds, moving in-
versely to prices, decreased by 3 basis points in the two
weeks from April 12 to April 26 (Chart IV).

Total new corporate and municipal offerings to the
public during April have fallen short of the amount offered
in the preceding month. New bond offerings thus far this
month amount to $117 millions (the bulk of which has con-
sisted of municipals), and no new issues are expected,
according to press reports, between now and the end of the
month. During the month of March a total of $196 millions
of new issues was offered.

The only large corporate offering in immediate sight
is that of $120 millions Columbia Gas and Electric Corpo-
ration. It is expected early in May and will be one of the
largest public utility issues ever filed with the SEC.

IV. Increase in the Public Debt and in Bank
Deposits — June 30, 1940 to April 30, 1941

May 1 will mark the opening of the new defense savings
bond program. The principal objective of this program is
to place as large a proportion as possible of future debt
increases in the hands of "real savers" in an effort to
minimize the inflationary potentialities of defense fi-
nancing. The present would appear, therefore, to be an
appropriate time to survey the absorption of new Govern-
ment borrowing since the beginning of the current fiscal
year — a period which coincides fairly closely with the
intensification of the defense effort.
In the period July 1, 1940 through April 30, 1941 it is estimated that the total interest-bearing debt (including guaranteed obligations) will have increased by approximately $5.5 billion, of which $5.0 billion will have been available to private investors. The estimated absorption of this volume of Government securities is indicated in the table below.

Estimated Absorption of Government Securities by Private Investors
June 30, 1940 - April 30, 1941

(Billions of dollars)

<table>
<thead>
<tr>
<th>Weekly reporting member banks</th>
<th>2.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other member banks</td>
<td>.3</td>
</tr>
<tr>
<td>Non-member commercial banks</td>
<td>.2</td>
</tr>
<tr>
<td>All commercial banks</td>
<td></td>
</tr>
<tr>
<td>Mutual savings banks</td>
<td>.2</td>
</tr>
<tr>
<td>Insurance companies</td>
<td>.5</td>
</tr>
<tr>
<td>All others - marketable obligations</td>
<td>.7</td>
</tr>
<tr>
<td>- savings bonds</td>
<td>.8</td>
</tr>
<tr>
<td></td>
<td>2.2</td>
</tr>
<tr>
<td></td>
<td>5.0</td>
</tr>
</tbody>
</table>

It would appear, therefore, that about 56 percent of the increase in privately held debt was financed by bank deposit expansion — i.e., that portion which was absorbed by commercial banks. The remaining 44 percent was presumably financed from real savings, or from idle bank balances.

In view of the fact that the estimated increase in member bank deposits subject to reserve requirements during the ten-month period under consideration was about $5.0 billion, it is clear that the increase in the holdings of Government securities by member banks accounted for only about half of the increase in deposits during the period.
Part of the increase in member bank deposits not matched by an increase in holdings of Governments may be explained by an increase in other investments of about $0.3 billions. Most of the remainder is accounted for by an increase in member bank loans of about $2.1 billions. (Member bank reserve balances have declined by about $0.3 billions since June 30, 1940, but this has been about offset by an increase of cash in vault.) The principal changes in member bank assets accounting for the increase in their deposits since June 30, 1940, are shown in the following table:

Factors Accounting for the Increase in Member Bank Deposits
June 30, 1940 - April 30, 1941
(Billions of dollars)

Increase in deposits:

<table>
<thead>
<tr>
<th>Demand deposits</th>
<th>4.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time deposits</td>
<td>.7</td>
</tr>
<tr>
<td>-----------------</td>
<td>-----</td>
</tr>
<tr>
<td>Total</td>
<td>5.0</td>
</tr>
</tbody>
</table>

Principal factors accounting for the increase:

<table>
<thead>
<tr>
<th>Government security holdings</th>
<th>2.6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other investments</td>
<td>.3</td>
</tr>
<tr>
<td>Loans</td>
<td>2.1</td>
</tr>
<tr>
<td>Cash and reserve balances</td>
<td></td>
</tr>
<tr>
<td>-----------------------------</td>
<td>-----</td>
</tr>
<tr>
<td>Total</td>
<td>5.0</td>
</tr>
</tbody>
</table>

It is apparent from the foregoing tables that more than half of the Government's borrowing from the public during the current fiscal year has been financed by the expansion of bank credit. It is also clear, however, that other factors have been almost as important as Government borrowing in the expansion of bank deposits.

Attachments
Chart I

Changes in the Prices of U.S. Securities

Points plotted represent the difference from December 26, 1940 price of each maturity class.

Office of the Secretary of the Treasury
Division of Finance and Statistics
Chart II

Comparative Yields of Average of All Long Term U.S. Treasury and Average of High Grade Corporate Bonds

WEEKLY, Saturday Quotations

Long Term Treasury (62 years or more to maturity and due)

Corporate

Spread Between Long Term Treasury and Corporate

* Change in composition of Long Term Treasury average
Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns £43,000
Purchased from commercial concerns £14,000

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

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

Sold to commercial concerns £0
Purchased from commercial concerns £15,000

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

<table>
<thead>
<tr>
<th>Currency</th>
<th>Rate</th>
<th>Discount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canadian dollar</td>
<td>11-11/16%</td>
<td></td>
</tr>
<tr>
<td>Swiss franc</td>
<td>23/32</td>
<td></td>
</tr>
<tr>
<td>Swedish krona</td>
<td>23/32</td>
<td></td>
</tr>
<tr>
<td>Reichsmark</td>
<td>.405</td>
<td></td>
</tr>
<tr>
<td>Lira</td>
<td>.0505</td>
<td></td>
</tr>
<tr>
<td>Argentine peso (free)</td>
<td>23/32</td>
<td></td>
</tr>
<tr>
<td>Brazilian milreis (free)</td>
<td>.0505</td>
<td></td>
</tr>
<tr>
<td>Mexican peso</td>
<td>.2066</td>
<td></td>
</tr>
<tr>
<td>Cuban peso</td>
<td>3-7/8%</td>
<td></td>
</tr>
</tbody>
</table>

In Shanghai, the yuan in terms of our currency was 1/32 lower at 5-5/324. Sterling was quoted at 3.88-1/4, off 2-1/4. According to a cable received from Shanghai this morning, the four Chungking-controlled banks reopened yesterday.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

In London, the price fixed for both spot and forward silver was again 23-1/2d, equivalent to 43.67.

The Treasury's purchase price for foreign silver was unchanged at 354. Handy and Harman's settlement price for foreign silver was also unchanged at 34-3/4.
We made one purchase of silver amounting to 100,000 ounces under the Silver Purchase Act. This consisted of new production from foreign countries, for forward delivery.

The report of April 23 received from the Federal Reserve Bank of New York giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of $7,391,000, an increase of $112,000 in the short position. Net changes were as follows:

<table>
<thead>
<tr>
<th>Country</th>
<th>Short Position April 16</th>
<th>Short Position April 23</th>
<th>Change in Short Position*</th>
</tr>
</thead>
<tbody>
<tr>
<td>England**</td>
<td>$ 761,000</td>
<td>$ 656,000</td>
<td>- $105,000</td>
</tr>
<tr>
<td>Europe</td>
<td>3,306,000</td>
<td>3,582,000</td>
<td>+ 216,000</td>
</tr>
<tr>
<td>Canada</td>
<td>1,000</td>
<td>157,000 (Long)</td>
<td>- 158,000</td>
</tr>
<tr>
<td>Latin America</td>
<td>378,000</td>
<td>375,000</td>
<td>- 3,000</td>
</tr>
<tr>
<td>Japan</td>
<td>1,311,000</td>
<td>1,367,000</td>
<td>+ 76,000</td>
</tr>
<tr>
<td>Other Asia</td>
<td>1,591,000</td>
<td>1,440,000</td>
<td>- 151,000</td>
</tr>
<tr>
<td>All others</td>
<td>69,000 (Long)</td>
<td>168,000</td>
<td>+ 237,000</td>
</tr>
<tr>
<td>Total</td>
<td>$7,379,000</td>
<td>$7,391,000</td>
<td>+ $112,000</td>
</tr>
</tbody>
</table>

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

**Combined position in registered and open market sterling.

CONFIDENTIAL

Regarded Unclassified
TREASURY DEPARTMENT
INTER-OFFICE COMMUNICATION

DATE April 29, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

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

<table>
<thead>
<tr>
<th>No. of Shares Sold</th>
<th>$ Proceeds of Shares Sold</th>
<th>Nominal Value of Bonds Sold</th>
<th>$ Proceeds of Bonds Sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 21</td>
<td>2,470</td>
<td>119,471</td>
<td>11,000</td>
</tr>
<tr>
<td>22</td>
<td>10,271</td>
<td>134,045</td>
<td>1,000</td>
</tr>
<tr>
<td>23</td>
<td>20,641</td>
<td>568,334</td>
<td>375,000</td>
</tr>
<tr>
<td>24</td>
<td>115,894</td>
<td>1,435,076</td>
<td>10,000</td>
</tr>
<tr>
<td>25</td>
<td>35,398</td>
<td>841,846</td>
<td>10,000</td>
</tr>
<tr>
<td>26</td>
<td>732</td>
<td>26,716</td>
<td>14,000</td>
</tr>
<tr>
<td></td>
<td>185,406</td>
<td>3,130,488</td>
<td>421,000</td>
</tr>
</tbody>
</table>

Sales from 2/22/40 to 4/19/41

| 2/22/40           | 7,647,055-1/2            | 235,310,947                 | 27,289,750               | 26,464,086               |
| 4/19/41           | 7,832,461-1/2            | 238,441,435                 | 27,710,750               | 26,950,023               |
| Total 2/22/40     | 7,647,055-1/2            | 235,310,947                 | 27,289,750               | 26,464,086               |
| 4/26/41           | 7,832,461-1/2            | 238,441,435                 | 27,710,750               | 26,950,023               |

Miss Poate reported sales of non-vested securities for the week ending April 19 totaled $350,000.
For your information

The usual weekly meeting of the Price Administration Committee was held to-day at 12 o'clock in Mr. Henderson's office. The meeting was necessarily brief because Mr. Henderson was due at the White House at 12.30.

Mr. Henderson reported that the order freezing steel prices is being quite generally obeyed, and that his men are conducting field studies to see whether any particular companies are being seriously disadvantaged because of having higher unit costs than their competitors.

A general discussion was had with regard to coal prices. Mr. Henderson pointed out that the understanding had been that there would be a slight revision upward when the bituminous coal mines recommenced operations at higher wage levels, but said that the actual revision would not be made for a few days. One reason for the delay apparently is that the mine operators may, at contemplated rates of operation, be able to absorb the increase in wages without unduly impairing their profits. This is being studied.

Mr. Henderson also read to the Committee a letter he proposes to send to Congressman Cannon relative to action recently taken by Mr. Henderson, in cooperation with the Secretary of Agriculture, to support the market price of certain farm commodities as to which an increased supply is essential. The letter was considered excellent by all present, although Secretary of Agriculture Wickard expressed some doubt as to whether the letter would satisfy the Congressman. He pointed out that he personally had had some difficulty in making critics understand that in supporting prices of particular farm commodities the Department is not "pegging" prices, but is rather attempting to fix a guaranteed minimum at a level which will stimulate production.
Mr. Henderson referred briefly to the situation in the copper industry, and stated that existing prices are being maintained in satisfactory manner without resort to a freezing order. The existing level, generally speaking, means 12 cent copper for the three biggest producers, Anaconda, Kennicott and Phelps-Dodge, and 12 1/2 cent copper for the smaller producers. This, of course, is a two-price system, but Mr. Henderson explained that it follows the custom of the industry and is one which he believes can be maintained for sometime without trouble.

Mr. Henderson left the meeting at 12.25 and, after some general discussion among Committee members, the meeting adjourned at 12.50.
MEMORANDUM
for Treasury from Heath

The following information was obtained from an entirely reliable source who is authoritatively informed concerning Germany’s economic situation. He declined to give any detailed indications but characterized the general situation as one of vexations and continuous strain which would be aggravated rather than relieved by the victories in the Balkans. At the present time the main shortages were in petroleum, non-ferrous metals and ores and rubber. The most serious immediate shortage was in rubber. So hard to mount, he said, was Germany’s general material position that she had been unable to keep up deliveries of oil, largely due to transportation difficulties from the Rumanian fields, and other materials to Italy. Tight, however, as the material situation was, economic considerations would not have any vital effect on German life and military operations during the present year.

He remarked that it was surprising that the British, realizing Germany’s oil problem, had not immediately launched a bombing attack from their Greek bases on the Ploesti fields in Rumania, and he remarked that he had also been informed that retiring British troops in Libya had failed to destroy all gasoline supplies.

While Germany’s economic situation would not vitally hinder the operation of the military machine during the present year, it would greatly handicap it next year unless in the meantime Germany acquired new sources of food and oil. It was unlikely that even the acquisition of great new areas would immediately change the food situation and it was probable that rations would be materially reduced before the end of next winter. There would be a cut in meat rations before that time and possibly in fat rations also.

Donald R. Heath
First Secretary of Embassy

DrH/hu

Approved:

Leland Morris
Charge d’Affaires a.i.
The Secretary of the Navy

Washington

Lkk-6/ER14(410407) 29 April 1941

Sir:

In accordance with the wishes of the President it is requested that a Coast Guard vessel of the POTOMAC class be transferred to the Navy for duty as an escort vessel for the POTOMAC.

Upon the delivery of the vessel so designated to the Navy at the Navy Yard Washington, and as soon thereafter as the commissioning can be effected, the CUYAHOGA will be returned to the Coast Guard.

Respectfully,

(Signed) FRANK KNOX

The Honorable,
The Secretary of the Treasury.

Note in H.M., Jr.'s handwriting " Gasto o

O. k.

H.M. Jr."
April 29, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses, for Mr. Morgenthau's information, three copies of the press release issued by the Department setting forth the proclamation issued by the President on April 24, 1941, proclaiming a state of war between Bulgaria, on the one hand, and Yugoslavia and Greece, on the other hand, issued pursuant to section (1) of the Neutrality Act of November 4, 1939; and rules and regulations pursuant to various sections of that same act.

Enclosures:

Three copies of the press release dated April 25, 1941, Number 200.
Three copies each of the three press releases dated April 25, 1941, Numbers 201, 202, and 203.
DEPARTMENT OF STATE

FOR THE PRESS

APRIL 25, 1941
No. 200

PROCLAMATION OF A STATE OF WAR BETWEEN BULGARIA, ON THE
ONE HAND, AND YUGOSLAVIA AND GREECE, ON THE OTHER HAND

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

WHEREAS section 1 of the joint resolution of Congress approved November 4, 1939, provides in part as follows:

"That whenever the President, or the Congress by concurrent resolution, shall find that there exists a state of war between foreign states, and that it is necessary to promote the security or preserve the peace of the United States or to protect the lives of citizens of the United States, the President shall issue a proclamation naming the states involved; and he shall, from time to time, by proclamation, name other states as and when they may become involved in the war."

AND WHEREAS it is further provided by section 13 of the said joint resolution that

"The President may, from time to time, promulgate such rules and regulations, not inconsistent with law, as may be necessary and proper to carry out any of the provisions of this joint resolution; and he may exercise any power or authority conferred on him by this joint resolution through such officer or officers, or agency or agencies, as he shall direct."

NOW, THEREFORE, I, FRANKLIN D. ROOSEVELT, President of the United States of America acting under and by virtue of the authority conferred on me by the said joint resolution, do hereby proclaim that, Bulgaria having without justification attacked Yugoslavia and Greece, a state of war exists between Bulgaria, on the one hand, and Yugoslavia and Greece, on the other hand, and that it is necessary to promote the security and preserve the peace of the United States and to protect the lives of citizens of the United States.

And I do hereby enjoin upon all officers of the United States, charged with the execution of the laws thereof, the utmost diligence in preventing violations of the said joint resolution and in bringing to trial and punishment any offenders against the same.

And I do hereby delegate to the Secretary of State the power to exercise any power or authority conferred on me by the said joint resolution, as made effective by
this my proclamation issued thereunder, which is not specifically delegated by Executive order to some other officer or agency of this Government, and the power to promulgate such rules and regulations not inconsistent with law as may be necessary and proper to carry out any of its provisions.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the seal of the United States of America to be affixed.

DONE at the city of Washington this twenty-fourth day of April, in the year of our Lord nineteen hundred and forty-one, and of the Independence of the United States of America the one hundred and sixty-fifth.

[SEAL] FRANKLIN D. ROOSEVELT

By the President:

CORDELL HULL

Secretary of State.

***
RULES AND REGULATIONS GOVERNING THE
SOLICITATION AND COLLECTION OF
CONTRIBUTIONS FOR USE IN BULGARIA

The Secretary of State announces that the rules and
regulations under section 8 of the joint resolution of
Congress approved November 4, 1939, which he promulgated
on November 6, 1939, henceforth apply equally to the
solicitation and collection of contributions for use in
Bulgaria.

CORDELL HULL
Secretary of State

***
DEPARTMENT OF STATE

FOR THE PRESS

APRIL 25, 1941
No. 202

REGULATIONS UNDER SECTION 5 OF
THE JOINT RESOLUTION OF CONGRESS
APPROVED NOVEMBER 4, 1939

The Secretary of State announces that the regulations under section 5 of the joint resolution of Congress approved November 4, 1939, which he promulgated on November 6, and amended November 17, 1939, henceforth apply equally in respect to travel by citizens of the United States on vessels of Bulgaria.

CORDELL HULL
Secretary of State

***

Regraded Unclassified
DEPARTMENT OF STATE

FOR THE PRESS

APRIL 25, 1941
No. 203

REGULATIONS UNDER SECTION 2 (c) AND (1) OF
THE JOINT RESOLUTION OF CONGRESS APPROVED
NOVEMBER 4, 1939

The Secretary of State announces that the regulations under section 2 (c) and (1) of the joint resolution of Congress approved November 4, 1939, which he promulgated on November 10 and November 25, 1939, henceforth apply equally in respect to the export or transport of articles and materials to Bulgaria.

CORDELL HULL
Secretary of State

***
Regraded Uclassified

Beard 4:17 p.m.

Read April 30, 1941

Other

Pain
include free entry under war exchange conservation act for certain unimportant items; a discount of twenty-five percent in present British preferential rates applicable to woolen goods, clothing and footwear; and a fifty percent discount on certain specified goods as well as almost all other dutiable items in tariff groups one and five to eleven inclusive.

Changes in tariff on United Kingdom goods are not expected to increase imports significantly and were suggested by Canadian Government to facilitate importation of quote whatever goods under changing circumstances United Kingdom wishes to export and quote.

The budget speech reviewed Canada’s exchange problem with the United States and the growing surplus in accounts with Britain. Despite foreign exchange control and measures to conserve dollar exchange the gross deficit in the United States dollar account from the outbreak of war to March 31, 1941 was given as $477 million Canadian. After deducting gold received from Britain a balance of $225 million Canadian was covered by depleting gold holdings and utilizing certain United States balances and holdings. Finance Minister had estimated that the probable deficit in the balance of payments on capital and current account with the United States in the coming fiscal year would approximate $467 million. Since then the Hyde Park agreement has been reached which will greatly ease the situation. He considered it was quote generous and helpful and quote in meeting the exchange problem but it quote does not remove all need for the conservation of foreign exchange and quote. Accordingly proposals for parity of the Canadian dollar in New York and a lifting of restrictions on dollars for pleasure travel were discounted.

Full texts of speech and resolutions will be mailed tomorrow and careful analysis as soon as possible.

Moffat

HPD sh: copy
Every bankable facility from hereon will be cleared. I had proposed to
are available in Jersey. But "Bother" meant that the resources would get
cannot achieve any presentable form of payment. In other U. S. bank notes, it is the letter
at the disposal of the Foreign Office, so that the latter could sell their
disposal of the Foreign Office could be once that duties are performed.

(d) 0, 0. (c) Jeremiah held the dollar amount (not payment) of the
the transaction were handed in centrifugal counterfeited now. would become
Jeremiah's need arises) and have the bank offshore arrange with the Branch.
Jeremiah's need arises (deal with Beretaya) (d) 0, 0. (c) Jeremiah they would in
their instead of dealing with Beretaya (d) 0, 0. (c) Jeremiah they would in
to the office tomorrow. The thought occurred to him right then he continued
be sent handling from the home and would check into it further upon the return
he was listening from the home and would check into it further upon the return.
he, 0. (c) Jeremiah reported that all hand he showed me it would be in order, however
I could refer the amount to the amount of the Britannia Jamaican Government
Jeremiah's need arises (deal with Beretaya) (d) 0, 0. (c) Jeremiah to be held at the disposal of the Government of
Beretaya (d) 0, 0. (c) Jeremiah to be held at the disposal of the Government of
located for us to pay and transfer the amount through the Bank of England to
be paid. These instructions from the Foreign Office in Jerusalem. The instructions
Jeremiah's need arises (deal with Beretaya) (d) 0, 0. (c) Jeremiah they would in
Jeremiah's need arises (deal with Beretaya) (d) 0, 0. (c) Jeremiah they would in

I could refer the amount to the amount of the Britannia Jamaican Government
Jeremiah's need arises (deal with Beretaya) (d) 0, 0. (c) Jeremiah they would in
Jeremiah's need arises (deal with Beretaya) (d) 0, 0. (c) Jeremiah they would in

Bank of England

Supervisor. Foreign Commission

Date: April 29, 1941

Chief Executive

Office Commission

Federal Reserve Bank
suggested as a possible alternative that we might deal with Barclays
(D. C. & O.) in New York but Mr. Bolton was very quick to state that
they would prefer to have it done through the Bank of England.
April 29, 1941

Dear Mr. Lovett:

Thank you for your letter of April 22nd regarding combat planes.

I am very much interested in having this information and would appreciate it if you would send it to me monthly.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Robert A. Lovett,
Assistant Secretary of War,
War Department, 
Washington, D. C.
Miss Chauncey:

Please write a little note and acknowledge receipt and say that Mr. Morgenthau would like to have this monthly.

Letter should be for Secretary's sig.

April 28th

Mrs. Klotz
WAR DEPARTMENT
Washington

April 22, 1941

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

Dear Mr. Secretary:

I attach a condensed schedule showing the
situation of the Air Corps as of March 31 with respect
to the number of combat planes on hand suitable for
use against a modern air force.

Footnote on the attached schedule shows the
number coming through with leakproof tanks and armor.

Very sincerely yours,

/s/ Robert A. Lovett

ROBERT A LOVETT,
Assistant Secretary of War (Air)

Enclosure

SECRET
# COMPARATIVE CONDITION OF COMBAT EQUIPMENT

## FIT FOR USE AGAINST MODERN AIR FORCE

<table>
<thead>
<tr>
<th></th>
<th>Heavy Bombers</th>
<th>Medium Bombers</th>
<th>Light Bombers</th>
<th>Pursuit</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 8</td>
<td>63</td>
<td>33</td>
<td>- 0</td>
<td>193</td>
<td>289</td>
</tr>
<tr>
<td>January 31</td>
<td>57</td>
<td>33</td>
<td>13</td>
<td>176</td>
<td>279</td>
</tr>
<tr>
<td>February 28</td>
<td>66*</td>
<td>33</td>
<td>39**</td>
<td>208***</td>
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</tr>
<tr>
<td>March 31</td>
<td>79#</td>
<td>63##</td>
<td>81###</td>
<td>327####</td>
<td>550</td>
</tr>
</tbody>
</table>

**Notes**

* None with armor; 5 with leakproof equipment.
** 26 with leakproof tanks and rear armor.
*** 23 with leakproof tanks and armor.
  # None with armor; 15 with leakproof tanks.
  ## 14 with leakproof tanks; none with armor.
  ### 66 with leakproof tanks and rear armor only.
  #### 137 with leakproof tanks and rear armor plate.
TREASURY DEPARTMENT
WASHINGTON

April 29, 1941.

MEMORANDUM FOR THE SECRETARY:

I attach Mr. Houghteling's report on the liquor survey, with a two-page condensation, as you requested.

Incidentally, Mr. Houghteling is doing exceedingly fine work on our Savings Bond program.

GRAVES
To: The Secretary  
From: James L. Houghteling  

April 21, 1941.

I present herein a summary of my study of the Treasury's regulatory power over the alcoholic beverage trade, in its relation to the National Defense; on which I have already presented a full report.

I. The Alcohol Tax Unit has remarkably broad power to regulate the manufacture and wholesaling of alcoholic beverages, but only the following power to regulate the retail liquor trade: (1) inspection to determine that no non-taxpaid goods are handled; and (2) inspection to determine that the occupational stamp tax has been paid.

These functions give the A.T.U. the right to enter and inspect all retail liquor establishments. In actual practice, this inspection is done by 177 "junior inspectors". There are approximately 400,000 retail liquor establishments in the United States, so that, on the basis of a 280-day year, each inspector must average 8 inspections per day, to cover every retail establishment only once a year. Obviously, such a schedule is a physical impossibility. Probably not more than 60% of the retail liquor dealers in the country were visited even once during the past fiscal year. This inadequacy of the junior inspectors' staff undoubtedly represents a substantial loss of revenue from the occupational stamp tax and also through the sale of untaxed liquor.

Under your authorization, I requested the Work Projects Administration to reestablish its Retail Liquor Dealers
Inspection Project. Commissioner Howard O. Hunter has replied that this cannot be done. I, therefore, recommend an application to the Bureau of the Budget for a deficiency appropriation to employ 200 additional junior inspectors, with additional clerical help and travel expense. Such an appropriation will bring in additional revenue considerably greater than the amount appropriated, and will enable the A.T.U. to perform the inspection duties imposed by the Internal Revenue statutes.

II. While adequate inspection of retail establishments by the Alcohol Tax Unit will have a salutary moral effect, really effective regulation of the retail liquor trade depends on State and local governmental bodies. The Federal Government can exert great influence in this field, but not primarily through the Treasury Department. The Federal Security Agency has been designated by the President to coordinate all health, welfare, and related defense activities. Mr. Paul McNutt and Mr. Charles P. Taft are developing comprehensive plans for the health and welfare not only of the naval and military forces but of workers in defense industries, including the cooperation of State and local bodies, both official and voluntary. I have been in touch with both and have offered them the complete cooperation of the Treasury. So far, however, our cooperation has not been called for.

[Signature]

James F. Byrnes
For: The Secretary
From: James L. Houghtaling

April 21, 1941.

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These functions give the A.T.U. the right to enter and inspect all retail liquor establishments. In actual practice, this inspection is done by 177 “junior inspectors”. There are approximately 460,000 retail liquor establishments in the United States, so that, on the basis of a 260-day year, each inspector must average 8 inspections per day, to cover every retail establishment only once a year. Obviously, such a schedule is a physical impossibility. Probably not more than 60% of the retail liquor dealers in the country were visited even once during the past fiscal year. This inadequacy of the junior inspectors’ staff undoubtedly represents a substantial loss of revenue from the occupational stamp tax and also through the sale of untaxed liquor.

Under your authorization, I requested the War Projects Administration to re establish its Retail Liquor Dealers

Regraded Unclassified
Inspection Project. Commissioner Howard O. Hunter has replied that this cannot be done. I, therefore, recommend an application to the Bureau of the Budget for a deficiency appropriation to employ 200 additional junior inspectors, with additional clerical help and travel expense. Such an appropriation will bring in additional revenue considerably greater than the amount appropriated, and will enable the A.T.U. to perform the inspection duties imposed by the Internal Revenue statutes.

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To: The Secretary  
From: James L. Houghteling

Under your instructions I have been making a study of the problem of alcoholic beverages and their relation to the National Defense situation, with a view to the prevention of abuses which may retard and hamper the National Defense. The primary object of my investigation has been to determine how the Treasury Department can best use its considerable regulatory powers to that end.

With the cooperation of Stewart Berkshire, head of the Alcohol Tax Unit, and members of his staff, I have studied the operations of that organization and gone through the files of a number of specific cases. I have read the statutes and regulations pertaining to the work of the Unit itself and of the Federal Alcohol Administration. I have contacted other agencies of the Federal Government handling National Defense problems to learn what steps they plan to take in this matter.

This part of my investigation has necessarily been slow because these other Federal agencies - the War Department, the Navy Department and the Federal Security Administration - are exploring fields of activity which are new to them. They are making remarkably good progress (as I shall explain later in this report), but the problem of preventing the abuse of alcoholic beverages is only a small item in their program of
protecting the health and morale of National Defense units (industrial as well as military) and it has therefore not been one of the first problems to be taken up by them.

(1) THE REGULATORY POWERS OF THE FEDERAL TREASURY.

The industry of manufacturing and rectifying alcoholic beverages and of their wholesale distribution is the most thoroughly regulated and carefully supervised of all the industries in the United States, according to expert observers. As far as the Federal Government is concerned, this regulation and supervision is twofold:

(a) The Treasury Department, through the Alcohol Tax Unit of the Bureau of Internal Revenue, very thoroughly supervises all the steps of distilling, rectifying, brewing and wine manufacturing in order to determine, for taxation purposes, the exact alcoholic content of all beverages manufactured. This is (except in the case of beer) the basis on which it assesses and collects taxes. It also exercises widespread police powers to prevent the evasion of this supervision and taxation.

(b) As a result of the repeal of the Prohibition Amendment and of concurrent public demand for a further degree of supervision over the newly legalized alcohol industry, the Congress passed the Federal Alcohol Administration Act
making the Federal Treasury responsible for the maintenance of fair trade practices in the industry and for the enforcement of the Twenty-first Amendment.

Thus the Treasury Department has been placed in a position to supervise and regulate the manufacture and wholesale distribution of alcoholic beverages to a degree far exceeding the Federal regulations of any other industry; and this supervision is effectively enforced. In general, the members of the industry regard this supervision as a protection and a stabilizing influence and a great deal of latent good will seems to exist between the Government and the manufacturers and wholesalers.

(2) LIMITATIONS ON FEDERAL SUPERVISION.

However, there is a Chinese wall which separates Federal supervision from the retail liquor trade. I have read carefully the discussions in the Congress which preceded the enactment of the Federal Alcohol Administration Act in 1935. It was obviously the sense of the Congress that the liquor traffic should be controlled, as far as was constitutionally possible, in order to avoid the abuses which had grown up before and during Prohibition. In general, the leaders of the
Congress applied themselves with a good deal of sincerity and intelligence to the drafting of as practical a piece of legislation as possible. But it was quite obvious that they all felt that they could not constitutionally touch the retail liquor trade. A great deal of verbiage in the Federal Alcohol Administration Act which raises serious difficulties from an enforcement standpoint was left that way consciously in order to indicate that the sole purposes of the law were to regulate interstate commerce and to prevent monopoly and unfair restraint of trade. Some objectionable practices were thus put practically beyond the reach of the law. This act was passed shortly after the Supreme Court of the United States, in its decision of the Schechter case, had declared the National Industrial Recovery Act unconstitutional; and the efforts of Congress were obviously directed toward the drafting of law which would not be knocked out in the same way. (It may be noted that various decisions of the Supreme Court since that time have tended to broaden the powers of Congress to regulate interstate commerce, and it is likely that in the light of subsequent decisions the Federal Alcohol Administration Act could today be amended so as to eliminate a certain number of its ambiguities. I will refer to this point again later.)

In general the retailer of alcoholic beverages is completely independent of the Federal Government, except that:
(a) he must pay an occupational stamp tax required by Section 3250 of the Internal Revenue Code.

(b) he must handle only such alcoholic beverages as bear revenue stamps identifying them as taxpaid; and

(c) he must maintain at his place of business a record of all the distilled spirits, wines and fermented malt liquors received, the quantity thereof, and from whom and the date when received, and must make such records available to the inspection of Government officials. (Section 3252 of the I.R.C.).

(3) EXTENT TO WHICH FEDERAL SUPERVISION OF THE RETAILER CAN BE INCREASED.

It seems evident that the intention of the Congress in enacting Section 3252 of the I.R.C. was to protect the revenue by providing that Federal officials should check the retailers' records of purchases against the wholesalers' records of sales. This, however, has never been done, because the personnel of the Alcohol Tax Unit has never been large enough to undertake such an extensive job of checking. Section 3252 permits the retailer to keep these records in the form of original invoices or bills if he likes. Officials of the Alcohol Tax Unit states that the records of some 400,000 individual members of the retail liquor trade, many of them
operators of small and poorly managed establishments, are in general kept so sketchily that the job of checking them would be tremendous and that the information gained would not be worth the great effort involved. I believe that this is correct. This section of the law could be greatly improved by amendment, but I question whether its objective, even if made more easily attainable in that way, would be worth the large additional expense, or whether the Congress would be willing to appropriate funds for the additional personnel required.

In this connection, it should be noted that the Alcohol Tax Unit, in its more fundamental work of enforcing the occupational tax law on retailers and checking their stock-in-trade for non-taxaider goods, is confronted with the task of inspecting 400,000 retail establishments selling alcoholic beverages with a force of only 177 "junior inspectors." Each one of these officers must thus inspect approximately 2,240 retail premises per year or an average of 8 per day in a 280-day year. Obviously, such a schedule is impossible of fulfilment. The report of the Secretary of the Treasury shows that in the fiscal year 1940 the A.T.U. made only 234,081 such inspections (representing 5-5/7 visits per junior inspector per day in a 280-day year) and, in view of the urgent need of follow-up visits in flagrant cases, it seems unlikely that more than 60% of the retail liquor dealers in the country were visited even once during the fiscal year. Even this represents such a heavy schedule for junior inspectors that really effective work cannot be
done. In the fiscal years from 1935 to 1939, this inspection was partly carried on by WPA workers (who in their biggest year, 1939, made 430,828 individual inspections); but since July 1, 1939, WPA cooperation has been terminated. At your suggestion I have tried to have this WPA project reinstated. I attach hereto an exchange of letters with Howard O. Hunter, Administrator of the WPA, embodying the unsuccessful outcome of my effort. Under "recommendations" in a later part of this report, I will discuss this matter further.

This checking of stamp tax payments and of the retailer's stock-in-trade to see that it is all taxpaid, represents the only contact of the Federal Government with the retailer. His business is entirely intrastate and hence the regulation thereof lies entirely within the Police Power of the individual States.

(5) CONTROL OF ALCOHOLIC BEVERAGES AS A MEASURE OF NATIONAL DEFENSE.

The emergency of the National Defense opens a new line of cooperation between the Federal, State and local governments in many fields heretofore closed to the Federal Government.

As a function of the work of the National Defense Advisory Commission, the President has appointed Administrator McNutt of the Federal Security Agency, as Coordinator of Health, Welfare and Related Activities affecting the National Defense. According to a bulletin just issued by the Office of the Coordinator, it
"proposes to utilize the services of the various Federal agencies administering aspects of health, welfare and related activities, so far as these activities are involved in the objectives of the national defense program. Where the functions of these Federal agencies do not at present comprehend all the services necessary for defense purposes, they should be expanded so that the aggregate functions of these agencies will meet the defense needs within the public responsibility."

................

"The objectives of this coordination are to derive maximum benefits to the defense program from the activities of public and private agencies now operating in the field and to stimulate further developments where they are necessary to achieve the following ends:

(a) To afford social protection to individuals and communities suffering disproportionate economic, social, or health burdens as a result of military or industrial defense activity.

(b) To assist civilian agencies and individuals in making an effective contribution to the
health, welfare, and morale of men engaged in military service.

(c) To promote the health, security and morale of the civilian population as an essential part of effective defense.

I have been in touch with the Office of the Coordinator and have discussed this matter thoroughly with Mr. Charles P. Taft, who has been appointed Assistant Coordinator in charge of these health, welfare and recreational activities, and who is solely responsible for the maintenance of the morale of civilians in the defense industries; and with Colonel L. Kemper Williams, in charge of Morale in the Adjutant General's Office of the Army. It is generally agreed that the prevention of abuse of alcoholic beverages takes an important place among these objectives.

(6) PROPOSED INTERDEPARTMENTAL ADVISORY COUNCIL.

A primary feature of the Coordinator's plan is the establishment of an Interdepartmental Advisory Council, "composed of the heads of all Federal organizations whose activities relate to these functions. The Council will (a) advise and confer with the Coordinator on major questions of policy, (b) review various recommendations of the Advisory Committees, and (c) assist in the clearance of policy matters
and activities which relate to the functions of the agencies which the Council members direct."

This Council is obviously open to Treasury participation if we desire it and it might possibly be useful for either the Chief of the Alcohol Tax Unit or myself to take a place thereon. I feel sure that Mr. McNutt and Mr. Charles Taft would welcome our participation if offered.

(7) ADVANTAGE OF UTILIZING EMERGENCY DEFENSE ORGANIZATIONS.

I am making this suggestion because it appears to me that this defense mechanism presents the best method of handling the problem under consideration. The field of this problem is largely outside of the scope of the normal functions of the Federal Government. It involves the mobilization of intelligent public opinion in local units, in order to force State and local governmental bodies to use their Police power to prevent abuses.

Furthermore, the program sponsored by the Office of the Coordinator and by the Joint Army and Navy Committee on Welfare and Recreation (of which Frederick Osborn is Chairman) is aimed to provide positive and constructive means of occupying the leisure time of all individuals employed in the National Defense as a primary line of action, using negative and preventive methods only secondarily. Civilian organizations of all sorts are being mobilized in
order to provide healthful and character-building recreation for defense workers, as well as guarding their health and working for their economic welfare. This program is well under way and is very modern and highly admirable in its conception. There is also much value in the nation-wide participation which can be gotten in a constructive program of this sort, in which citizens of many different types can participate. For instance, the Office of the Coordinator, the new Morale organizations of the Army and the Navy, and Treasury officials have all been approached recently by representatives of the distillers and liquor wholesalers to find out what the latter can do in a constructive way to help in a sound National Defense program. These business men obviously see in such a program of cooperation a way of forestalling restrictive legislation which might be damaging to their business.

(c) **PREVENTIVE MEASURES THROUGH NEW LEGISLATION.**

Already there have been a large number of bills introduced in the Congress relating to intoxicating liquors. Senator Sheppard of Texas has introduced two Joint Resolutions for amendments to the Constitution of the United States; one to re-enact the Eighteenth Amendment and the other to give the Congress the power to restrict or prohibit the manufacture, sale, or transportation of alcoholic liquors within the United States.
The law which was enforced during 1917 and 1918, forbidding the sale of alcoholic liquors to any man in uniform has been re-introduced.

Another bill introduced proposes to prohibit the transportation in interstate commerce of advertisements of alcoholic beverages. Still another proposes to prohibit the advertising of alcoholic beverages by radio.

There is also a bill to prohibit the sale, transportation, or possession of alcoholic beverages in any Army or Navy camp or within such reasonable distance of such camp as may be determined by the Secretary of War or the Secretary of the Navy.

There is also a bill to prohibit the sale, use, or possession of alcoholic beverages within the District of Columbia.

As far as I can learn, the National Defense organizations are unfavorably disposed towards all such prohibitory legislation.

(9) RECOMMENDATIONS.

1. The work of the Alcohol Tax Unit in enforcing the occupational (stamp) tax requirement of the Internal Revenue law as applied to retailers and in checking the stock-in-trade of retailers to determine that they carry in stock nothing but tax-paid goods, should be considerably strengthened by
an addition of personnel. You authorized me to negotiate with the Work Projects Administration for the reestablishment of a WPA Project to supplement the work of the Alcohol Tax Unit. I had an interview with Howard C. Hunter, Commissioner of the WPA, and discussed this matter with him and Mr. Gill, his assistant, along the line of the very large number of law violations which the former WPA Project had reported and helped to put an end to. He stated that both the Bureau of the Budget and the Appropriations Committees of the Congress had objected to the use of WPA workers for law enforcement purposes, and that this had resulted in the discontinuation of the former project on June 30, 1939. He asked me, however, to lay the matter before him in writing. I did so, and attach hereto a copy of my letter and the original of Commissioner Hunter's reply. In my letter, you will note I stressed the accomplishment of this project in adding to the Federal Revenue rather than in enforcing the law. However, on this basis as well, the Commissioner states that the project cannot be reinstated.

The records of the Alcohol Tax Unit show that additional "junior inspectors" employed in enforcing
the occupational tax requirements for liquor retailers are uniformly successful in increasing the revenue in amounts considerably more than their own salaries and expenses. At the present moment there would be very obvious advantages, from the standpoint of National Defense, in having an alert and adequate force of junior inspectors on duty in areas where there are largely increased payrolls in "defense industries" or where there are new military and naval establishments, in order to check up on new retail liquor shops springing up in such areas. I believe that both of the above arguments - (1) the net increase of the Federal Revenue which would result; and (2) the element of added supervision of the liquor trade in connection with the National Defense - ought to appeal to the Bureau of the Budget and to the Appropriations Committee of the Congress. I, therefore, recommend that this Department apply immediately for a deficiency appropriation large enough to finance the salaries and expenses of 200 additional junior inspectors, with the additional clerical force required.

2. I recommend that the Treasury cooperate in every way possible with the Office of Coordinator
and with the Joint Army and Navy Committee on Welfare and Recreation. The prestige and influence of the United States Treasury and its vast amount of information about the alcoholic beverage trade will undoubtedly be of great value to the National Defense organizations in preventing abuses and in developing a constructive program.

3. I do not recommend that any amending legislation to correct defects of the present Federal Alcohol Administration Act or other statutes governing the operations of the Treasury in this field (such as Section 3252 of the I.R.C.) be proposed at this present moment, because I do not believe that the Congress would look on such legislation with favor. However, if new abuses should spring up, it is possible that this situation might change and that it might become desirable to suggest clarifying amendments to the present laws. I have no suggestions as to new legislation.

Respectfully submitted,

[Signature]

James L. Houghteling

March 31, 1941.
February 26, 1931.

Rev. Howard C. Hunter,
Acting Commissioner,
Wartime Projects Administration,
1734 New York Avenue,
Washington, D. C.

My dear Mr. Hunter:

The Secretary of the Treasury has asked me to take up with you the possibility and desirability of re-establishing a WPA project of the same type as the Alcohol Tax Unit of the Bureau of Internal Revenue was for four years greatly assisted by the cooperation of your organization. This was known as the Retail Liquor Dealers Inspection Project.

The repeal of the Prohibition Amendment in December 1933 resulted in the establishment of a large group of new taxpayers, namely, retail liquor dealers in distilled spirits, wines and fermented malt liquors dispensed in saloons, taverns, hotels, restaurants, clubs, grocery stores and road side places. To collect this revenue and, by properly overseeing the operations of these retail dealers, to determine that they were not dealing in goods on which other Internal Revenue taxes were unpaid, placed a burden on the Alcohol Tax Unit, which it was not properly staffed to handle effectively. Consequently, on September 3, 1935, the Retail Liquor Dealers Inspection program of the Alcohol Tax Unit, financed from funds allotted by the Works Progress Administration, was inaugurated in 91 project cities having a population in excess of 100,000 each. This program was later extended to cover 116 project cities. The force of WPA personnel was supplemented by a number of regular inspectors of the Alcohol Tax Unit.
The record of this program appears to have been as follows:

<table>
<thead>
<tr>
<th>Fiscal Year Ended June 30</th>
<th>Average Number of WPA workers Employed</th>
<th>Number of Inspectors Made</th>
<th>Addition to Revenue Resulting</th>
</tr>
</thead>
<tbody>
<tr>
<td>1936</td>
<td>764</td>
<td>479,432</td>
<td>677,290.74</td>
</tr>
<tr>
<td>1937</td>
<td>462</td>
<td>460,525</td>
<td>724,513.62</td>
</tr>
<tr>
<td>1938</td>
<td>109</td>
<td>243,877</td>
<td>370,476.41</td>
</tr>
<tr>
<td>1939</td>
<td>175</td>
<td>158,916</td>
<td>232,577.66</td>
</tr>
</tbody>
</table>

Projects started September 3, 1935.

During the fiscal year ending June 30, 1939, the average number of WPA project workers involved appears to have been 215 inspectors and 55 clerks and the number of project cities involved had been reduced to 57. As of the aforementioned date, however, this work was entirely discontinued.

The records of the Alcohol Tax Unit for the fiscal year 1940 (after the discontinuation of this WPA project) show that the 177 junior inspectors allowed to the Unit by the current appropriation of the Congress were only able to make 284,861 inspections as applied to an estimated 400,000 retail liquor dealers in this country. Numerically, this represents an inspection of approximately 70% of the retail establishments but, in view of the fact that a number of difficult situations required repeated visits by junior inspectors, it is obvious that considerably less than 70% of the retail establishments in the country were actually visited during the year. Even to cover that proportion of the inspection work required, each junior inspector had to visit 1,600 establishments during the year or 5-5/7 per day in a 280 day year.

The newly arisen problems of National Defense are closely connected with this problem. The Alcohol Tax Unit and the Federal Alcohol Administration, which is now associated with it in the Bureau of Internal Revenue, represent the only leverage of the Federal Government in an effort which should be made, in cooperation with the State authorities of the various States, to prevent abuses of the liquor trade from interfering with the defense efforts of this country. It is important that those engaged in the liquor trade should know that the Federal tax laws and the Federal laws governing the
distribution of liquor in interstate commerce are being adequately enforced. We believe that WPA projects could advantageously be set up in a considerable number of urban areas containing defense industries or military camps for the purpose of handling this problem in conjunction with the Alcohol Tax Unit and proper state and municipal authorities.

Under the circumstances, we hope that you may find it consistent with your program to reestablish a number of these projects along the line they were operated prior to June 30, 1939.

Yours sincerely,

James L. Houghteling,
Assistant to the Secretary.
The Honorable
The Secretary of the Treasury

Attention: Mr. James L. Houghteling
Assistant to the Secretary

My dear Mr. Secretary:

Receipt is acknowledged of Mr. Houghteling’s letter dated February 26, 1941, concerning the possibility and desirability of re-establishing the Retail Liquor Dealers Inspection Project for the benefit of the Alcohol Tax Unit of the Bureau of Internal Revenue in your Department.

As your office states, the Retail Liquor Dealers Inspection Projects were operated from September 3, 1935, through June 30, 1939, and were discontinued at the request of this office. The Commissioner of Work Projects in letter addressed to Mr. Harold N. Graves, Acting Commissioner of Internal Revenue, dated July 1, 1939, stated as follows in respect to the projects in question:

"It is my present opinion that certain aspects of this program render it inadvisable to continue it in operation during the coming fiscal year.

"It has been our policy that municipalities or other local taxing jurisdictions should not operate projects which are directly related to tax collections or inspections for purposes of collection. This policy is based on the principle that tax collections and operations incidental thereto are provided for by the regular budgets of the governmental unit.

"Even in the case of projects bearing only an indirect relation to tax collection, approval has been granted only on a demonstration basis to test the worthwhileness of the work, and
usually lasted not more than one year. In the case of the program of projects carried on by the Bureau of Internal Revenue from 1935 to date, I have been informed the amount of revenue eventually collected will be in excess of the total costs of the projects, so that the principle may be said to have had at least a reasonably thorough demonstration."

Your letter dated July 6, 1939, requested reconsideration of the request. The Commissioner’s reply dated July 11, 1939, stated as follows:

"While I appreciate your desire to continue in operation projects which provide for a tangible return in relationship to the funds expended thereon, I do not feel that I can approve their continuance inasmuch as the operations thereunder are contrary to the policy which has been established with respect to the operation of locally sponsored State Program projects."

The above-stated policy of this Administration has not been changed since the date of the two letters referred to above. Even though the above policy did not prevent the possible approval of the projects, the decreased limitation on Federal agency funds would doubtless prevent an allocation for this purpose.

Sincerely yours,

[Signature]

Howard C. Hunter
Acting Commissioner
To: The Secretary
From: James L. Boughling

Under your instructions I have been making a study of the problem of alcoholic beverages and their relation to the National Defense situation, with a view to the prevention of abuses which may retard and hamper the National Defense. The primary object of my investigation has been to determine how the Treasury Department can best use its considerable regulatory powers to that end.

With the cooperation of Stewart Berkshire, head of the Alcohol Tax Unit, and members of his staff, I have studied the operations of that organization and gone through the files of a number of specific cases. I have read the statutes and regulations pertaining to the work of the Unit itself and of the Federal Alcohol Administration. I have contacted other agencies of the Federal Government handling National Defense problems to learn what steps they plan to take in this matter.

This part of my investigation has necessarily been slow because these other Federal agencies - the War Department, the Navy Department and the Federal Security Administration - are exploring fields of activity which are new to them. They are making remarkably good progress (as I shall explain later in this report), but the problem of preventing the abuse of alcoholic beverages is only a small item in their progress of
protecting the health and morale of National Defense units (industrial as well as military) and it has therefore not been one of the first problems to be taken up by them.

(1) THE REGULATORY POWERS OF THE FEDERAL TREATY.

The industry of manufacturing and rectifying alcoholic beverages and of their wholesale distribution is the most thoroughly regulated and carefully supervised of all the industries in the United States, according to expert observers. As far as the Federal Government is concerned, this regulation and supervision is twofold:

(a) The Treasury Department, through the Alcohol Tax Unit of the Bureau of Internal Revenue, very thoroughly supervises all the steps of distilling, rectifying, brewing and wine manufacturing in order to determine, for taxation purposes, the exact alcoholic content of all beverages manufactured. This is (except in the case of beer) the basis on which it assesses and collects taxes. It also exercises widespread police power to prevent the evasion of this supervision and taxation.

(b) As a result of the repeal of the Prohibition Amendment and of concurrent public demand for a further degree of supervision over the newly legalized alcoholic industry, the Congress passed the Federal Alcoholic Administration Act
making the Federal Treasury responsible for the maintenance of fair trade practices in the industry and for the enforcement of the Twenty-first Amendment.

Thus the Treasury Department has been placed in a position to supervise and regulate the manufacture and wholesale distribution of alcoholic beverages to a degree far exceeding the Federal regulations of any other industry; and this supervision is effectively enforced. In general, the members of the industry regard this supervision as a protection and a stabilising influence and a great deal of latent good will seems to exist between the Government and the manufacturers and wholesalers.

(2) LIMITATIONS OF FEDERAL SUPERVISION.

However, there is a Chinese wall which separates Federal supervision from the retail liquor trade. I have read carefully the discussions in the Congress which preceded the enactment of the Federal Alcohol Administration Act in 1926. It was obviously the sense of the Congress that the liquor traffic should be controlled, as far as was constitutionally possible, in order to avoid the abuses which had grown up before and during Prohibition. In general, the leaders of the
Congress applied themselves with a good deal of sincerity and intelligence to the drafting of as practical a piece of legislation as possible. But it was quite obvious that they all felt that they could not constitutionally touch the retail liquor trade. A great deal of wrangling in the Federal Alcohol Administration Act which raises serious difficulties from an enforcement standpoint was left that way consciously in order to indicate that the sole purpose of the law were to regulate interstate commerce and to prevent monopoly and unfair restraint of trade. Many objectionable practices were thus put practically beyond the reach of the law. This act was passed shortly after the Supreme Court of the United States, in its decision of the Schechter case, had declared the National Industrial Recovery Act unconstitutional; and the efforts of Congress were obviously directed toward the drafting of law which would not be knocked out in the same way. (It may be noted that various decisions of the Supreme Court since that time have tended to broaden the powers of Congress to regulate interstate commerce, and it is likely that in the light of subsequent decisions the Federal Alcohol Administration Act could today be amended so as to eliminate a certain number of its ambiguities. I will refer to this point again later.)

In general the retailer of alcoholic beverages is completely independent of the Federal Government, except that:
(a) he must pay an occupational stamp tax required by Section 3250 of the Internal Revenue Code.

(b) he must handle only such alcoholic beverages as bear revenue stamps identifying them as taxpaid; and

(c) he must maintain at his place of business a record of all the distilled spirits, wines and fermented malt liquors received, the quantity thereof, and from whom and the date when received, and must make such records available to the inspection of Government officials. (Section 3252 of the I.R.C.).

(3) EXTENT TO WHICH FEDERAL SUPERVISION OF THE RETAILER CAN BE INCREASED.

It seems evident that the intention of the Congress in enacting Section 3252 of the I.R.C. was to protect the revenue by providing that Federal officials should check the retailers' records of purchases against the wholesalers' records of sales. This, however, has never been done, because the personnel of the Alcohol Tax Unit has never been large enough to undertake such an extensive job of checking. Section 3252 permits the retailer to keep these records in the form of original invoices or bills if he likes. Officials of the Alcohol Tax Unit states that the records of some 400,000 individual members of the retail liquor trade, many of them
operators of small and poorly managed establishments, are in general kept so sketchily that the job of checking them would be tremendous and that the information gained would not be worth the great effort involved. I believe that this is correct. This section of the law could be greatly improved by amendment, but I question whether its objective, even if made more easily attainable in that way, would be worth the large additional expense, or whether the Congress would be willing to appropriate funds for the additional personnel required.

In this connection, it should be noted that the Alcohol Tax Unit, in its more fundamental work of enforcing the occupational tax law on retailers and checking their stock-in-trade for non-taxpaid goods, is confronted with the task of inspecting 400,000 retail establishments selling alcoholic beverages with a force of only 177 "Junior Inspectors." Each one of these officers must thus inspect approximately 2,340 retail premises per year or an average of 8 per day in a 260-day year. Obviously, such a schedule is impossible of fulfilment. The report of the Secretary of the Treasury shows that in the fiscal year 1940 the A.T.U. made only 284,051 such inspections (representing 5-9/7 visits per junior inspector per day in a 260-day year) and, in view of the urgent need of follow-up visits in flagrant cases, it seems unlikely that more than 50% of the retail liquor dealers in the country were visited even once during the fiscal year. Even this represents such a heavy schedule for junior inspectors that really effective work cannot be
In the fiscal years from 1933 to 1939, this inspection was partly carried on by WPA workers (who in their biggest year, 1939, made 650,000 individual inspections); but since July 1, 1939, WPA cooperation has been terminated. At your suggestion I have tried to have this WPA project reinstated. I attach hereeto an exchange of letters with Howard C. Hunter, Administrator of the WPA, embodying the unsuccessful outcome of my effort. Under "recommendations" in a later part of this report, I will discuss this matter further.

This checking of stamp tax payments and of the retailer's stock-in-trade to see that it is all taxpaid, represents the only contact of the Federal Government with the retailer. His business is entirely intrastate and hence the regulation thereof lies entirely within the Police Power of the individual States.

(b) CONTROL OF ALCOHOLIC BEVERAGES AS A MEASURE OF NATIONAL DEFENSE.

The emergency of the National Defense opens a new line of cooperation between the Federal, State and local governments in many fields heretofore closed to the Federal Government.

As a function of the work of the National Defense Advisory Commission, the President has appointed Administrator Hallett of the Federal Security Agency, as Coordinator of Health, Welfare and Related Activities affecting the National Defense. According to a bulletin just issued by the Office of the Coordinator, it
"proposes to utilize the services of the various Federal agencies administering aspects of health, welfare and related activities, so far as these activities are involved in the objectives of the national defense program. Where the functions of these Federal agencies do not at present comprehend all the services necessary for defense purposes, they should be expanded so that the aggregate functions of these agencies will meet the defense needs within the public responsibility."

"The objectives of this coordination are to derive maximum benefits to the defense program from the activities of public and private agencies now operating in the field and to stimulate further developments where they are necessary to achieve the following ends:

(a) To afford social protection to individuals and communities suffering disproportionate economic, social, or health burdens as a result of military or industrial defense activity.

(b) To assist civilian agencies and individuals in making an effective contribution to the
health, welfare, and morale of men engaged in military service.

(e) To promote the health, security and morale of the civilian population as an essential part of effective defense.*

I have been in touch with the Office of the Coordinator and have discussed this matter thoroughly with Mr. Charles F. Taft, who has been appointed Assistant Coordinator in charge of these health, welfare and recreational activities, and who is solely responsible for the maintenance of the morale of civilians in the defense industries; and with Colonel L. Kemper Williams, in charge of Morale in the Adjutant General's Office of the Army. It is generally . . . . . . . . abuse of alcoholic beverages takes an important place among these objectives.

(6) PROPOSED INTERDEPARTMENTAL ADVISORY COUNCIL.

A primary feature of the Coordinator's plan is the establishment of an Interdepartmental Advisory Council, composed of the heads of all Federal organizations whose activities relate to these functions. The Council will (a) advise and confer with the Coordinator on major questions of policy, (b) review various recommendations of the Advisory Committees, and (c) assist in the clearance of policy matters
and activities which relate to the functions of
the agencies which the Council members direct."

This Council is obviously open to Treasury partici-
pation if we desire it and it might possibly be useful for
either the Chief of the Alcohol Tax Unit or myself to take
a place thereon. I feel sure that Mr. McWatt and Mr. Charles
Taft would welcome our participation if offered.

(7) ADVANTAGE OF WILLIAMS EMERGENCY DEFENSE
FORMATION.

I am making this suggestion because it appears to
me that this defense mechanism presents the best method of
handling the problem under consideration. The field of
this problem is largely outside of the scope of the normal
functions of the Federal Government. It involves the
mobilization of intelligent public opinion in local units,
in order to force State and local governmental bodies to
use their police power to prevent abuses.

Furthermore, the program sponsored by the Office
of the Coordinator and by the Joint Army and Navy Committee
on Welfare and Recreation (of which Frederick Oberm is
Chairman) is aimed to provide positive and constructive
means of occupying the leisure time of all individuals
employed in the National Defense as a primary line of
action, using negative and preventive methods only secondarily.
Civilian organizations of all sorts are being combined in
order to provide healthful and character-building recreation
for defense workers, as well as guarding their health and
working for their economic welfare. This program is well
under way and is very modern and highly admirable in its
conception. There is also much value in the nation-wide
participation which can be gotten in a constructive program
of this sort, in which citizens of many different types can
participate. For instance, the Office of the Coordinator,
the new Morale organizations of the Army and the Navy, and
Treasury officials have all been approached recently by
representatives of the distillers and liquor wholesalers
to find out what the latter can do in a constructive way
to help in a sound National Defense program. These business
men obviously see in such a program of cooperation a way of
forestalling restrictive legislation which might be damaging
to their business.

(6) PREVENTIVE MEASURES THROUGH NEW LEGISLATION,

Already there have been a large number of bills
introduced in the Congress relating to intoxicating liquors.

Senator Sheppard of Texas has introduced two
Joint Resolutions for amendments to the Constitution of the
United States; one to re-enact the Eighteenth Amendment and
the other to give the Congress the power to restrict or
prohibit the manufacture, sale, or transportation of alcoholic
liquors within the United States.
The law which was enforced during 1917 and 1918, forbidding the sale of alcoholic liquor to any man in uniform has been re-introduced.

Another bill introduced proposes to prohibit the transportation in interstate commerce of advertisements of alcoholic beverages. Still another proposes to prohibit the advertising of alcoholic beverages by radio.

There is also a bill to prohibit the sale, transportation, or possession of alcoholic beverages in any Army or Navy camp within such reasonable distance of such camp as may be determined by the Secretary of War or the Secretary of the Navy.

There is also a bill to prohibit the sale, use, or possession of alcoholic beverages within the District of Columbia.

As far as I can learn, the National Defense organizations are unfavorably disposed towards all such prohibitory legislation.

(9) RECOMMENDATIONS

1. The work of the Alcohol Tax Unit in enforcing the occupational (stump) tax requirement of the Internal Revenue law as applied to retailers and in checking the stock-in-trade of retailers to determine that they carry in stock nothing but taxpaid goods, should be considerably strengthened by
an addition of personnel. You authorized me to negotiate with the Work Projects Administration for the reestablishment of a WPA Project to supplement the work of the Alcohol Tax Unit. I had an interview with Howard C. Hunter, Commissioner of the WPA, and discussed this matter with him and Mr. Gill, his assistant, along the line of the very large number of law violations which the former WPA Project had reported and helped to put an end to. He stated that both the Bureau of the Budget and the Appropriations Committees of the Congress had objected to the use of WPA workers for law enforcement purposes, and that this had resulted in the discontinuation of the former project on June 30, 1939. He asked me, however, to lay the matter before him in writing. I did so, and attach hereto a copy of my letter and the original of Commissioner Hunter's reply. In my letter, you will note I stressed the accomplishment of this project in adding to the Federal Revenue rather than in enforcing the law. However, on this basis as well, the Commissioner states that the project cannot be reinstated.

The records of the Alcohol Tax Unit show that additional "junior inspectors" employed in enforcing
the occupational tax requirements for liquor retailers are uniformly successful in increasing the revenue in amounts considerably more than their own salaries and expenses. At the present moment there would be very obvious advantages, from the standpoint of National Defense, in having an alert and adequate force of junior inspectors on duty in areas where there are largely increased payrolls in "defense industries" or where there are new military and naval establishments, in order to check up on new retail liquor shops springing up in such areas. I believe that both of the above arguments - (1) the net increase of the Federal Revenue which would result; and (2) the element of added supervision of the liquor trade in connection with the National Defense - ought to appeal to the Bureau of the Budget and to the Appropriations Committee of the Congress. I, therefore, recommend that this Department apply immediately for a deficiency appropriation large enough to finance the salaries and expenses of 300 additional junior inspectors, with the additional clerical force required.

2. I recommend that the Treasury cooperate in every way possible with the Office of Coordinator
and with the Joint Army and Navy Committee on Welfare and Recreation. The prestige and influence of the United States Treasury and its vast amount of information about the alcoholic beverage trade will undoubtedly be of great value to the National Defense organizations in preventing abuses and in developing a constructive program.

5. I do not recommend that any amending legislation to correct defects of the present Federal Alcoholic Administration Act or other statutes governing the operations of the Treasury in this field (such as Section 332B of the I.R.C.) be proposed at this present moment, because I do not believe that the Congress would look on such legislation with favor. However, if new abuses should spring up, it is possible that this situation might change and that it might become desirable to suggest amending amendments to the present laws. I have no suggestions as to new legislation.

Respectfully submitted,

[Signature]

(Alcee L. Boggs)

March 31, 1941.
CONFIDENTIAL

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, April 29, 1941

SUPPLEMENT TO
AIR BULLETIN
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NOTICE

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TACTICAL AND TECHNICAL TRENDS
FEBRUARY 16 - MARCH 15, 1941
INCLUSIVE

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TACTICAL AND TECHNICAL TRENDS
February 16 - March 16, 1941
Inclusive

1. GREAT BRITAIN

a. Fighter Tactics Against Offensive Patrols

If the British fighter squadron is fortunate enough
to be at an equal or superior height, the planes of the squadron
formation attack simultaneously and then proceed with pair or section
attacks. Otherwise leader keeps his formation on the defensive until
he gets a good opportunity to attack.

When a fighter unit is attacking enemy fighters,
pairs or sections of three airplanes each are led into the attack
together. Such attacks usually end up in dog fights, but if possible
the section formation should be loosely maintained so as to afford
mutual support and to facilitate reforming the unit after combat.

When a pilot is in a dog fight or separate from his
unit, he never flies straight, but continually turns from side to
side so that he can keep a lookout behind him. When attacking, he
makes all use of sun and cloud and remembers the slogan, "Beware
of the Hun in the Sun."

When closing in on a bomber, the fighter opens fire
with a short burst at about 300 yards, since the rear gunner is
often killed or at least frightened; then it goes right in.

The breakaway is most important, since it is at this
point that the pilot is most vulnerable, especially from the rear
gunner. If the breakaway is made in a climbing turn, the fighter
may give the rear gunner a nearly stationary shot. When possible,
a turning dive is the best method to be used.

The aim of the air fighter is to destroy the maximum
number of enemy aircraft in the minimum time with the minimum use of
ammunition.

b. Fighter Tactics Against Escorted Bombers

The fighter's job is principally to destroy enemy
bombers or to escort its own bombers, and destruction of enemy
fighters is only a means to these ends. Bombers not only are much
more expensive and difficult to produce than fighters, but they also
carry crews of four or five and do damage to ground objectives.
Enemy escort fighters may be at such a height above their bombers that an attack and breakaway can be made before the escort fighters can catch up and attack. A group of three squadrons is ordinarily used; the lower squadron attacks bombers and the upper squadron attack and keep off enemy fighters.

If there is no escort squadron available, the formation leader leaves a section well above the rest to look after their tails while they make the attack. Wavers are very necessary; they are experienced pilots who normally fly above the formation, but they must never lag behind.

When enemy bombers are approached, every effort is made to achieve surprise. If this is successful, it may be possible to attack without interference. Where possible, head-on and beam attacks should be used against bombers.

If a pair or section attacks a single enemy bomber, simultaneous attacks are made from either flank, and also from underneath if a third airplane is available. This is preferable to shooting in turn. A surprise attack on enemy bombers nearly always breaks up the formation and generally disorganizes it; escort fighters.

c. Army Cooperation

Two cooperation squadrons under the control of the army through the liaison section of the Royal Air Force were used during the advance of the army in Libyan operations. One Australian squadron was to be used for dive bombing in close support of troops, but this was not found effective. The Australian squadron was later used as fighter protection for the other squadron, which was doing observation work. The second squadron, using Hurricanes, did reconnaissance work to supplement that done by long-range bombers.

One specially equipped Hurricane did considerable photographic work in the mapping of defenses. One flight of a squadron equipped with Lysanders did some artillery spotting for long-range guns and performed duty on command missions and in transporting staff officers. Fighter-type aircraft, with pilots observing, are used for close and medium reconnaissance, but the British feel that such planes as the Martin 167 and Douglas A-20 would be preferred for these missions, as well as for photography and command missions.

d. Air Reconnaissance

Land planes and flying boats are used for long-range reconnaissance.
reconnaissance, but amphibians have not been used on either side. All bombers are fitted for cameras, all can do reconnaissance, and all have provisions for maximum alternate loads of bombs or gasoline. If the mission is long, bomb bay tanks are used with bombs to make up the permissible load. Planes are usually overloaded, however, since excess bombs and ammunition are taken along. All planes on normal coastal reconnaissance missions are prepared to drop bombs or depth charges, as the mission may require.

On completion of a bombardment or reconnaissance mission, pilot and crew make a written report on Form "X" to the intelligence officer, who prepares a consolidated report.

e. The Stirling Bomber

A number of American official observers in London recently made a flight in a Stirling Bomber and reported that the plane handled very well in the air. It has a 30-second take-off without load and with 1/3 flaps - that is, with normal flap position for take-off. The airplane lands at 95 to 100 mph with the wheels down, and at about 85 mph with wheels up.

The large landing gear rises very slowly and is quite a hindrance to getting under way. There has been some difficulty in lowering this gear; it winds on an endless screw and the solenoid fails to break, so that the gear jams itself into the top of the wing and becomes so tightly lodged that the hand release fails to dislodge it.

This large landing gear was used because specifications called for a tunnel turret which could be fully extended while the ship was being landed. The designers, somewhat baffled, ended by producing the Stirling Bomber, which the American observers considered an atrocity. It would be a beautiful airplane, they reported, if it were not for the lack of coordination between the designers and those who drew up the specifications.

The hydraulic throttles are a source of trouble in that equipment is not strong enough. There is no bar across the throttle controls to enable simultaneous opening of all throttles, and the take-off is accomplished by pushing three throttles full out and then opening the fourth. As a matter of fact, this does take care of a certain amount of inherent take-off yaw.

f. Fighter Aircraft

(1) Night Fighters

The general British consensus is that the night
fighter should have mainly the characteristics of the day fighter, except for that of maneuverability, which is not especially important. It will probably be a two-motored airplane in order that it may have speed, climb, and ceiling. There will probably be three men in the crew - one pilot, who will have all he can do to operate and navigate the plane; one radio operator, who will also operate the aircraft's interceptor radio; and one gunner, who can keep his vision accustomed to darkness without any interruption, to do the shooting.

(2) **Interceptor Fighters**

Generally speaking, the British believe that the fast interceptor fighter which now has good ceiling, speed, climb, and maneuverability, should also have some large and some medium selective armament. It should also be well armored.

(3) **Convoy and Patrol Fighters**

A fast long-range convoy and patrol fighter should be heavily armed and armored and have at least a 1,000 mile radius of action, according to the British. Some compromise would necessarily have to be made on maneuverability and ceiling, since the wing loading of the fighter would be high. Officers say that this type of fighter is a definite necessity at the moment if they are to get out and intercept the German long-range Focke Wulf bomber that has been sinking British shipping some 500 miles at sea.

The British are rapidly coming to a decision that a fighter squadron cannot be trained for efficient day and night fighting - first, because there must be a special multiplace aircraft for night fighting, and second, because the tactics and technique of night and day fighting greatly differ.

British squadron leaders state that in wartime a 50% reserve in squadron aircraft is inadequate to keep the required number of operational planes in commission. They believe that in order to fly twelve airplanes, they should have twenty or twenty-two planes assigned to the squadron.

The British say that gun cameras in fighter aircraft are a definite necessity, both for training and analyzing tactical results in actual combat.

6. **R.A.F. Service Units in the Middle East**

The following service units, all different in organization and strength, are included in the R.A.F. in the

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Regarded Uclassified
Middle East:

2 Air Transport Units
2 Transport Units
1 Marine Section
25 Air Base Stations
4 Supply Columns
5 Medical Units
5 Port Detachments
4 Maintenance Units
8 Air Stores
3 Repair and Salvage Units
8 Staging Posts

The Army furnishes, in addition, all ground defenses, rations, and water; carries on all engineering functions in forward areas; provides all wire lines to forward areas, and transports fuel and bombs to them.

b. Camouflage of Airdrome Runways

In order to camouflage concrete and macadam runways, it is necessary to break up any paint which has been applied. At first crushed granite was spread on the surfaces, along with a tar-type adhesive, but this was found to cause excessive wear to the tires of airplanes. Colored paint wore off very quickly.

The use of ground rubber has been found very satisfactory. Salvaged rubber, mainly from automobile tires, is applied in the same manner as crushed granite. There is very little loss of paint and practically no wear on airplane tires and rubber surfaced runways practically eliminate "ground looping" tendencies in any type of aircraft.

The rubber surface seems to stay very well, and particles do not roll off over the tires of landing aircraft. It is also very cheap and easy to maintain, since loosened rubber can be swept off and used again.

1. Instrument Flying

It has been reported orally in the United States that British fighters are taking off at night "on instrument." An American observer, who discussed this matter with officers from the Commander-in-Chief of the Fighter Command down to and including junior pilots at four different stations, was unable to establish a single instance of instrument take-off and was forced to conclude that fighter pilots are neither taking off nor landing "on instruments."
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Fighter pilots do, however, ascend and descend through the overcast by instrument, and, as necessity arises, they fly through areas of low visibility "on instruments."

J. Zones of Attack on Bombers

The most likely zones from which a bomber would be attacked are as follows:

1. By a single-engined, single-seated fighter with conventional guns - from the 30-degree rear cone.

2. By a single-engined, single-seated, or multi-engined single-seated plane with large caliber guns - from the 30-degree rear cone.

3. By a multi-place fighter equipped with turret - from any angle; probably a wide deflection attack from either beam and from below to keep the target silhouetted against the sky as well as to keep in the blind angle found under the wing tip of most airplanes.

k. The 20-mm. Gun Turret

At present the British are spending so much time on the development of the 50-caliber machine gun turret that work on the 20-mm. gun turret has almost stopped. It is low on the priority list.

1. Operating Radius

The operating radius of an airplane during wartime is considered by the British to be about 40% of the cruising range.

2. GERMANY

a. Fighter Tactics

In the Me-109, maneuverability has been sacrificed for speed. The tactics described here have been used invariably against Hurricanes and Spitfires.

Upon being sighted by British fighters, Me-109's usually go into a defensive circle, flying wide in line astern. This formation, called the "circle of death," is the same as the American Lufberry circle.

Between 30 and 50 Me-109's are often found in scattered
loose formations at between 25,000 and 35,000 feet, flying parallel to the British coast about ten miles out to sea. They try to persuade British fighters to go out to them, sometimes by simulating a dog fight, so that other He-109's waiting in the sun can come down to attack.

German fighters never attack from equal height. They retire in order to gain height and then return at a much greater altitude. Their usual form of attack is to send their main body of fighters over the top of British fighters and leave a section or flight in the sun to attack. It is difficult not to be surprised by this form of attack. The attacking section usually dives down on the British fighters and then climbs to rejoin the main formation. The British feel that, generally speaking, German fighters could attack much more effectively than they do with their advantage in height and numbers, but they seem to lack determination and the all-essential offensive spirit.

When individually pursued, the German fighter half rolls and dives to the ground, descending almost vertically. He pulls out of the dive as sharply as possible in the hope that the attacking airplane will fail to follow him; then he climbs almost vertically. After the climb, he invariably carries out a power controlled stall turn to the left.

The speeds in the dive are greatly in excess of 400 mph and because of the difficulty of maintaining an accurate sight at this speed, it is advisable to refrain from firing unless the plane is in an extremely favorable position.

The speed at the top of the climb, just before the stall turn is greatly reduced - it is about 160 to 180 mph. The Hurricane is able to close to effective range, and it has been found that this affords the opportunity for a good burst of fire. If this burst is unsuccessful, the He-109 either repeats the whole maneuver - that is, it dives, climbs, and stalls turns - or it merely pulls out of the dive at low height - usually 100 to 200 feet - and makes off as rapidly as possible. In the retreat, the pilot may or may not swerve in an effort to evade.

Sometimes He-109 pilots attempt to confuse British fighters by causing extreme richness in fuel mixture, with the result that black smoke is ejected from the exhaust ports, as in a crippled engine. British pilots are warned not to be led astray by such tactics. Black smoke created in this maneuver will flow over the wings. If the engine has really been hit, the black smoke will be intermingled with white, and in most cases the engine bursts into flames.
b. Escort Tactics

The Germans at first used bomber formations unescorted by fighters, but when this proved costly, a small fighter escort in close protection was employed. As bomber casualties continued to be very high, they started to use a very high umbrella fighter screen with a large proportion of fighters to bombers. Normally, bombers come over in a large Vee formation between 15,000 and 20,000 feet, with the escort at between 25,000 and 35,000 feet.

The manner in which escorts have been employed has shown an almost constant variation. The following shows roughly the sequence in which tactics have developed:

(1) High escorts, frequently in two layers about 5,000 and 1,000 feet, respectively, above bombers. The top layer was at first taken by He-110's, but this has been reversed and the He-109's are now always in the top layer. The change may have been due to the progressively increased heights at which these escorts flew.

(2) After the first few days of heavy attacks on England, escort was brought down to the level of bombers, flying first immediately above and astern of them, and then virtually surrounding them, with fighters above, below and to each flank. In some cases the high escort was continued, but it became less frequent probably because it was difficult to maintain contact with the bomber formation – and its place was taken by a "diversion escort." The He-109 has had difficulty in escorting the He-111, except on the shortest missions, on account of the relatively slow speed at which this bomber flies and the time involved in completing missions. At one time relief escorts were sent to take over escort duty on the return journey. This was not very successful, because either the relief never found the bombers, or it became involved in a fight and was not available to protect bombers.

(3) It is now known that many fighter pilots who stated they were on "free hunt" were in fact carrying out a from of escort duty. They were the "diversion escort," divided into the following classes:

(a) Vanguard – These airplanes crossed the coast 10 to 20 minutes before the main attack. There were generally two or more formations of 10 to 15 airplanes, whose object was to draw the enemy's fighters from the track which the bombers were to follow and to confuse the reporting system.

(b) Rear Guard – These airplanes, generally in
stronger formations than the vanguard, crossed the coast just before the bombers were due to return, with the object of covering the bombers' retreat and preventing their being chased out to sea by fighters. Formations were generally at 20,000 to 30,000 feet.

c. Bomber Tactics

Large bomber formations do not usually adopt evasive tactics, but rely for their protection against fighters on fighter escort and close formation flying for mutual fire support. Fine weather is essential for operating mass formations; cloud cover cannot be used.

When smaller bomber formations have been encountered by fighters, or when the large formations have been broken up, the bombers, either individually or in sections, have adopted one of the following evasive plans:

(1) They have sought the nearest cloud cover.

(2) They have descended to ground or sea level at high speed and made a full-throttle, low get-away, accompanied by "jinking."

(3) They have used diving brakes, when fitted, to execute steep dives combined with turns, thus causing attacking fighters to overshoot.

(4) They have simulated damage by emitting smoke from an apparatus fitted either in the tail or behind the engine nacelles.

d. Dive Bombing Attacks on Surface Vessels

Under ideal conditions, the German dive bomber pilot likes to start the attack at 12,000 feet, pulling out at 4,000 feet. The angle of dive is about 45 degrees at a speed of about 370 mph. Bombs are dropped with instantaneous fuse setting. The "Hevi" bomb sight, used during dive attacks, seemed to do away with the necessity for aiming off the target by so many degrees on the graticule. Under the newer system, it is possible to make adjustment to the screen to allow for the speed of the ship, etc. Thus the image of the ship can be held on the cross wires of the graticule during the attack.

Light antiaircraft fire from ships has been found extremely accurate when the plane is at a height lower than 4,000 feet. This is the main reason for not dropping bombs from a lower altitude.
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Cannon attacks are carried out from as low an altitude as possible and from the beam in the hope of getting hits near the water line. The procedure in attacks on shipping is standardized and adhered to fairly rigidly.

The Thames Estuary is considered a very suitable place for attacks on shipping because it is thought that ships have to keep to the open water line through the mine fields and thus cannot take avoiding action.

e. Antiaircraft Defense Against Night Bombers

(1) Heavy Flak Fire Against Unseen Targets

Sound location is still the main, if not the only, method employed. The accepted tactics for defeating sound plotting are still successful. Below 10,000 feet, however, desynchronization of engines does not always bring immunity.

Whenever possible, deep barrages are fired. This is particularly so when more than one airplane is over the target; in such a case, fire is concentrated over or around the perimeter of the target. Fixed barrages have also been encountered, and one of these has been regularly identified over the Western suburbs of Berlin. Barrages are often fired at below, and just above, the cloud base.

There have been many attempts to follow aircraft with controlled fire from several batteries.

Fighter aircraft have rarely attempted interception. It is strongly suspected that their main use is to signal height to the Flak.

(2) Heavy Flak Fire Against Illuminated Targets

Over well defended areas, it appears that concentrations of fire from several batteries centrally controlled are employed when aircraft are held by searchlights. This is the most harassing fire encountered from heavy Flak. Fire from independent batteries although consistently encountered, cannot be considered effective.

(3) Light Flak Fire Against Unseen Targets

Protective barrages are used apparently to prevent high-flying aircraft from descending to lower altitudes. These barrages have been particularly noticeable when searchlights were

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held stationary to form a cone above the target. The barrage is
directed in the apex of this cone.

(4) **Light Flak Fire Against Illuminated Targets**

At 1500 feet and below, blinding searchlights
and heavy concentrations of fire are almost inevitably encountered
over important targets. This form of fire, although often described
as barrage, is delivered from individual guns laid by the Flak
visier, a course and speed sight. The Light Flak Drill Book prescribes
that fire be held until aircraft are either directly over or just
beyond their objectives.

At altitudes from 1500 to 6000 feet, independent
direct fire is employed but with limited success, except as a deterrent
when aircraft are attempting a run-up to the objective. In such
cases, light Flak shells are fired ahead of the aircraft.

f. **Giders**

Details concerning gliders of the German Air Force
are reported as follows:

One glider has a wing span of about 55 feet, and
experts consider that it would carry fifteen men and have a range
of 28 miles gliding in still air from 10,000 feet. It is also
believed that the standard JU-52 airplane could tow three such
gliders at a speed of about 180 miles per hour for a distance of
350 miles. There appear to be no technical reasons why larger
gliders should not be built for the transport of field guns and
tanks.

3. **FRANCE**

**Air Strength of Forces on Western Front on May 10, 1940.**

The figures given below represent the air means
available to the opposing forces on the Western Front on May 10,
1940. They were obtained from an officer of the French General Staff.

**Pursuit**

<table>
<thead>
<tr>
<th></th>
<th>French</th>
<th>England</th>
<th>Total</th>
<th>German</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>420</td>
<td>150</td>
<td>570</td>
<td>1500</td>
</tr>
</tbody>
</table>

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Regraded Unclassified
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Day Bombardment

French... 31
English... 32
Obsolete
English... 128
Total... 191
German... 3600

The French officer who furnished this information admitted that the difference in the number of infantry divisions was not of great importance and had this been the only factor, the French and English would have withstood the German attack.

He is firmly convinced that the one reason for the defeat and complete collapse of the French Army is the overwhelming superiority that the Germans had in bombing planes.

Practically all preparations made by France for the 1939-1940 war were based on 1914-1918 principles of infantry supported by artillery, whereas Germany had a more modern conception of war and had prepared, trained, and tested a striking force of motorized and armored units closely supported by a strong air force.
Mr. Kamarck thinks this should go to
Dr. White or Mr. Coe as it is a study of
economic warfare.

Mr. White replied
this with permiss
16/41
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Paraphrase of Code Radiogram
Received at the War Department
at 11:43, April 29, 1941

London, filed 16:00, April 29, 1941.

The following facts, believed to be important and of interest to, and application for, the United States, are derived from study and observation of economic warfare made by Major Clabaugh and submitted for use of General Maxwell, and have been read by Ambassador Winant who ensures therewith. Further detailed information will be submitted in each pouch.

1. It is believed to be unfortunate that the existence of the Ministry of Economic Warfare had to await the declaration of war. British Navy and Army personnel have been killed with British munitions. The blockade of the source of supplies had to wait until France and the Netherlands were destroyed and even up to the present, obstacles which have existed have prevented the establishment of an integrated program with friendly neutrals, the Dominions and the United States. Breaches in the blockade which are preventable still remain.

2. The origin of the Ministry of Economic Warfare was the Foreign Office which retains approval of major questions of international policy only. Planning and administration of all details to injure the enemy's economy are the responsibility of the Minister of Economic Warfare. The fact of there being a sole agency to which economic warfare has been delegated has had the effect of securing the cooperation of neutrals, allies and Dominions, quite aside from

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the Ministry's efficiency in pressing the economic warfare against Germany. The veto power possessed by the Foreign Office over the Ministry can be challenged by the Minister's insistence on submitting any particular policy to the Cabinet. With the complete approval of the Foreign Office and subject to direction of major policies, it has dealt directly with neutral and allied governments in securing economic warfare trade agreements. It conducts direct communications with British representatives abroad relating to such agreements and in matters of economic intelligence. Important posts in the Ministry of Economic Warfare are filled by Foreign Office personnel.

3. It must be emphasized that there is an important fundamental distinction to be made if the procedure in organisation and administration of the Ministry is to be understood. The British recognise the difference between the various economic aspects of war on the one hand, and the field of economic warfare on the other. The Ministry is responsible primarily for the damage to and destruction of the enemy's economy. Its operations are offensive warfare and it does not concern itself except indirectly with questions of British internal economy such as finance, transportation or supply, or with the assistance of the United States through the Lend-Lease act. Once this distinction has been made, mutually beneficial cooperation exists with all other departments and ministries whose responsibilities in their own fields have been greatly expanded by the war effort. Economic warfare is held to

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be more warfare than economic and is sometimes system of in England as "The Fourth Service." Its operations are directly coordinated with the Admiralty's blockade and with the Air Force's bombing of industrial facilities.

4. The Cabinet and the other ministers have recognized the importance of having one temporary administration in charge of economic warfare in this specific sense. If certain items of supply are to be denied the Axis powers, it may be essential to limit its export at its source, to refuse British shipping facilities and ports for its use, to purchase all available supplies, or to destroy the enemy's means of production of the commodity or substitutes for it. Frequently it is necessary that a comprehensive plan, coordinated with that of friendly neutrals and the Dominions, be adopted to perform all these functions. The failure in any one may make the others substantially ineffective.

5. As revealed in earlier reports, the Ministry of Economic Warfare concerns itself in the first instance with the blockade, which is now contingent upon export control, prevention, control of enemy's transactions, control of fuel bunkers, supplies and repair in British-controlled harbors, the interception of shipments at sea, and the ship's warrant and navicert systems.

6. The plan for all the above methods of coordinated economic warfare was devised by the Ministry of Economic Warfare but, except for the navicert system, other ministries and agencies are responsible for the execution of these functions.
7. **Recommendation**

Implicit in the plan to aid Great Britain is the denial of aid and supplies to her enemies, and it is accordingly recommended that we add control of ships' privileges, control of dealing with enemies of Great Britain and preemptive buying to our control of exports. Since the United States and Canada are Great Britain's principal base of supply and since Latin America supplies many raw materials, it has been stated that the center of gravity of economic warfare moved to the Western Hemisphere when the Export Control Act was passed on July 2, 1940. It is anticipated that the British Dominions and their allies and certain neutral nations will cooperate in plugging preventable leaks in the instrumentation of British economic warfare if the United States will currently assume responsibility for recognizing economic warfare and propose a coordinated plan which will include export control, control of transactions with enemies of Great Britain, control of ships' bunkers, stores and repairs, and preemption.

LEE

**Distribution**
- Secretary of War
- State Department
- Secretary of Treasury
- Under Secretary of War
- Assistant Chief of Staff, 0-2
- War Plans Division
- Office of Naval Intelligence
- Administrator of Export Control

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**CONFIDENTIAL**
London, filed April 29, 1941.

1. Daily Cable.

   a. **British Air Activity over the Continent.**

   b. Daylight, April 26.

      Nieuwe Heggel (Holland), the airfield at De Kast (Holland) and shipping facilities at Den Helder were attacked by British heavy bombers as well as shipping off the coast of the Netherlands. One small ship was sunk and one damaged. The Coastal Command bombed an escorted convoy off the Netherlands coast. One enemy destroyer was sunk. Fighter squadrons performed missions over France and Holland.


      There were no Bombing Command operations on Britain. The Coastal Command attacked the two German battleships in Eeck harbor and conducted mining operations off the French coast.

   d. **German Air Activity over Britain.**


          Scattered minor raids took place over Suffolk and South Wales with Plymouth as the main target. No reports of damage have been received.

   e. Daylight, April 28.

      Strong coastal patrols were active and 70 planes performed bombing missions over Kent with some damage to civilian facilities.

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3. **Air Losses, British Theater.**

2. **Greece**

   (1) **Night of April 28-29.**
   
   Eight fighters brought down one German plane.

   (2) **Daylight, April 29.**
   
   In the course of fighter patrols over France and Holland one German plane was shot down and four damaged.

4. **British Air Activity, Middle East Theater.**

3. **Daylight, April 28.**

   From bases in Egypt British planes attacked enemy troops and transport in the Suez area.

5. **German Air Activity, Middle East Theater.**

2. **Greece. Night of April 28-29.**

   The only German activity reported was reconnaissance flights and attacks on shipping off the south and east coast.

6. **German Air Losses, Middle East Theater.**

1. **Libya. Daylight, April 29.**

   Fighters shot down one and damaged seven German troop-carrying planes loaded with troops in the vicinity of Saida.

0. **Greece. Daylight, April 29.**

   One enemy bomber was shot down.

II. **The following is a summary of British Military Intelligence information:**

1. Seventeen Yugoslav and Greek naval craft have put into Alexandria.

2. Reports received up to the night of April 28-29 state that 50,000 British troops have been evacuated from Greece.
3. **Italian East Africa.**

British continue to advance successfully.

4. **India.**

Axis troops continue to prepare a defensive position west of Tobruk. The British now occupy a line running approximately from Kheina to Bir Seifal. One enemy column was observed to the south and one to the southwest of Halfaya. An Axis defensive position is being constructed four miles west of Sollum.

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**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