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These are notes of a telephone conversation with the Secretary, who was in New York at the time, outlining what he wanted in his tax statement. The telephone conversation was Saturday morning, April 19. At the same time, I suggested to the Secretary that the opening of his statement should strike an optimistic note. I said it should not emphasize the staggering size of the new tax burden, but on the contrary should talk in terms of "we can take it in our stride". The Secretary agreed and this was incorporated in the first draft, together with three points mentioned by the Secretary.



April 19, 1941.

NOTES:

1. We have to have as new a conception of our non-defense spending as we did when defense spending began in a big way. Our conception of defense spending has kept up with the times. Our conception of non-defense spending has remained static. We must carefully re-examine this non-defense expenditure. Therefore I plead with the Congress that the whole conception be re-examined.
2. In this readjustment period, after all, we go on the assumption that businessmen are going to make a fair profit. But if the prices on raw materials go out of line, there won't be profits and there won't be taxes to collect on them in future years. Nobody can be greedy. You have to keep a certain alignment between costs, profits, etc. When the year is over, the businessman must have a reasonable profit to show.
3. I want to go after the war profiteers. There are still certain companies which make abnormal profits. We have got to hit the man who makes abnormal profits, and hit him hard.

April 29, 1962.

Mr. D. W. Hall  
Mr. Gurnea  
Mr. Mann

For your information there is now appearing at all First-Sun  
Bookstores here and all over the country a new record including the  
Secretary's talk and photo taken in Bureau of Printing and Engraving.  
It is excellent and I think you might like to see it.

Mr. Tolson  
Mr. DeLoach  
Mr. Mohr  
Mr. Bishop  
Mr. Casper  
Mr. Callahan  
Mr. Conrad  
Mr. Felt  
Mr. Gale  
Mr. Rosen  
Mr. Sullivan  
Mr. Tavel  
Mr. Trotter  
Tele. Room  
Miss Holmes  
Miss Gandy

April 19, 1941

Deputy Secretary Hall

Mr. Coadrum

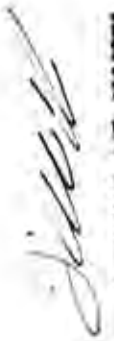
STRICTLY CONFIDENTIAL

At 10:45 this morning Mr. Kenneth Hamilton, Chief of the Far Eastern Division of the Department of State, telephoned me. He wanted to explain that a cablegram had come in from the American Ambassador at Chungking yesterday afternoon while Messrs. Jones and Lathbringer of the Department of State were meeting with us in the Treasury on the Gilman Stabilization agreement. A paragraph had now been made of this message, and Mr. Hamilton asked that I get a copy thereof to the attention of Mr. Hall.

Mr. Hamilton also said that he would make available to us a copy of the letter addressed to President Roosevelt by Chiang Kai-shek in regard to freeing. He said he did not have the file of this correspondence, but did have a copy of the letter. He said that there had been some discussion of this topic between Mr. Currie and Messrs. Jones and Lathbringer. It had been agreed in the Department of State that an acknowledgment should be sent to Chiang Kai-shek, but that real consideration of this freeing recommendation should be deferred until after our Stabilization agreement had been consummated. Hamilton did not even know whether the acknowledgment which he had drafted had actually been sent. He was not aware that there had been any recent talk in the Department of State of the freeing proposal.

Mr. Hamilton referred to the draft of a joint statement to be given out by the American authorities when the arrangement with Gilman actually is signed. He seemed pleased with the draft, except for a few matters of punctuation and title in the opening sentence. Jones was now working on suggested alternative thereto. Hamilton thought that the British parallel arrangement should be referred to in the statement. He did not think it proper, however, that a signing of the British and American agreements with Gilman take place simultaneously in our Treasury.

I arranged with Mr. Hamilton that he should give me a copy of the paraphrased cablegram mentioned above and also of the letter from the Generalissimo. I sent a special messenger to the Department of State and received these documents back at 11:30 this forenoon. Copies thereof are attached.





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Confidential

PARAPHRASE

A confidential telegram (no. 149) of April 17, 1941, from the American Ambassador at Chungking reads substantially as follows:

In response to an invitation the American Ambassador and the American naval Attache called on the evening of April 16 on General Chiang Kai-shek and had a long conversation with him during which he commented in regard to developments connected with American aid to China. General Chiang observed first that six weeks had elapsed since Mr. Currie's (visit?) without real results and that although the Chinese were thankful for the sympathy and the friendly attitude of the United States he had been considerably embarrassed by the inquiries which he received constantly from Chinese newspapers for detailed information in regard to the aid which China was to receive. General Chiang said also that he had received frequent inquiries from the Soviet Ambassador as to what materials were being supplied and that Russian advisers remarked sarcastically to Chinese officers that supplies would be available from the United States when the war was over. The Generalissimo added that he had hesitated to take up these matters with the American Ambassador except for the fact that considerable feeling had been

aroused

- 2 -

caused among intellectuals on account of the signing of the Russo-Japanese neutrality agreement and he expressed the hope that something specific might be done in order to show that America was giving concrete aid. General Chiang said that up to at least April 15 the Soviets were continuing to extend aid and apparently he did not expect this aid to stop although his remark clearly showed that he was giving close attention to that situation. General Chiang asked that the above comments be communicated to the President and to the Secretary of State.

In connection with an interview which General Chiang said that the Chinese Ambassador and Mr. Soong would soon be having with the President, the Generalissimo made two points as follows: (a) he expressed the hope that in connection with military supplies our Government would prepare a schedule of materials which the Chinese could count upon to be supplied over a period of time -- a schedule which would show what materials would be supplied first. It was his hope that among the first things to be supplied for instance would be airplanes; (b) General Chiang reminded the Ambassador in connection with the matter of economic assistance that in December 1940 the American Government announced that it was granting to China a \$50,000,000 loan to be used for stabilization of  
the

the currency. A good deal of negotiation had been going on during the course of which it appeared that the Treasury Department (while not?) making all of the \$20,000,000 available, offered an arrangement whereby \$20,000,000 would first be made available and then periodically sums of \$5,000,000 would be doled out. The Generalissimo said that he had instructed Mr. Soong not to agree to this plan because it showed lack of confidence in China. The Generalissimo pointed out that (he?) had accepted the American requirement that the money be deposited in American banks and that Mr. H. F. Chen be made chairman of the Currency Board. That the Generalissimo's pride had been hurt in this matter was apparent. He considered it very important at the present time just after the conclusion of the agreement between the Soviet Union and Japan that confidence in China should be shown and he reiterated again and again that all of the loan should be made available, thus indicating confidence in China and in the Chinese Government now when such confidence would be so helpful in the war of resistance carried on by the Government. General Chiang hoped that the American Ambassador would make these points clear and that our Government would keep the promise which it made in December 1949 and make available all of the \$20,000,000 stabilization fund.

Because



Because the Generalissimo's confidence of the reality of American assistance has been questioned apparently from Soviet sources as well as among the Chinese people, the Generalissimo's pride appears to have been hurt deeply. A deep feeling exists among Chinese that China has won a right to be treated on a basis of equality among nations who are fighting for their rights. The American Ambassador expresses the hope that the Generalissimo's confidence of the reality of American assistance can be met with confidence.

COPTing. 4.19.41

**HEADQUARTERS OF THE GENERALISSIMO**

Shanghai, China.  
February 27, 1941.

Dear President Roosevelt:

It would be of immense aid to China if the United States Government would apply promptly to the Far East measures of the type which it has already put into effect with respect to the balances and security holdings belonging to the nationals of European countries whose territories have fallen wholly or partly under occupation of aggressor powers. I earnestly appeal to you, Mr. President, to give this proposal your generous consideration. Developments in the Far Eastern situation or mere rumors may at any time induce a wave of fear, or open avenues for profitable speculation, producing a renewed outrush of "hot money". This movement, as you are well aware, greatly complicates our task of sustaining the external value of our currency and of maintaining the financial background for our national existence. Since the United States is the most attractive haven for nervous money, a "freezing" of private Chinese balances by your Government would effectively cut off this most important avenue of escape for volatile funds in China. If the frozen funds could be placed at the disposal and under control of the Chinese Government so that they could be used as security for loans, this would be a further step in strengthening China's finance and would be of benefit not only to our wartime economy, but also to the financial situation in general. Moreover, the dollar exchange steadily accruing through Chinese exports to the United States and through remittances of Chinese-Americans to their relatives here would be available to us for the purchase of urgently needed American goods instead of being absorbed, as has been the case at times in the past, by exchange speculators in Shanghai.

Parallel action by the British Government would, of course, be useful to complete this program and it is my intention to urge this upon them also. With the progressive tightening of British exchange regulations, Shanghai is now, I understand, the only important exchange market in the world in which sterling can be freely traded against foreign currencies generally. I

should

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should be inclined to accuse that the British Government would be eager to close this last, remaining loophole.

Although I recognize that Japanese balances in your country would be blocked only as part of a general change in the policy of the United States Government, under which your licensing system would be extended to include the aggressor powers as well as the victims of aggression, I cannot refrain from pointing out that such a change in policy would further assist China in her struggle for freedom. The Japanese invaders seize whatever they can of the wealth of the Chinese people; a part of this they sell in the United States to provide themselves with greatly needed dollars, thereby helping to sustain their economic potential for war. If you saw fit to extend your licensing system to cover Japanese funds, a device would be available for preventing this practice. Japan would receive spendable dollars only through the export to the United States of goods of truly Japanese origin, and one means now available to Japan of exploiting the wealth of China be closed.

Finally, let me urge that whatever measures are adopted along these lines be put into effect without previous warning. Rumors which have already circulated regarding possible "freezing" measures by the United States have induced some holders of American balances to transfer their accounts in domestic names in order to escape future restrictions. Revival and intensification of such rumors would serve only to increase this evasion.

Yours truly,

(Chiang Kai-shek)

Copy:bj:4-19-41



DEPARTMENT OF STATE  
PARAPHRASE OF TELEGRAM

FROM: AMERICAN EMBASSY, LONDON  
FOR: THE PRESIDENT AND THE SECRETARY OF THE  
TREASURY  
DATED: April 19, 1941  
NO. 1557

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The statements by the Director of the Budget at the Congressional hearings to the effect that none of the funds requested by the First Appropriation Bill under the Lend Lease Act would be employed for meeting the present commitments of Great Britain in the United States have greatly concerned the Treasury officials here. It would seem definitely advantageous, both to the British and to us, if, providing it is possible politically, we do not have to make such a rigid undertaking in connection with the Lend Lease Act appropriation legislation both in the present case and in the future. This would give us greater freedom in taking care of existing British commitments, with especial reference to those dealing with defense articles now being manufactured which have the nature of executory commitments.

It may prove that existing commitments will require more liberal treatment if we are to avoid complications

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in taking care of various Lend Lease Act commercial articles.

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TO THE SECRETARY  
TECHNICAL DIVISION  
WASHINGTON, D.C.

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TECHNICAL DIVISION

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LONDON

Dated April 19, 1941.

Rec'd 1:25 p.m.

Secretary of State,

Washington.

1552, Nineteenth.

FOR TREASURY.

1. This morning's press generally repeats the TIMES' warning (as reported in no. 1531 of April 18) that the Brown and Williamson loan deal may not form a precedent for all future direct investment realizations and attributes the method in this case to Reconstruction Finance Corporation's interest in the disposal of accumulated raw tobacco stocks, but the hope lingers that a similar method will be used at least where the companies' main object is to purchase goods in the United States. The FINANCIAL TIMES gives prominence to a report from New York that banking interests have proposed a non-profit corporation for deposit of 600 million dollars worth of British investments as security for loans.

WINANT

WFC

COPY:mg:4/21/41

APR 21 1941  
RECEIVED



## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE April 19, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

## STRICTLY CONFIDENTIAL

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

	No. of Shares Sold	\$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	\$ Proceeds of Bonds Sold
April 7	24,920	834,135	34,000	36,145
8	4,525	75,819	254,000	213,477
9	21,625	603,005	11,000	12,100
10	2,725	79,894	Nil	Nil
11	Nil	Nil	Nil	Nil
12	Nil	Nil	Nil	Nil
	53,795	1,592,853	299,000	261,722
Sales from 2/22/40 to 4/5/41	<u>7,518,145-1/2</u>	<u>232,102,107</u>	<u>26,775,250</u>	<u>26,010,602</u>
Total 2/22/40 to 4/12/41	7,561,940-1/2	233,694,960	27,074,250	26,272,324

Miss Poate reported sales of non-vested securities for the week ending March 29 of \$1,000,000.

*J.M.S.*

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE April 19, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£15,000
Purchased from commercial concerns	£10,000

In the open market, sterling opened and closed at 4.01-1/4. Transactions of the reporting banks were as follows:

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

The Canadian dollar eased to 11-13/16% discount at the close, as against 11-5/8% last night.

After opening at .2316-1/2, the Swiss franc advanced to .2318, and then returned to .2317 at the close, unchanged from yesterday. Although the market was reported to have been more active than in recent days, we understand that the New York bank which had received selling orders from Portugal and Shanghai was unable to dispose of more than 150,000 Swiss francs this morning. This bank, therefore, may still have as much as 450,000 francs yet to sell.

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

Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2355
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	4-1/8% discount

In Shanghai, the yuan in terms of our currency was quoted at 5-1/4¢, up 1/32¢. Sterling was 1¢ higher at 3.91-1/2.

There were no gold transactions consummated by us today.

No new gold engagements were reported.



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE April 19, 1941

TO Secretary Morgenthau  
 FROM Mr. Wiley

## ONI reports:

March 10 - Tokyo. The Japanese Naval Budget for the fiscal year 1941-42, as published, shows that the appropriation for personnel has increased by 20% (although the rate of pay has not been increased); ship construction has been increased 45% under the ordinary account and 18% under the extraordinary account (construction costs having increased only a little, these increases indicate that building programs are not being reduced); operating expenses of ships and stations have been increased 30%; research expenses have increased 500%. It is estimated that the Navy's portion of the entire budget will be over 2½ billion yen.

April 9 - Mexico City. Vincente Lombardo Toledano, former Secretary General of the Mexican Confederation of Labor ("CTM"), who has been in close touch with the CIO in this country, was said, by an undisclosed informant, to have attended CIO conferences in the United States in the Fall of 1940 and to have been in conspiratorial pro-Nazi and anti-United States communication with Arturo B. de la Garza, General Secretary of the State of Nuevo Leon, who is an open pro-Nazi.

## FBI reports:

March 19. Between December 1, 1940, and March 14, 1941, the German Gold-discountbank account at the Chase was credited with \$1,087,971.45, representing payments against Rueckwanderer mark purchases by about 850 persons throughout the United States. This is net after commissions of \$81,158.88 were deducted. Between September 1, 1936, and March 14, 1941, payments of \$7,130,018.91 were made on applications of \$9,217,624.65. An investigation is now in progress at the Bank of Manhattan where it is estimated approximately 5,000 applications have been made in the amount of \$4,500,000. This would make a total of over 11½ million dollars received by the German government for use within the United States against which Germans in the United States have been promised upon their permanent return to Germany marks at the rate of 4.10 per dollar.

March 26. An applicant for Rueckwanderer marks named Otto Bansemer, who purchased \$7,200 worth in 1939, visited Germany in 1939 for several months, and was discharged from a position in Pittsburgh because of his extremely pro-German attitude and arrogance, is now believed to be employed in the Brooklyn Navy Yard; Heinrich Claus, who purchased \$5,000 worth of Rueckwanderer marks in July 1940, has been employed since 1933 in the Brewster airplanes factory in Long Island City, is now foreman of the machine shop, and is known to hire only German mechanics; the personnel manager of the plant insists that Claus "does very satisfactory work and is trusted completely."

*That*



BRITISH EMBASSY,  
WASHINGTON, D. C.

April 19th, 1941.

PERSONAL  
AND SECRET

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Halifax*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

COPY OF TELEGRAM FROM LONDON DATED APRIL 17TH.

NAVAL.

1. During the night of April 16-17 South block of the Admiralty sustained a direct hit.

2. Night of April 15-16; four British destroyers off Kerkenah Island sank convoy of five Italian merchant vessels and three escorting destroyers LUCA TARIGA, and two Spica class. Merchant vessels were two of 5,000 ton each loaded mostly with transport, one 4,000 ton ammunition carrier and two of 3,000 ton each. We lost MOHAWK but Captain and seven officers and 160 ratings were saved. Owing to break of dawn and proximity of the enemy coast no survivors could be picked up.

3. Night of April 14 - April 15; six "Swordfish" attacked shipping in Valona. One 7,000 ton ammunition ship blew up and one 6,000 ton merchant vessel was hit.

4. On April 16th Blenheims attacked HELIGOLAND; in addition to hits on town and jetties, three small ships are believed hit.

5. military. Libya. At Tobruk - April 14th ten German officers and 283 ranks were captured and 20 enemy tanks destroyed.

6. Air reconnaissance reports German advance southwards Lake Kastoria and Argos Orestikon but on April 16th they were not in touch with our armoured troops north of Grevena.

7. Enemy have probably at least two armoured divisions in Greece.

8. Royal Air Force. April 16th. Attack on Heligoland and shipping off the Dutch and Danish Coasts; Hits claimed on 3 small ships. Six Blenheims escorted by 36 fighters successfully attacked Berk Aerodrome near

Le Touquet/

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Le Touquet. Three of our fighters shot down by enemy fighters. Focke-Wulf shot down by Beaufort fighter off North-west Ireland.

9. Night of April 16-17. 108 bombers sent to Bremen - 13 others sea-mining. One missing and two shot down by enemy fighters over this country.

10. Libya. Night of April 14-15. Heavy bombers attacked enemy aerodromes, destroying 2 aircraft destroying buildings and mechanical transport.

11. April 16th. Our medium bombers inflicted heavy casualties on enemy columns in Tobruk and Capuzzo areas; our fighters destroyed four transport aircraft.

12. Greece. Night of April 14-15. Our bombers destroyed the bridge over the Vardar at Veles and following night bombed enemy columns behind the line of operations.

13. German Air Force. April 16th. No activity of importance.

14. Night of April 16-17. About 450 enemy aircraft over London about 60 elsewhere. London attack long and heavy and chiefly on the centre and southern districts. Considerable damage to private property by blast and fire. Several streets obstructed by craters or debris. Damage to docks comparatively light and little damage to important factories reported. A 100 pump fire started in goods-yard and large fires caused in Oxford Street, a Royal Air Force supply depot and British Broadcasting Corporation. All under control by day break. Casualties thought heavy.

15. Greece. On April 14-15, heavy attacks on our aerodromes and on the Piraeus squadron of Blenheims

rendered/



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rendered temporarily unserviceable. Our fighters destroyed 6 enemy aircraft and probably destroyed 6 others.

RESTRICTED

G-2/2657-220; No. 370

M.I.D., W.D.

12:00 M., April 19, 1941.

SITUATION REPORTI. Western Theater of War.

Air: Minor offensive activity over England and the Continent. Each side claims successful attacks on shipping.

II. Greek Theater of War.

Ground: German troops, advancing from the north have occupied the region of Mt. Olympus and have advanced into Thessaly to capture Larissa.

It is believed that the British-Greek Army is retiring to the line: Lamia-Gulf of Arts.

The Italian Army continues its advance in Southern Albania and appears to have reached the southeastern frontier of that country.

Air: Strong German support of their ground operations, notably by dive bombing. Allied aerial offensive is noticeably weaker.

III. North African and Mediterranean Theaters.

Ground: No change in the situation.

Air: Axis. Recurrent bombing of Tobruk.

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22

Paraphrase of Code Radiogram  
Received at the War Department  
at 11:15, April 19, 1941

Sofia, filed April 18, 1941.

In reply to your telegram No. 9. The answer is yes. Besides using teams of airplanes and tanks in cooperation, the Germans have made use of infantry carried in busses, trucks and special personnel-transports. Also motorcycle companies. All these have been employed advantageously. Wedges have been driven through the passes by air-tank cooperation. These are then forced on into the towns, and the mobile forces speedily occupy the towns.

It is hard to get information here as there are unpopular restrictions and the Germans exercise control. However, specific examples of the methods described above are to be found in the splitting up of the Second Yugoslav Army near Nis (Nish) and in the advance on Uckub (Sheplje). There was less use of tanks in the attacks in Thrace and on the Monastir (Bitolj) Gap.

The smaller countries are unable to stop the German advance because they are inferior in tanks, in air, in antitank weapons and modern mechanization in general.

It can be said that all-round superiority in equipment and everything else explains the German success.

JADWIN

(G-3 Note: Telegram No. 9 inquired whether air-tank cooperation had been effective in the German advance through the Balkans.)

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Paraphrase of Code Radiogram  
Received at the War Department  
at 2112, April 19, 1941.

Singapore, filed April 18, 1941.

Detailed report on Burma defenses being mailed. Air bases  
named below under construction to be completed by first of June:

Tavoy, Mergui, Rangoon, Yomgoe, Noulsein, Lashio, and  
two near Kawaggyi. Each has housing and one month's fuel for two  
squadrons and 4000 feet allweather runways. Fields also at Akyab,  
Mago and Victoria Point. Akyab, Noulsein, Rangoon, Tavoy and  
Mergui have Seaplane anchorages. One under construction in Andaman  
Islands. Six months' reserve fuel for 15 squadrons each stored at  
Prone and Myingun. Believe all gas ninety octane.

**PERIPHERY**

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

Date APR 22 1941 (T.P.A.)

Initials

Paraphrase of Code Radiogram  
Received at the War Department  
at 9:10, April 19, 1941.

24

London, filed 12:30, April 19, 1941.

**Summary of British Military Intelligence to 11:00 April 19.**

1. **Albania.** The Greek army at present occupies positions generally from Matsovo - Permet - the sea west of Argyrocastro in the course of the withdrawal to the old Albanian-Greek frontier.

2. **Libya.** Axis reinforcements, both German and Italian, are in movement from Tripoli towards the Egyptian border, but no estimate of their numbers or character has been made.

3. **Greece.** German armored forces have advanced as far as the vale of Tempe and Klason. Beginning on April 17 the British evacuated their positions in the vicinity of Katerino and Servia. With their right flank retiring through the Ponnios defile after resisting greatly superior German armored forces as of 7 a.m. April 19 it is reported that the retirement is being somewhat hindered by road congestion and enemy attack from the air.

LEK

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Paraphrase of Code Radiogram  
Received at the War Department  
at , April 19, 1941

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25

By authority A. C. of S., G-2  
Date 4-21-41 (W.W.C.)  
Initials

Ankara, filed 13:46, April 19, 1941.

1. After an inspection of the Ghatalja Line, Cornwall told me that in dry weather the defenses are inadequate against (tanks?) There is an ACR (antitank resistance?) trap in process of construction, but it will not be ready for a month to come. According to the British view, two mechanized divisions can reach the Ghatalja line within 24 hours after passing the frontier.

2. The British keep suggesting to the Turks the desirability of cutting down the forces in Thrace in order to put up a defense on the Asiatic side of the Straits. As usual, however, taking advice doesn't suit the Turks. Suggest that you note my report dated November 9 and numbered 7,180.

KLUSS

(G-2 Note: Report 7,180 gives Turkish total forces as about 800,000 men in Army, Navy, Air Force, and Gendarmerie. Total divisions organized are there stated as 45, including 41 infantry, 3 cavalry, 1 motorized-mechanized. The Turkish concentration in Thrace is about 19 divisions.)

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**Paraphrase of Sole Radiogram  
Received at the War Department  
at 21:21, April 19, 1941.**

**Athens, filed April 19, 1941.**

Such data as can now be had suggest the Germans are superior in every sort of material - at least as far as quantity is concerned. The three primary elements in this superiority seem to be (1) the quantity and quality of aviation and armored forces; (2) the extreme mobility of the other troops; (3) the German ability to co-ordinate the whole and secure co-operation. Areas penetrated by the armored units could be quickly occupied because of the high mobility of the German forces. They secured facilities and centers of vital importance and cut communications and outflanked or surrounded their enemies. Their mobility also enabled them to halt enemy efforts to reorganize and to get overwhelmingly stronger forces up to vital positions on the front. When armored forces had been halted by the enemy at defiles, the way was opened by motorized forces which followed the armored troops closely. They were aided by concentrated attacks from the air. The Germans were extremely successful in securing co-operation of motorized and mechanized forces and the aviation in many situations of this kind, which are naturally frequent in mountainous terrain. The penetration of Yugoslav territory immediately to the east of Strumitsa and the German drive south into Greece just south of Florina provide examples of such action.

**RAHM**

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**Paraphrase of Code Radiogram  
Received at the War Department  
at 10:10, April 19, 1941.**

**Rece, filed 12:07, April 19, 1941.**

The statement is made by Italian sources believed to be trustworthy that the German command in Africa is getting ready for a direct push from the vicinity of the Oasis of Jerebub. This will move over the desert and hit somewhere south of Cairo. Recently there has been a large movement of German transport planes into Libya.

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

Date 30 April 41 CMH  
Initials

**Paragraph of Code Radiogram  
Received at the War Department  
at 04:01, April 30, 1941 (Retarded)**

Cairo, filed 14:11, April 30, 1941.

1. Axis sea traffic between Africa and Sicily is reported light.
2. Three battalions of the Italian Trento Division and three-fourths of the German 15th Armored Division landed in Tripoli in April.

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Receipts of Code Indicators  
Received at the War Department  
at Wash, April 29, 1941.

London, filed 1400, April 29, 1941.

1. German Air Attacks over the Continent

a. English, April 28.

Two freighters of 5,000 tons each were sunk, one of 7,000 tons was probably sunk, and a fourth of 6,000 tons was badly damaged in the course of landing operations on Axis sea borne traffic off the French and Lowland coasts. One mission was performed by fighter elements in occupied France.

b. French, April 28-29.

On account of adverse weather conditions all planes were grounded.

2. German Air Attacks over Britain.

a. English, April 28-29.

London was again subjected to a heavy attack in two successive waves the first lasted without interruption from nine until midnight and the second from one until four. The raid was slightly less severe than the night of April 24-27, but it was equally without discrimination. Minor destruction was again caused to several buildings in Grosvenor Square.

b. English, April 29.

German operations over Great Britain were restricted and resulted in no military damage. Defensive patrols took place in the Dover-Folke area and sea coasts were active along the east English coast.

3. Air Losses, British Theater.a. British, Middle East Theater.

No planes were reported lost in operations on April 20.

4. British Air Activity, Middle East Theater.a. Middle East, April 20.

In the Crete and Libya theaters British air forces continued to attack ground troops and motor transport.

5. German Air Activity, Middle East Theater.a. British, April 20.

A few civilian casualties and minor damage to military targets were reported in an attack on Malta by 20 German bombers.

6. Air Losses, Middle East Theater.a. British, April 20.

No reports of plane losses to either side are available.

b. Italy, April 20.

One German plane was shot down in attacks on Malta.

7. The following is British Military Intelligence information to 7:00 a.m., April 20.

a. The Germans are heavily bombing British columns withdrawing southeast to the Larissa sector and causing traffic congestion on the principal route of withdrawal.

b. The Greek army in western Macedonia is proceeding in the direction of Kosovo.

c. The Greek army in Albania has retired to positions Istovik-Salvino-the sea.

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4. The headquarters of Marshal List, commanding the German 12th Army has been transferred to Salsk.

END

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Paraphrase of Code Radiogram  
Received at the War Department  
at 14:49, April 30, 1941

London, filed 14:50, April 19, 1941.

1. British Air Activity over the Continent.

a. Day of April 18. Planes from the Bomber and Coastal Commands bombed enemy shipping along the Dutch-German coast. Three vessels were sunk, two damaged and two set afire.

b. Night of April 17-18. One hundred eighteen heavy bombers attacked industrial targets in Berlin; 42 bombed Rotterdam, Cologne and Mannheim; and several engaged in mining activities over the Frisian Isles and Brest.

2. German Air Activities over Britain.

a. Night of April 18-19. Off Flamborough Head, over the east coast of Scotland, and off the Pembrokeshire coast, several small bombing raids occurred.

b. Day of April 18. German activity consisted only of two small fighter sweeps over the Continent.

c. Night of April 17-18. Two hundred fifteen German planes were plotted over the British Isles, 145 of which attacked Portsmouth. At this city a number of bombs were dropped on the naval dockyards and two parachute mines fell on the British tender VERON (308 tons).

3. Aircraft Losses, British Theater.

Night of April 17-18. Four bombers were lost in the sea and seven others are missing in connection with the extensive raids

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over Germany and Occupied France.

4. British Air Activity. Libyan and Balkan Theaters.

Royal Air Force planes based in Egypt bombed troops and a transport at Derna, El Adem, and near Tobruk. It is claimed that considerable damage to the transport and airport at El Adem was inflicted.

Royal Air Force planes based in Greece engaged German planes which were attacking British troops around Katerini.

5. Axis Air Activities. Libyan Theater.

No damage was inflicted on Malta although it was subjected twice to air raids which involved a total of 15 planes. Twenty German planes attacked Tobruk. British fighters could not leave the airport because of a dust storm.

6. Naval Activities.

A number of German boats of the Mosquito fleet class attacked and sank two small British merchant ships, and damaged another in the vicinity of Southwold.

7. A number of Yugoslav airplanes have landed in Greece.

8. The corrected figures covering the air attack on London during the night of April 16-17 are as follows:

The attack involved 805 German planes; known civilian casualties to date are 663 killed and 2,000 injured; more than 2,000 fires were started.

LEB

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-3-

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Paraphrase of Code Cyhlogram  
Received at the War Department  
at 16:38, April 20, 1941

Sofia, filed April 19, 1941.

It is said in circles of a semi-official nature that a communique will be issued at six o'clock this afternoon. It will announce the intention to have Bulgarian army units take possession of certain areas in Thrace and in Macedonia. This will be for purposes of administration and police. The same source says that a meeting of Turkish leaders with Germans will soon take place. This will be for the purpose of signing a pact. Turkey under these terms will get a portion of Thrace in return for not joining the Greeks and Yugoslavs.

JADWIN

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

Date APR 22 1941 (BPH) Initials

Paraphrase of Code Radiogram  
Received at the War Department  
at 1:24, April 20, 1941.

Cairo, filed 11:28, April 18, 1941.

1. Greece. Greek retirement is confined to one route on account of the occupation of Florina by the Germans. British forces are conforming to this retirement on the right by a withdrawal through Kastoria and Servia with the New Zealand division passing through the defile of the Peneios.

2. A German vessel was authorized by the Turkish consul at Verna to proceed through Bosphorus on April 15. It was followed by a Turkish naval vessel.

3. Yugoslavia. The situation is quiet.

4. Italian East Africa. The British demands were claimed by the Duke of Aosta to be so severe that it was necessary for him to obtain the approval of the authorities at Rome. Accordingly minor fighting is continuing.

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HYDE PARK, NEW YORK

#1774-A

FOR THE PRESS

IMMEDIATE RELEASE APRIL 20 ,1941

Among other important matters, the President and the Prime Minister\* discussed measures by which the most prompt and effective utilization might be made of the productive facilities of North America for the purposes both of local and hemisphere defence and of the assistance which, in addition to their own programmes, both Canada and the United States are rendering to Great Britain and the other democracies.

It was agreed as a general principle that in mobilizing the resources of this continent, each country should provide the other with the defence articles which it is best able to produce, and, above all, produce quickly, and that production programmes should be coordinated to this end.

While Canada has expanded its productive capacity manifold since the beginning of the war, there are still numerous defence articles which it must obtain in the United States, and purchases of this character by Canada will be even greater in the coming year than in the past. On the other hand, there is existing and potential capacity in Canada for the speedy production of certain kinds of munitions, strategic materials, aluminum and ships, which are urgently required by the United States, for its own purposes.

While exact estimates cannot yet be made, it is hoped that during the next twelve months Canada can supply the United States with between \$200,000,000 and \$300,000,000 worth of such defence articles. This sum is a small fraction of the total defence programme of the United States, but many of the articles to be provided are of vital importance. In addition, it is of great importance to the economic and financial relations between the two countries that payment by the United States for these supplies will materially assist Canada in meeting part of the cost of Canadian defence purchases in the United States.

Insofar as Canada's defence purchases in the United States consist of component parts to be used in equipment and munitions which Canada is producing for Great Britain, it was also agreed that Great Britain will obtain these parts under the Lease-Lend Act and forward them to Canada for inclusion in the finished article.

The technical and financial details will be worked out as soon as possible in accordance with the general principles which have been agreed upon between the President and the Prime Minister.

\*Mackenzie King



*Discussed at  
meeting in  
State Dept  
4/22/41  
at 2:45 pm*

Washington, April 21st, 1941.

SECRET.

MEMORANDUM.

In connection with that part of the statement of policy formulated by the President and the Prime Minister on April 20th, 1941, which deals with the purchase of defence articles in Canada by the United States, there is attached a preliminary and tentative statement of Canadian capacity surplus to present orders. This first appraisal of possibilities was prepared for information in connection with the discussion of general policy by the two Governments and was not, of course, intended to be sufficient for the guidance of U. S. officials in determining what they may wish to buy in Canada as a result of the general policy which has been agreed upon.

It is assumed that representatives of the appropriate U. S. purchasing departments or agencies will wish to consider with appropriate officials of the Canadian Government and the British Supply Council, detailed information in regard to Canada's capacity for the production of ships, munitions, other ordnance stores, strategic materials, and other war supplies, and the orders (Canadian and British) already in process of execution in Canada. Such detailed examination should disclose the extent and precise nature of Canada's surplus capacity, and the best way in which it can be used with a view to the integration of the United States, Canadian and British programmes, so that the joint production may be obtained wherever it may be most readily, economically and quickly available.

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SECRET.

TENTATIVE ESTIMATES  
OF  
CANADA'S AVAILABLE SURPLUS CAPACITY  
FOR  
THE PRODUCTION OF MUNITIONS AND OTHER SUPPLIES.

APRIL 21st, 1941

Washington, April 21st, 1941.

## SUMMARY

of

## AVAILABLE SURPLUS CAPACITY BY MAIN CATEGORIES.

(Showing possible production values up  
to March 31, 1942, and up to June 30,  
1942, respectively.)

	Estimated Production Value up to	
	<u>March 31, 1942.</u>	<u>June 30, 1942.</u>
1. Naval and Merchant Vessels, Corvettes or Minesweepers, Merchant Ships, large - 9,300 tons small - 4,700 "	\$ 10,200,000. 47,700,000. 20,000,000.	\$ 23,200,000. 89,000,000. 25,000,000.
2. Guns and Ammunition	45,000,000.	75,000,000.
3. Armoured Fighting Vehicles, (Universal Carriers)	6,600,000.	14,000,000.
4. Explosives and Chemicals,	4,000,000.	5,600,000.
5. Secret Detection Devices,	9,600,000.	17,700,000.
6. Metals and Minerals,	66,700,000.	72,800,000.
7. Clothing and Textiles, Rubber and Leather Products, (including Web equipment)	65,000,000.	81,000,000.
8. Plywood and Veneers for Aircraft, Ships, etc.,	9,000,000.	12,000,000.
Estimated Total	<u>\$284,000,000.</u>	<u>\$415,000,000.</u>

Washington, April 21st, 1941.

NAVAL AND MERCHANT VESSELS.ESTIMATE OF SURPLUS CAPACITY AVAILABLE.NAVAL CORVETTES OR MINESWEEPERS:

In addition to orders now in hand, additional orders could be accepted for either or both of the above types of Naval vessel and the vessels completed in Great Lakes Shipyards as follows:

First Quarter 1942,	-	8	vessels
Second " 1942,	-	15	"
Third " 1942,	-	19	"
Fourth " 1942,	-	<u>18</u>	"
Total 1942,	-	<u>60</u>	vessels.

First Quarter 1943,	-	7	vessels
Second " 1943,	-	23	"
Third " 1943,	-	25	"
Fourth " 1943,	-	<u>21</u>	"
Total 1943,	-	<u>76</u>	vessels

Assuming orders for this surplus capacity were placed promptly, U. S. dollars would be made available to Canada as follows:

8 completed vessels at average cost of \$650,000.	-	\$ 5,200,000.
Progress payments up to March 31, 1942,		<u>5,000,000.</u>
Total to March 31, 1942		\$10,200,000.
Additional payments in 2nd Quarter 1942, say		<u>13,000,000.</u>
Total to June 30, 1942		\$23,200,000.

N.B. Small cargo vessels capable of going through the St. Lawrence Canals could be built on the Great Lakes, but probably only at the expense of a proportionate reduction in the number of Corvettes or Minesweepers shown above.

MERCHANT VESSELS:

In addition to orders now on hand, it would be possible for Canada to accept orders for cargo vessels of 9,300 tons, similar to type now being constructed in U.S. and Canada for the United Kingdom. It is now estimated that these could be completed as follows:

First Quarter 1942,	-	12	vessels
Second " 1942	-	22	"
Third " 1942	-	14	"
Fourth " 1942	-	<u>21</u>	"
Total completed in 1942,		<u>69</u>	"
First Quarter, 1943	-	17	"
Second " 1943,	-	17	"
Third " 1943,	-	14	"
Fourth " 1943,	-	<u>19</u>	"
Total completed in 1943,		<u>67</u>	"

Assuming orders for this surplus capacity were placed promptly, U.S. dollars would be made available to Canada as follows:

12 completed vessels at average cost of \$1,800,000.	-	\$21,600,000.
Progress payments on 22 vessels half completed,		19,800,000.
" " " 14 " quarter "		<u>6,300,000.</u>
Total dollars receipts up to March 31, 1942,		\$47,700,000.
Additional payments in second quarter of 1942, say		<u>41,300,000.</u>
Total dollar receipts up to June 30, 1942		\$89,000,000.

N.B. In addition it would be possible to build a number of smaller cargo vessels (with tonnage say 4,700 tons), probable dollars value of cut up to March 31, 1942 would be \$20,000,000. up to June 30, 1942 \$25,000,000.



Washington, April 21st, 1941.

AMMUNITION AND GUNS.AMMUNITION: (Complete rounds - Shells, Cartridge Cases and Fuses).

Canada has surplus capacity for the following U.K. types of ammunition which are required under the Lease-Lend application:

3.7" Anti Aircraft, High Explosive,  
4.5 B. L. " "  
5.5 Howitzer, " "

or in the alternative, the following U. S. types:

75 MM.  
105 MM.

A rough estimate of the production value of surplus capacity in Canada would be as follows:

Quarter ending Sept. 30th, 1941,	\$10,000,000.
" " Dec. 31st, 1941,	15,000,000.
" " March 31st, 1942,	<u>15,000,000.</u>
Total to March 31st, 1942,	\$40,000,000.
Quarter ending June 30th, 1942,	<u>27,000,000.</u>
Total to June 30th, 1942,	\$67,000,000.

SMALL ARMS:

BREN GUNS. Canada has one of the largest and most efficient Bren Gun plants in the world. Unless additional orders are received, this Bren Gun plant capacity will become free in the Spring of 1942; on this assumption there would be surplus capacity for 2,017 Bren Guns (including spares) in the second quarter of 1942; 10,500 in the third quarter of 1942, and quarterly thereafter. In addition there would be surplus capacity for Bren Barrel Assemblies to the extent of 2,000 in the fourth quarter of 1941, and 6,000 quarterly thereafter.

Alternatively, this capacity could be made available for the production of Boyes Anti-tank Rifles. With some extensions (involving the procurement of \$350,000. machine Tools from U.S.) a capacity of 5,000 rifles per month might be reached in the early summer of 1942, with approximately 30,000 rifles produced in that year.

Possible production value of this surplus capacity might be estimated at \$400,000. up to March 31, 1942 and at \$1,400,000. up to June 30, 1942.

GUNS:

40 MM. MORTAR GUN BARRELS - Canada has surplus capacity for production of these barrels and could produce 3,600 by March 31, 1942 and 4,800 by June 30, 1942. Total value of this output would be \$1,620,000. and \$2,160,000. respectively.

3.7" ANTI AIRCRAFT GUN BARRELS. Canada has surplus capacity for the production of 1,200 loose barrels by March 31, 1942, and 1,740 by June 30, 1942. Total value of this output would be \$3,000,000. and \$4,400,000. respectively.

ARMoured FIGHTING VEHICLES.TANKS AND UNIVERSAL CARRIERS:

With a capital expenditure of \$800,000., surplus capacity for Universal Carriers will become available as follows:

	<u>Units.</u>	<u>Value.</u>
Quarter ending, Dec. 1941.	400	\$1,647,000.
"    "    March, 1942	<u>1,200</u>	<u>4,941,000.</u>
Total to March, 1942	1,600	\$6,588,000.
Quarter ending June, 1942,	<u>1,800</u>	<u>7,412,000.</u>
Total to June, 1942.	3,400	\$14,000,000.

(Thereafter 1,800 Carriers per quarter)

Surplus Capacity in Tank production - Infantry (Valentine) and Cruiser - will develop in the 3rd and 4th quarters of 1942.

Washington, April 21st, 1941.

EXPLOSIVES AND CHEMICALS.SURPLUS CANADIAN CAPACITY AVAILABLE  
FOR EXPORT TO U.S. FROM MAY, 1941.

(Note: Conversions from physical quantities to dollars are based in some cases on estimated market values, in other cases on estimated manufacturing costs, exclusive of capital charges or amortisation, and are given simply as a rough calculation of total values, f.o.b. plant).

From May 1941 to end of  
March 1942. June, 1942.

(\$ 000 Canadian)

YELLOW PHOSPHOROUS:

May to August, 13,000 lbs monthly, from September up to 200,000 lbs. monthly, value 18¢ per lb.	261	369
---	-----	-----

RED PHOSPHOROUS:

16,500 lbs. Monthly, value 40¢ per lb. (Greater production possible if Yellow Phosphorous not required)	73	82
---	----	----

POTASSIUM PERCHLORATE  
AND AMMONIUM PERCHLORATE:

Together, 30,000 lbs. monthly from July, value 15¢ and 19¢ per lb. respectively,	46	61
--	----	----

GAS-MADE CARBON:

25,000 lbs. Monthly, value 75¢ per lb.	206	262
--	-----	-----

PHTRALIC ANHYDRIDE:

35,000 lbs. monthly from October, value 18¢ per lb.	38	57
---	----	----

AMMONIA:

(As Anhydrous Ammonia, Ammonium Sulphate, or Ammonium Nitrate as desired): August 1,000 tons, from September 1,200 tons monthly, average cost \$42.00 per ton	395	546
In addition, there will be further capacity of 4,500 tons per month from September (unless British Ammonia plants should be put out of action). Taking the same average cost the figures are,	1,323	1,890

DINITROTOLUOL:

(Currently being shipped to U.S.A. for British Rifle powder contracts) 175 tons monthly, cost 13¢ per lb.	500	637
---	-----	-----

TETRAL:

10 tons monthly from September, cost 50¢ per lb.	70	100
--	----	-----

NITROCELLULOSE RIFLE POWDER:

40 tons monthly from August, cost 35¢ per lb.	224	308
---	-----	-----

HEXACHLORETHANE:

83 tons monthly from August, Cost \$160. per ton	106	146
--	-----	-----

CARBIDE:

200 tons monthly from July, cost 2½¢ per lb.	90	120
--	----	-----

Forward,	3,332	4,578
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Washington, April 21st, 1941.

EXPLOSIVES AND CHEMICALS. - Page 2 -

	Forward	From May 1941 to end of	
		March 1942	June, 1942.
(\$ 000 Canadian)			
<u>PICRITE:</u>		3,332	4,578
320 tons monthly from October, cost 18¢ per lb.		691	1,037
Total of above,		4,023	5,615

Canada could also undertake some shell-filling for the United States.

Additional Capacity could be quickly and economically provided in the following fields:

1) CHLORINE:

Capacity for 600 tons monthly could be provided in 6 to 8 months by way of plant extension at a capital cost of \$500,000., and a new plant with capacity of 300 tons monthly could be completed in 8 months at a capital cost of \$800,000. At a value of \$35. per ton, there would be a combined annual output of \$378,000.

2) PHENOL:

Capacity for 100 tons monthly could be provided in 6 months at a capital cost of \$250,000. At a value of 12¢ per lb. annual output would be \$288,000.

3) CARBIDE:

Plant extension could provide additional capacity of 3,000 tons monthly in 6 to 8 months at a capital cost of \$500,000. At a manufacturing cost of 2½¢ per lb., annual output would be \$1,800,000.

4) Methanol:

A plant to produce 250 tons monthly would probably cost \$1,000,000., and could be completed in 9 to 12 months.

5) ACETONE:

A plant to produce 4,000 to 5,000 tons per annum would cost \$1,000,000.

6) ETHYLENE GLYCOL:

A plant to produce 7,000 tons per annum would cost about \$2,000,000.

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In addition to the foregoing, extensions to Canadian explosive, chemical, and shell-filling plants now in operation could be carried out as rapidly as equipment could be obtained. The operating experience is available to bring such extensions into production as quickly as they can be constructed.

Washington, April 21st, 1941.

SECRET DETECTION DEVICES.SURPLUS CAPACITY AVAILABLE FOR EXPORT.Possible Total to end of  
March, 1942      June, 1942.

A.S.V.C.

RECEIVERS:

4th Quarter, 1941 - 600 - \$1,500,000.

1st Quarter, 1942 - 600 - 1,500,000

Total	\$3,000,000.	\$ 4,500,000.
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These could be made available in succeeding Quarters at the rate of 600 per Quarter, or 2,400 per year, with annual value of \$12,000,000.

Unit Price is estimated at from \$2,000. to \$2,500.

G.L.C.

1st Quarter, 1942 - 120 available  
for export,

6,600,000.

13,200,000.

These could be made available thereafter at a rate of 120 per Quarter or 480 per year with an annual value of \$26,400,000.

Unit Price is estimated at from \$55,000. to \$60,000.

Combined Total	<u>\$9,600,000.</u>	<u>\$17,700,000.</u>
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Washington, April 21st, 1941

METALS AND MINERALS.ESTIMATE OF POSSIBLE ADDITIONAL EXPORTS TO U.S.A.  
(in Canadian Dollars)

	Up to the end of	
	March	June
	1942	1942

INUM:

At present, Canada has no surplus ingot capacity available for export to the United States. However, the Aluminum Company of Canada has submitted a proposal to O.P.M. for extension of its present ingot plant which would produce an additional 40,000 metric tons a year. It is understood that during the negotiations, O.P.M. officials stated that the additional capacity required would be from 100,000 to 150,000 tons. The Canadian Company could expand its capacity by an additional 100,000 tons and proposed that the U. S. Government should enter into a contract to take the Company's additional output for 3 years, making a down payment of 50% of the contract price for the 3 year period. It is understood that O.P.M. officials objected to a 3 year contract and suggested a contract only for the duration of the war. The Company, it is believed, is now willing to include a 6 months' cancellation clause in a 3 year contract.

If such a contract were entered into immediately, it is understood that Company could deliver 15,000 to 20,000 metric tons of ingots before April 1942; that it could begin producing at the rate of 50,000 tons by April, 1942. A 50% down payment on a 3 year contract involving 50,000 tons a year would make available to Canada during the fiscal year 1941-2, about

\$31,000,000.	\$31,000,000.
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A careful survey of Canada's fabricating capacity is now being made and it may be that some small capacity may be available for forgings and perhaps sheets.

MONEY:

Stocks on hand, March 1, 1941, available for export, 1,000,000 lbs. at say 14¢ per lb.

140,000.	140,000.
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Monthly surplus available after providing for domestic requirements, 140,000 lbs.

215,000.	274,000.
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WIC:

Stocks on hand, Jan. 31, 1941, 1,350,000 lbs. at 3½¢

47,000.	47,000.
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Monthly surplus available for export, 160,000 lbs.

62,000.	89,000.
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STATUS:

Annual tonnage of various grades available for export:

Crude - -	2,100 tons
Asbestos Mill Fibre - -	180,000 "
Shorts - -	175,000 "

A substantial part of this is now exported to the U.S. The above tonnages could be increased by about 20%, plus a further 24,000 tons of shorts.

Total at current prices, \$	3,856,000.	4,909,000.
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Washington, April 21st, 1941.

METALS AND MINERALS, - page 2 -

	March 1942.	Up to and of June, 1942.
<u>TH:</u> Stocks on hand Jan. 31, 1941, available for export 210,000 lbs at \$1.25 Residues on hand could produce a further 320,000 lbs. by August,	\$ 263,000. 400,000.	\$ 263,000. 400,000.
<u>TI:</u> 35,000 tons of metal contained in copper concentrates now being shipped to U.S. All Canadian refined copper in excess of domestic consumption goes to U.K. under contract	nil	nil
<u>TJ:</u> Stocks on hand as concentrates containing metal - 75,000 lbs at 87¢ Monthly production of same, 40,000 lbs available, During past few months and up to June, 1941 50 tons of refined metal per month from Deloro Smelting and Refining Co. is being diverted from U.K. contract to U.S. to meet shortage in U.S.	65,000. 383,000.	65,000. 487,000.
<u>ALLOYS:</u> Arrangements might be made to ship a limited quantity.	??	??
Stocks on hand March 31, 1941, available for export - 100,000 tons at \$130.	13,000,000.	13,000,000.
Monthly production above domestic require- ments is 15,000 tons, of which 9,500 tons is under contract to U.K. but not being taken in full; contract is likely to be reduced. An estimated 6,500 tons monthly can be shipped to U.S.	9,295,000.	11,830,000.
<u>SPITE:</u> Commencing October, there should be high grade Magnesia in the form of brucite granules available for export at the rate of 400 tons monthly, valued at \$50. per ton	120,000.	180,000.
<u>UNT:</u> Stocks on hand March 1, 1941, available for export - 240 flasks at \$180. per flask Monthly surplus 450 flasks A further addition to the plant is being made, increasing surplus by 350 - 450 flasks monthly from August; say 400 monthly	43,000. 891,000. 576,000.	43,000. 1,134,000. 792,000.
<u>UCA:</u> Estimated annual surplus is \$500,000. already being bought by U.S.A.	nil	nil

Washington, April 21st, 1941

METALS AND MINERALS. - Page 3 -Up to end of  
March, 1942.      June, 1942.

<u>NICKEL:</u>	Estimated total production of refined Nickel from all sources, exclusive of Monel Metal, is 124,000 tons, of which 70% now goes to the U.S., in addition to virtually all of the Monel Metal. In July a further 500 tons a month of refined nickel may be available for export. Total at 35¢ per lb.	\$ 3,150,000.	\$ 4,200,000.
	(A small additional quantity will also be made available through curtailment of civilian consumption in Canada, but as total consumption is only 3,000 tons a year the saving will not be important.)		
<u>ZINC:</u>	Present exports to U.S. are around 225,000 tons yearly, which could be increased almost indefinitely.		
	Increase for 11 months, say	500,000.	650,000.
<u>ALUMINUM:</u>	Stocks on hand March 31, 1941, available for export, 300,000 lbs. at \$1.75	523,000.	523,000.
	Monthly surplus 17,000 lbs.	327,000.	416,000.
<u>ANTHRACITE:</u>	Stocks on hand February 1, 1941, available for export, 93,000 lbs. @ \$1.75	163,000.	163,000.
	Monthly production of 10,000 lbs is possible if there is a market	193,000.	255,000.
<u>IRON:</u>	There are considerable quantities of copper, brass and tinplate scrap available for export, say,	300,000.	400,000.
<u>SULPHUR:</u>	Production of refined Sulphur is 100 tons per day. Surplus 25,000 tons per year, all going to U. S. now.	nil	nil
<u>COBALT:</u>	Surplus in calendar year 1941 is 145,000 tons, all under contract to U.K. Arrangements are being made, however, to ship from 500 to 1,000 tons monthly to U.S. for several months, and there may also be 750 tons monthly available as a result of curtailment of civilian consumption; say, 750 tons per month at \$150. per ton (Note: In 1940 Canada shipped to the U.K. 52,390 tons of Prime Western which was obtained by debasing high grade. This is uneconomic and should not be continued. This tonnage in the form of high grade could be shipped to U.S. if U.S. will ship equivalent amount of Prime Western to U.K. Negotiations to this end are under way.)	1,237,000.	1,575,000.
<u>MISCELLANEOUS:</u>	Exports of Gypsum, Barite, Feldspar, Talc and Nepheline, Syenite could be increased.	77	77
	<b>TOTAL OF THE ABOVE</b>	<b>\$66,749,000.</b>	<b>\$72,835,000.</b>

CLOTHING and TEXTILES, LEATHER and RUBBER PRODUCTSSurplus available capacity over and above present orders.

	Possible export values	
	up to March 31, 1942.	up to June 30th, 1942.
<u>Woollen Cloths and Clothing</u> (N.B. Wool raw material costs in Canada are substantially lower than in U. S.).		
<u>Woollen Cloth for uniforms</u> - 2,000,000 yards quarterly commencing fourth quarter 1941 (1,000,000 yards in second quarter and 1,500,000 in third quarter)		
<u>Woollen uniforms or greatcoats</u> - 500,000 quarterly, commencing in 3 months (100,000 in second quarter of 1941).		
<u>Woollen blankets</u> - 500,000 quarterly, commencing July 1, 1941 (100,000 in second quarter of 1941)	) \$16,575,000.	\$19,100,000.
<u>Woollen underwear</u> - 300,000 suits quarterly, commencing July 1, 1941, (100,000 in second quarter of 1941).	)	)
<u>Woollen socks</u> - 1,500,000 pairs quarterly, commencing July 1, 1941, (500,000 in second quarter of 1941).	)	)
<u>Woollen gloves</u> - 200,000 pairs quarterly, commencing July 1, 1941 (50,000 in second quarter in 1941).	) \$ 5,500,000.	\$ 7,000,000.
<u>Cloths for shell filling requirements</u> - (N.B. For several months our textile mills have experimented and are now producing satisfactory cloths for this purpose. They can handle substantial quantities).	\$ 4,860,000.	\$ 6,690,000.
<u>**Fuse cloth or box cloth 54" wide</u> - 25,000 yards in second quarter of 1941, 75,000 yards in third quarter and 100,000 yards quarterly thereafter		
** (For use in powder-filled time fuses and for washers in certain shell fillings).		
<u>Shalloon cloth (all worsted)</u> - For use in breach-loading cartridge bags and in igniters for these - 50,000 sq. yards in second quarter of 1941, 100,000 sq. yards in third quarter, 200,000 sq. yards in 4th quarter and 500,000 sq. yards quarterly thereafter.		
<u>Cloth, wool, thin, vulcanised</u> - 4½ ounces for use in exploder bags TFI or C.E. - 50,000 sq. yards in second quarter of 1941; 100,000 sq. yards in third quarter, 200,000 sq. yards in fourth quarter and 500,000 sq. yards quarterly thereafter.		



Possible export values  
up to up to  
March 31, 1942. June 30th, 1942.

Green Serge (all worsted) -  
for use as substitute for silk car-  
tridge bags -  
50,000 sq. yards in second quarter of 1941;  
100,000 sq. yards in third quarter and  
200,000 sq. yards quarterly thereafter

Cotton Ducks - \$ 6,740,000. \$ 8,580,000.

(N.B. Canada has substantial surplus in  
this line).

Numbered duck (Nos. 1 - 12), 22" to 120" wide  
for use in tarpaulins, transport covers  
etc. -  
3,000,000 lbs. quarterly commencing in  
one month.

Ounce duck - 6 to 15 ounce - 29" to 30" wide  
used for tents, awnings, stretcher covers,  
dunnage bags, knapsacks etc. -  
2,000,000 lbs. quarterly commencing in  
two months.

Mechanical hose and belting duck -  
300,000 lbs. quarterly, commencing at once.

Web Equipment - \$11,000,000. \$14,000,000.

Web equipment sets -  
(consisting of leggings, belt with cart-  
ridge carrier, pack, shoulder harness,  
pistol case, bayonet scabbard, compass  
carrier, waterbottle cover, spade cover,  
pickaxe holder and rifle slings).  
Canada has substantial equipment for making  
the components and sets economically -  
200,000 sets in second quarter of 1941,  
400,000 sets in third quarter; and quarterly  
thereafter, -  
450,000 sets or an equivalent number of  
separate pieces, or separate webbing by the yard.

Heavy webbing yarn, 5 ply, 10's natural -  
500,000 lbs. in second quarter and  
1,000,000 lbs. quarterly thereafter

Silk - \$ 550,000. \$ 700,000.

Silk, as used in canopies for parachutes, -  
1,000,000 yards in second quarter of 1941 and  
2,000,000 yards quarterly thereafter.

Silk cord for shroud lines in parachutes, -  
10,000 lbs. in second quarter of 1941 and  
35,000 lbs quarterly thereafter.

Leather Products - \$ 5,500,000. \$ 7,000,000.

Boots, army pattern, - 100,000 pairs in 2nd quarter  
of 1941 and 400,000 pairs quarterly thereafter

Cut Soles, - 200,000 in 2nd quarter of 1941, 600,000  
in 3rd quarter and 1,000,000 quarterly thereafter.

Washington, April 21st., 1941.

CLOTHING and TEXTILES, - LEATHER and RUBBER PRODUCTS.

	Possible export values
up to	up to
<u>March 31, 1942.</u>	<u>June 30th, 1942.</u>

Leather Products.

Upper leathers - No definite figures available but quantities are substantial.

Machette cases -  
80,000 in second quarter of 1941, and  
240,000 quarterly thereafter.

Scabbard cases -  
50,000 in second quarter of 1941 and  
120,000 quarterly thereafter.

Harness -  
30,000 sides in second quarter of 1941 &  
45,000 quarterly thereafter.

Anti - Gas Respirators

These are composed of 42 component parts and are assembled in two Government operated plants. By third quarter of 1941, a surplus of 100,000 complete sets per quarter could be made available.

\$ 457,000.	\$582,000.
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This production could be increased ten-fold if desired.

<u>Rubber Clothing and Footwear</u> -	\$13,750,000.	\$17,500,000.
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Rubber surface clothing -  
(suits, coats, caps, aprons, gloves,  
ground sheets, hats etc.)  
150,000 units in second quarter of 1941  
and 350,000 units quarterly thereafter.

Rubber waterproof cloth -  
200,000 yards in second quarter of 1941  
and 600,000 yards quarterly thereafter.

Rubber waterproof clothing -  
50,000 units in second quarter of 1941  
and 150,000 units quarterly thereafter.

Rubber footwear -  
plain rubbers - 250,000 pairs in second  
quarter and 1,000,000 quarterly thereafter.  
Overshoes - 200,000 pairs in second  
quarter of 1941 and 600,000 quarterly  
thereafter.  
Boots, gum, lumberman's 6 eyelet - 200,000  
pairs in second quarter of 1941 and  
350,000 pairs quarterly thereafter.  
Boots, knee, rubber, high -  
250,000 pairs in second quarter of 1941 and  
1,000,000 pairs quarterly thereafter.

GRAND TOTAL -	\$64,932,000.	\$81,152,000.
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Washington, April 21st, 1941.

LUMBER PRODUCTS.

PLYWOOD AND VENEERS:

Canada has substantial capacity for the production of Birch and Douglas Fir, Plywood and Veneers for use in aircraft, ships, etc. It would be possible to export these products to a total value of \$9,000,000. up to March 31, 1942, and \$12,000,000. up to June 30, 1942.

AEROPLANE SPRUCE:

It is understood that the U.S. has already contracted for Canada's total surplus capacity of aeroplane Spruce up to June 30, 1942.



# U. S. JOINS CANADA TO SPEED OUTPUT OF AID TO BRITAIN

President and Prime Minister  
Agree on Cooperative Steps  
at Hyde Park Parley

## A CONTINENTAL EFFORT

We in Turn Will Obtain Some  
Vital Materials—Financial  
Help on Dominion Buying

By FRANK L. KLUCKHOHN  
Special to The New York Times.

HYDE PARK, N. Y., April 20—An agreement between Canada and the United States for cooperation in the production of war materials for embattled Britain was announced tonight in a joint statement by President Roosevelt and Mackenzie King, Prime Minister of Canada.

The statement was made public after a conference between the two at Hyde Park house which lasted nearly seven hours.

Under the agreement Canada will obtain certain defense articles from the United States and will in turn produce certain kinds of "munitions, strategic materials, aluminum and ships" which it is stated are urgently required by the United States.

The statement declares that during the next twelve months Canada can supply the United States with \$200,000,000 to \$300,000,000 worth of such defense articles. The United States agrees to help Canada finance the purchase of the materials it wants from the United States. Technical and financial details will be worked out later.

This agreement is expected to make for speedier production of the things of war which Britain so urgently needs.

### JOINT STATEMENT

The joint statement read as follows.

Among other important matters, the President and the Prime Minister discussed measures by which the most prompt and effective utilization might be made of the productive facilities of North America for the purpose both of local and hemisphere defense and of the assistance which in addition to their own program both Canada and the United States are rendering to Great Britain and the other democracies.

It was agreed as a general principle that in mobilizing the resources of this continent each country should provide the other with the defense articles which it's best able to produce, and, where all, produce quickly, and that production programs should be coordinated to this end.

While Canada has expanded its productive capacity manifold since the beginning of the war, there are still numerous defense articles which it must obtain in the United States, and purchases of this character by Canada will be even greater in the coming year than in the past. On the other hand, there is existing and potential capacity in Canada for the speedy production of certain kinds of munitions, strategic materials, aluminum and ships, which are urgently required by the United States for its own purposes.

While exact estimates cannot yet be made, it is hoped that during the next twelve months Canada can supply the United States with between \$200,000,000 and \$300,000,000 worth of such defense articles. This is a small fraction of the total defense program of the United States, but many of the articles to be provided are of vital importance. In addition, it is of great importance to the economic and financial relations between the two countries that payment by the United States for these supplies will materially assist Canada in meeting part of the cost of Canadian defense purchases in the United States.

In so far as Canada, defense purchases in the United States consist of component parts to be used in equipment and munitions which Canada is producing for

Great Britain, it was also agreed that Great Britain will obtain these parts under the lease-lend act and forward them to Canada for inclusion in the finished articles.

The technical and financial details will be worked out as soon as possible in accordance with the general principles which have been agreed upon between the President and the Prime Minister.

It is obvious that the collaboration between the United States and Britain's largest dominion which was announced tonight is the most far-reaching of its kind ever made between the United States and another New World nation.

It will not only permit Canada to obtain the financing barred for a belligerent under the Neutrality Act, but it will provide for a practical merging, as far as the war effort is concerned, of economies of the two nations. Since Canada will technically be obtaining money, United States dollars, in payment for materials delivered no loan in violation of the Neutrality Act seems to be involved.

Dressed in grey suit and carrying a cane, Mr. Mackenzie King stepped from his private car at Poughkeepsie at 2:34 P. M. to be met by William D. Hassett, Presidential secretary. He was driven immediately to the Hyde Park estate, which he did not leave until shortly before his departure at 9 P. M. for Ottawa. The President himself is scheduled to be back at his desk in Washington tomorrow morning.

Mr. Mackenzie King graciously granted the requests of photographers upon his arrival at Poughkeepsie but he told reporters that "I will have nothing to say."

### Vacation Cut Short for Talks

By The Associated Press.

HYDE PARK, N. Y., April 20—Prime Minister Mackenzie King of Canada cut short a vacation on the Virginia seashore to come to Hyde Park for his conference today with President Roosevelt.

### Greenland a Concern of Canada

By The United Press.

HYDE PARK, April 20—Among hemispheric problems growing out of Canada's war effort which possibly came within the preview of the Mackenzie King-Roosevelt conference today was that of Greenland.

Under the virtual protectorate which the United States has asserted over the Danish possession, Canada, as any of the other New World nations, has full rights to utilize American bases on Greenland.

## AN UPSTATE STOP ON THE WAY TO CANADA



Prime Minister W. L. Mackenzie King (left) arriving at Poughkeepsie yesterday for a conference with President Roosevelt at Hyde Park. He is being greeted by William D. Hassett, White House assistant

The German war zone  
within three miles of  
London and around the  
area of intense strategic  
importance, the  
British army, after which Amer-  
ican forces will be sent to Brit-  
ain, has been ordered to  
be ready to move at any time.

The American Prime Minister  
has been in the city since Mr.  
Roosevelt and they struck out  
for the city in the same busi-  
ness. The American State  
Department is planning  
to send a party to the  
city of the American state and  
to meet with the British in the  
city of the American Library.  
The American Library is  
planning to play its private  
role in the national arena.

55

Washington, April 21st, 1941.

SECRET DETECTION DEVICES.

SURPLUS CAPACITY AVAILABLE FOR EXPORT.

Possible Total to end of  
March, 1942      June, 1942.

A.S.V.C.			
<u>RECEIVERS:</u>	4th Quarter, 1941 - 600 -	\$1,500,000.	
	1st Quarter, 1942 - 600 -	<u>1,500,000</u>	
	Total	\$3,000,000.	\$ 4,500,000.

These could be made available in succeeding Quarters at the rate of 600 per Quarter, or 2,400 per year, with annual value of \$12,000,000.

Unit Price is estimated at from \$2,000. to \$2,500.

G.L.C.	1st Quarter, 1942 - 120 available for export,	6,600,000.	13,200,000.
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These could be made available thereafter at a rate of 120 per Quarter or 480 per year with an annual value of \$26,400,000.

Unit Price is estimated at from \$55,000. to \$60,000.

Combined Total	<u>                    </u>	<u>                    </u>
	\$9,600,000.	\$17,700,000.

STRICTLY CONFIDENTIAL



Washington, April 21st, 1941

METALS AND MINERALS.ESTIMATE OF POSSIBLE ADDITIONAL EXPORTS TO U.S.A.  
(in Canadian Dollars)

	Up to the end of
March	June
1942	1942

ALUMINA

At present, Canada has no surplus ingot capacity available for export to the United States. However, the Aluminum Company of Canada has submitted proposal to O.P.M. for extension of its present ingot plant which would produce an additional 40,000 metric tons a year. It is understood that during the negotiations, O.P.M. officials stated that the additional capacity required would be from 100,000 to 150,000 tons. The Canadian Company could expand its capacity by an additional 100,000 tons and proposed that the U. S. Government should enter into a contract to take the Company's additional output for 3 years, making a down payment of 50% of the contract price for the 3 year period. It is understood that O.P.M. officials objected to a 3 year contract and suggested a contract only for the duration of the war. The Company, it is believed, is now willing to include a 6 months' cancellation clause in a 3 year contract.

If such a contract were entered into immediately, it is understood that Company could deliver 15,000 to 20,000 metric tons of ingots before April 1942; that it could begin producing at the rate of 50,000 tons by April, 1942. A 50% down payment on a 3 year contract involving 50,000 tons a year would make available to Canada during the fiscal year 1941-2, about

\$31,000,000.	\$31,000,000.
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A careful survey of Canada's fabricating capacity is now being made and it may be that some small capacity may be available for forgings and perhaps sheets.

LEAD

Stocks on hand, March 1, 1941, available for export, 1,000,000 lbs. at say 14¢ per lb.

140,000.	140,000.
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Monthly surplus available after providing for domestic requirements, 140,000 lbs.

215,000.	274,000.
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ZINC

Stocks on hand, Jan. 31, 1941, 1,350,000 lbs. at 3½¢

47,000.	47,000.
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Monthly surplus available for export, 160,000 lbs.

62,000.	89,000.
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ASBESTOS

Annual tonnage of various grades available for exports

Crude - -	2,100 tons
Asbestos Mill Fibre - -	180,000 "
Shorts - -	175,000 "

A substantial part of this is now exported to the U.S. The above tonnages could be increased by about 20%, plus a further 2,000 tons of shorts.

Total at current prices, \$	3,856,000.	4,909,000.
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Washington, April 21st, 1941.

METALS AND MINERALS. - page 2 -

	Up to end of	
	March 1942.	June, 1942.
<u>COPPER</u> Stocks on hand Jan. 31, 1941, available for export 210,000 lbs at \$1.25 Reserves on hand could produce a further 300,000 lbs. by August.	\$ 263,000.	\$ 263,000.
	400,000.	400,000.
<u>COBALT</u> 35,000 tons of metal contained in copper concentrates now being shipped to U.S. All remaining refined copper in excess of domestic consumption goes to U.K. under contract	nil	nil
<u>CHALCOPITE</u> Stocks on hand as concentrates containing metal - 75,000 lbs at 87¢ Monthly production of same, 40,000 lbs available, During next few months and up to June, 1941 30 tons of refined metal per month from Deloro Smelting and Refining Co. is being diverted from U.K. contract to U.S. to meet shortage in U.S.	65,000.	65,000.
	383,000.	487,000.
<u>CO ALLOYS</u> Arrangements might be made to ship a limited quantity.	??	??
<u>COAL</u> Stocks on hand March 31, 1941, available for export - 100,000 tons at \$130.  Monthly surplus in excess of domestic requirements is 15,000 tons, of which 9,500 tons is under contract to U.K. but not being taken in fully contract is 15,000 tons to be reduced. An estimated 6,500 tons monthly can be shipped to U.S.	13,000,000.	13,000,000.
	9,295,000.	11,830,000.
<u>CRUCIFER</u> Commencing October, there should be high grade Magnesia in the form of brucite granules available for export at the rate of 400 tons monthly, valued at \$50. per ton	120,000.	180,000.
<u>FLUORINE</u> Stocks on hand March 1, 1941, available for export - 240 flasks at \$175. per flask  Monthly surplus 450 flasks  A further addition to the plant is being made, increasing surplus by 350 - 450 flasks monthly from August; say 400 monthly	43,000.	43,000.
	801,000.	1,134,000.
	576,000.	792,000.
<u>MICA</u> Estimated annual surplus is \$500,000. already being bought by U.S.A.	nil	nil

Washington, April 21st, 1941

METALS AND MINERALS. - Page 3 -Up to end of  
March, 1942.      June, 1942.

<u>NIKL</u>	Estimated total production of refined Nickel from all sources, exclusive of Monel Metal, is 124,000 tons, of which 70% now goes to the U.S., in addition to virtually all of the Monel Metal. In July a further 500 tons a month of refined nickel may be available for port. Total at 35¢ per lb.	\$ 3,150,000.	\$ 4,200,000.
	(A small additional quantity will also be made available through curtailment of civilian consumption in Canada, but as total consumption is only 3,000 tons a year the saving will not be important.)		
<u>NETS</u>	Present exports to U.S. are around 275,000 tons yearly, which could be increased almost indefinitely.		
	Increase for 11 months, say	500,000.	650,000.
<u>NIUM</u>	Stocks on hand March 31, 1941, available for export, 300,000 lbs. at \$1.75	523,000.	523,000.
	Monthly surplus 17,000 lbs.	327,000.	416,000.
<u>NIURUM</u>	Stocks on hand February 1, 1941, available for export, 93,000 lbs. @ \$1.75	163,000.	163,000.
	Monthly production of 10,000 lbs is possible if there is a market	193,000.	255,000.
<u>RAP</u>	There are considerable quantities of copper, brass and tinplate scrap available for export, say,	300,000.	400,000.
<u>LPUR</u>	Production of refined Sulphur is 100 tons per day. Surplus 25,000 tons per year, all going to U. S. now.	nil	nil
<u>NC</u>	Surplus in calendar year 1941 is 145,000 tons, all under contract to U.K. Arrangements are being made, however, to ship from 500 to 1,000 tons monthly to U.S. for several months, and there may also be 750 tons monthly available as a result of curtailment of civilian consumption; say, 750 tons per month at \$150. per ton (Notes In \$40 Canada shipped to the U.K. 52,390 tons of Prime Western which was obtained by debasing high grade. This is uneconomic and should not be continued. This tonnage in the form of high grade could be shipped to U.S. if U.S. will ship equivalent amount of Prime Western to U.K. Negotiations to this end are under way.)	1,237,000.	1,575,000.
<u>MISCELLANEOUS</u>	Exports of Gypsum, Barite, Feldspar, Talc and Nepheline, Syenite could be increased.	??	??
	<b>TOTAL OF THE ABOVE</b>	<b>\$66,749,000.</b>	<b>\$72,835,000.</b>



CLOTHING and TEXTILES, LEATHER and RUBBER PRODUCTSSurplus available capacity over and above present orders.

	Possible export values up to <u>March 31, 1942.</u>	up to <u>June 30th, 1942.</u>
<u>Woollen Cloths and Clothing</u> (N.B. Wool raw material costs in Canada are substantially lower than in U. S.).		
<u>Woollen Cloth for uniforms -</u> 2,000,000 yards quarterly commencing fourth quarter 1941 (1,000,000 yards in second quarter and 1,500,000 in third quarter)		
<u>Woollen uniforms or greatcoats -</u> 500,000 quarterly, commencing in 3 months (100,000 in second quarter of 1941).		
<u>Woollen blankets -</u> 500,000 quarterly, commencing July 1, 1941 (100,000 in second quarter of 1941)	\$ 16,575,000.	\$ 19,100,000.
<u>Woollen underwear -</u> 300,000 suits quarterly, commencing July 1, 1941, (100,000 in second quarter of 1941).		
<u>Woollen socks -</u> 1,500,000 pairs quarterly, commencing July 1, 1941, (500,000 in second quarter of 1941).		
<u>Woollen gloves -</u> 200,000 pairs quarterly, commencing July 1, 1941 (50,000 in second quarter in 1941).	\$ 5,500,000.	\$ 7,000,000.
<u>Cloths for shell filling requirements -</u> (N.B. For several months our textile mills have experimented and are now producing satisfactory cloths for this purpose. They can handle substantial quantities).	\$ 4,860,000.	\$ 6,690,000.
<u>**Fuse cloth or box cloth 54" wide -</u> 25,000 yards in second quarter of 1941, 75,000 yards in third quarter and 100,000 yards quarterly thereafter		
** (For use in powder-filled time fuses and for washers in certain shell fillings).		
<u>Shalloon cloth (all worsted) -</u> For use in breech-loading cartridge bags and in igniters for these - 50,000 sq. yards in second quarter of 1941, 100,000 sq. yards in third quarter, 200,000 sq. yards in 4th quarter and 500,000 sq. yards quarterly thereafter.		
<u>Cloth, wool, thin, vulcanized - 4 1/2 ounces for use in exploder bags TNT or C.E. -</u> 50,000 sq. yards in second quarter of 1941; 100,000 sq. yards in third quarter, 200,000 sq. yards in fourth quarter and 500,000 sq. yards quarterly thereafter.		

Possible import values  
up to up to  
March 31, 1942. June 30th, 1942.

Cream Serge (all worsted) -  
for use as substitute for silk car-  
tridge bags -  
50,000 sq. yards in second quarter of 1941;  
100,000 sq. yards in third quarter and  
200,000 sq. yards quarterly thereafter

Cotton Ducks - \$ 6,740,000. \$ 8,580,000.  
(N.B. Canada has substantial surplus in  
this line).

Numbered duck (Nos. 1 - 12), 22" to 120" wide  
for use in tarpaulines, transport covers  
etc. -  
3,000,000 lbs. quarterly commencing in  
one month.

Ounce duck - 6 to 15 ounce - 29" to 30" wide  
used for tents, awnings, stretcher covers,  
dunnage bags, knapacks etc. -  
2,000,000 lbs. quarterly commencing in  
two months.

Mechanical hose and belting duck -  
300,000 lbs. quarterly, commencing at once.

Web Equipment - \$11,000,000. \$14,000,000.

Web equipment sets -  
(consisting of leggings, belt with cart-  
ridge carrier, pack, shoulder harness,  
pistol case, bayonet scabbard, compass  
carrier, waterbottle cover, spade cover,  
pickaxe holder and rifle slings).  
Canada has substantial equipment for making  
the components and sets economically -  
200,000 sets in second quarter of 1941,  
400,000 sets in third quarter; and quarterly  
thereafter,-  
450,000 sets or an equivalent number of  
separate pieces, or separate webbing by the yard.

Heavy webbing yarn, 5 ply, 10's natural -  
500,000 lbs. in second quarter and  
1,000,000 lbs. quarterly thereafter

Silk - \$ 550,000. \$ 700,000.

Silk, as used in canopies for parachutes,-  
1,000,000 yards in second quarter of 1941 and  
2,000,000 yards quarterly thereafter.

Silk cord for shroud lines in parachutes, -  
10,000 lbs. in second quarter of 1941 and  
35,000 lbs quarterly thereafter.

Leather Products - \$ 5,500,000. \$ 7,000,000.

Boots, army pattern, - 100,000 pairs in 2nd quarter  
of 1941 and 400,000 pairs quarterly thereafter

Cut Soles, - 200,000 in 2nd quarter of 1941, 600,000  
in 3rd quarter and 1,000,000 quarterly thereafter.

CLOTHING and TEXTILES. - LEATHER and RUBBER PRODUCTS.

Possible export values  
up to March 31, 1942. up to June 30th, 1942.

Leather Products.

Upper leathers - No definite figures available but quantities are substantial.

Machette cases -  
80,000 in second quarter of 1941, and 240,000 quarterly thereafter.

Scabbard cases -  
50,000 in second quarter of 1941 and 120,000 quarterly thereafter.

Harness -  
30,000 sides in second quarter of 1941 & 45,000 quarterly thereafter.

Anti - Gas Respirators

These are composed of 42 component parts and are assembled in two Government operated plants. By third quarter of 1941, a surplus of 100,000 complete sets per quarter could be made available. \$ 457,000.      \$582,000.

This production could be increased ten-fold if desired.

Rubber Clothing and Footwear -

\$13,750,000.      \$17,500,000.

Rubber surface clothing -  
(suits, coats, capes, aprons, gloves, ground sheets, hats etc.)  
150,000 units in second quarter of 1941 and 350,000 units quarterly thereafter.

Rubber waterproof cloth -  
200,000 yards in second quarter of 1941 and 600,000 yards quarterly thereafter.

Rubber waterproof clothing -  
50,000 units in second quarter of 1941 and 150,000 units quarterly thereafter.

Rubber footwear -  
plain rubbers - 250,000 pairs in second quarter and 1,000,000 quarterly thereafter.  
Overshoes - 200,000 pairs in second quarter of 1941 and 600,000 quarterly thereafter.  
Boots, gum, lumberman's 6 eyelet - 200,000 pairs in second quarter of 1941 and 350,000 pairs quarterly thereafter.  
Boots, knee, rubber, high - 250,000 pairs in second quarter of 1941 and 1,000,000 pairs quarterly thereafter.

GRAND TOTAL - \$64,932,000.      \$81,152,000.



Washington, April 21st, 1941.

LUMBER PRODUCTS.

PLYWOOD AND VENEERS:

Canada has substantial capacity for the production of Birch and Douglas Fir, Plywood and Veneers for use in aircraft, ships, etc. It would be possible to export these products to a total value of \$9,000,000. up to March 31, 1942, and \$12,000,000. up to June 30, 1942.

AEROPLANE SPRUCE:

It is understood that the U.S. has already contracted for Canada's total surplus capacity of aeroplane spruce up to June 30, 1942.

STRICTLY CONFIDENTIAL

April 21, 1941  
10:00 a.m.

GROUP MEETING

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

H.M.Jr: Good morning, everybody. Didn't you get my message that you shouldn't come in today?

Bell: No. I am supposed to be at a Red Cross meeting. Why aren't you at it?

H.M.Jr: When?

Bell: Now. You're on the committee.

H.M.Jr: I didn't know it. It was news to me. Do you want to go?

Bell: No, it is a little late.

H.M.Jr: In the room here, the President called me last night at nine thirty, and he said that Prime Minister MacKenzie King was

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sitting next to him, and that he prepared a statement and that the President wanted to know whether I thought he should give it out last night or tomorrow morning, and what did I think of it, and he put the Prime Minister on to read it to me, which he proceeded to do.

Of course, there was a lot in there about Lend-Lease which I didn't know whether it was all right or not, so I said, as long as he was mentioning ships, he might as well mention aluminum; so he added aluminum.

I did some fast thinking. I figured that having had one previous experience with MacKenzie King and knowing outwardly how modest he is, but how he likes his publicity, so I said, "I think you had better give it out tonight."

He said, "Do you really think so? That is wonderful."

So then he went along with the explanation of how he intended to come down to see me, and he and I were going over to see the President but he felt he might be criticized if he was down on Virginia Beach with things going so badly in Yugoslavia, so he thought he had better go back to Canada; but as near as I could make out - Hopkins said he had never seen the statement until this morning in the paper, and I know that the State Department didn't see it.

So there it is, but I just wanted to let my own crowd know that as far as I am concerned, when I saw it and so forth and so on.



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- Foley: It is a good statement.
- H.M.Jr: It is a good statement, but this Lend-Lease business, I mean just how they are going to do it, you see - you see, what they have been wanting to do is, that the things which England buys here or the things that Canada buys here that go to England, they want to put them on Lend-Lease, but they want England to sign the contract and they don't.
- Whether they got that out, I don't know. So I suppose that Clark will be coming down here now any time.
- Cochran: I am not sure he left, Mr. Secretary.
- H.M.Jr: Well, MacKenzie King said that he and Clark worked the statement out, I gathered, Saturday in New York. It is a good statement.
- Foley: It is a good statement. I thought there would be some kind of an agreement to draft to put it into effect.
- H.M.Jr: Well, we will sit tight and see what happens.
- White: Phillips gave us his statement so that whenever you are ready, you can clean up the situation on both of them. It wouldn't take long; the picture is very clear and rather simple.
- H.M.Jr: Well, after this meeting, those that are interested in this Henderson Committee, I would like you to stay behind and we will get O'Connell and we will launch that and then I would like to go in on my tax statement, so that will take pretty much the rest of the morning. That is about all I can do.

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Bell: Have you heard when you will appear before the committee?

H.M.Jr: Sullivan was just in here and he said Thursday would be the earliest, but he doubted if it would be until a week from today; but I think he is making a mistake, because each day there will be more and more leaks, but we will see.

That is all I did over the week-end, other than.....

I spent three hours in the New York harbor Saturday, and had a perfectly grand time. I went down to the Italian ships and saw them. The President says he has allotted five hundred thousand dollars to fix them and was very much surprised that nobody had started to do anything about it.

Gaston: Has allotted to --

H.M.Jr: To somebody, he didn't know who. I went down and saw the Danish ships. They looked very good. The President was under the impression they were all diesels, and I told him he had been misinformed, and you (Foley) might check up on that legislation to see what has happened to it, because he doesn't know a thing about that.

Then I went over to the Brooklyn Navy Yard. I would bet anyone ten to one that I could take a row boat on any foggy night and put a bomb in it and row into the Brooklyn Navy Yard and tie it to the tail of the North Carolina and get out of there. From the shore side it is next to impossible to get in, but from the water side - one guard with no gun. We just steamed in there, and nobody seemed very much excited.

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Gaston: You went in on a Coast Guard cutter?

H.M.Jr: Yes, but I mean anybody - there is no protection, no electric eye or anything. Anybody could go in there.

Gaston: Was Baylis with you?

H.M.Jr: Baylis.

Gaston: You talked to him about that, did you?

H.M.Jr: He drew it to my attention. I told the President, and he was very much shocked. I went on board the four Coast Guard cutters.

Gaston: In the Yard there?

H.M.Jr: Luckily, I could remember what each gun was to tell the President on the train last night. I also told him that they are all ready and waiting there for the English to take them over, notwithstanding that the head of the English Navy told the press yesterday that they are all out chasing submarines. They certainly look wonderful.

Gaston: They did?

H.M.Jr: Oh yes. They just bristled with guns. In this morning's paper, these Coast Guard cutters are all hunting submarines in English waters. They are sitting there waiting for the English crews.

Gaston: You know, they are to take two weeks in Long Island Sound maneuvering after they deliver them, for the education of the British crews on that machinery.

H.M.Jr: I went down, right down to the keel of



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the Malaya and saw them repairing her. I had a good time Saturday afternoon.

Incidentally, that torpedo never penetrated into the engine room. It never got through the last steel sheet. It just got through the blister and blew that open, but it never got inside the engine room.

Gaston: Not into any of the compartments of the vessel?

H.M.Jr: No. The only thing that really cheered me up, these four boats that they transferred, these four very fast new ships that they transferred Thursday, I saw two of them. They were practically loaded. They had five barges alongside. They had been painted gray since Thursday.

They were still flying the American flag. And on board were planes and, which I didn't know that they transferred, these P-T boats, these very fast --

Schwarz: Mosquito boats?

H.M.Jr: Navy patrol boats. They call them P-T boats. There were two of them on deck. They are still flying the American flag and they were painting out the American name and putting on an English name; and I said, "When do they transfer them?" And he said, "On Sunday," but they do it in the middle of the Hudson River. They take them out in the middle of the Hudson River and haul down the American flag and haul up the English flag in order to avoid the New York City sales tax. Otherwise, they would have to pay a City sales tax. But

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that was fast work. It only broke Thursday, you know. They are practically loaded. But if anybody took a picture of these things loaded with English planes and these P-1 boats, still flying the American flag, it wouldn't look so good.

It was a good afternoon. Baylis is very entertaining. He took good care of me.

- Foley: He didn't say anything about "Pal Joey," did he?
- H.M.Jr: Were you there?
- Foley: No, Kate was there. She sat in the same row.
- H.M.Jr: Next to us?
- Foley: Yes.
- H.M.Jr: You know how I got to "Pal Joey"?
- Foley: No.
- H.M.Jr: We had tickets to Gertrude Lawrence.
- Foley: So did she. That was how she was there, too. They canceled the performance so they went to "Pal Joey."
- H.M.Jr: I was disappointed because they said it was so vulgar and I thought it was a nice, clean show. (Laughter)

Mrs. Morgenthau said she would go and she would stay one act and she wouldn't stay any longer, because when Bob went he said you shouldn't take any young girl

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there because it was so vulgar, but we kept saying, "Well, when does it begin?"

- Klotz: They cleaned it up before you came.
- H.M.Jr: Herbert, my friend out at the ranch, Jenkins, has written me again about Captain Edwards who was retired. He is head of the Customs Service there. He is a pretty good man, from all accounts. I think he has done a good job, particularly on narcotics. You might look into it. On the question of extending him a year.
- Gaston: Yes, I will look into it.
- H.M.Jr: And let me know.
- Gaston: Yes.
- H.M.Jr: From all accounts, he runs that part of the Border very well. After we hear, we will let Jenkins know.
- Thompson: The first meeting of Mr. Henderson's committee is tomorrow at eleven.
- H.M.Jr: Right. I thought if you and Bell and White and Haas and Foley will stay afterward, we will talk about it a little bit.
- Thompson: Jere Cooper, on that promotion to eighteen hundred --
- H.M.Jr: Just a second. Has somebody got that thing from Henderson about wanting forty thousand income tax returns?
- Foley: That has been turned over to John.
- H.M.Jr: I think I turned it over to O'Connell.



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Klotz: That is right.

H.M.Jr: Let's bring it up. I think he is crazy. I would be crazier to give it to him.

Thompson: Jere Cooper wrote and asked if you would promote a girl in Foreign Funds to eighteen hundred. She has only been with us since January and has hardly earned a promotion, but I thought you might want to help her out. She is a regular stenographer.

H.M.Jr: What does she get?

Thompson: Sixteen twenty.

H.M.Jr: Why not give her a sixty dollar raise. Is she a good stenographer?

Thompson: She is just average. Sixteen twenty is the entrance rate at the next rating for stenographers.

H.M.Jr: I will tell you what we will do. I would write a letter and simply say, "My dear Mr. Cooper - Dear Jere, I am glad you brought this matter to my attention. She has only been here since January. If you will bring it to me again the latter part of June, at which time she will have been with us for six months, we will see how she does. Before she gets a raise she should be with us for six months."

Klotz: For your signature?

H.M.Jr: Sure. Maybe we will get something good on the tax bill.

Thompson: I still have some --

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H.M.Jr: You write that for your signature.

Thompson: All right.

H.M.Jr: Simply say, "We would like to wait to see how she does for six months." Are you still waiting?

Thompson: Yes.

H.M.Jr: All right.

Mr. Bell?

Bell: We send out every six months, as you know, the notices to these foreign governments of the amounts due under their debt agreements. In view of the world situation, we would like to abandon that at this time, and the State Department would like very much to have you eliminate those notices.

We have always done it to more or less maintain our legal position, but I guess there is not much legal position to maintain.

H.M.Jr: I would like Mr. Hull to write me a letter about that.

Bell: You would?

H.M.Jr: I wouldn't do it unless he writes me a letter.

Bell: Mr. Delano wants to go to the Bankers' Convention at Hot Springs the twenty-seventh to thirtieth. Do you think the holding bill would interfere?

H.M.Jr: If it does, we can fly him back.

Bell: It is all right for him to go?

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- H.M.Jr: Yes, sir.
- Bell: As you know, we are getting quite a lot of pressure from the Chinese to make this fifty million dollar fund available.
- H.M.Jr: Your chum, buddy, one Lauch Currie, called me up Saturday, and the Generalissimo was very much worried, very much excited, because we weren't treating China as well as England and he wanted me to do it as of Saturday. For some reason or other, he thought that you were with me, but I said whatever it was, I said we made the loan under that kind of pressure because the Chinese were going to quit fighting so we made the loan under that pressure. Whatever it was, it could wait until Monday.
- Bell: Well, we now have a cable from the Ambassador --
- H.M.Jr: And I want to say now, and I am going to say this the first time I see the Ambassador, if the Chinese didn't hire so many special people around here, they would get a great deal better service from me. All it does to me is slow me down. I don't know who is on their payroll and who is on the payroll of the United States Government, and therefore I am going very cautiously.
- When I see the Chinese Ambassador, I am going to tell him because they have got all these special representatives and the result is that it has just slowed me down. I expect to tell that to the Ambassador the first time I see him.
- Bell: It ought to be good news to him.
- H.M.Jr: I am going to tell him. I don't know who is on the U. S. payroll and who is on the Chinese payroll and who is working for what.



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- Bell: Well, the General did see the Ambassador, and the Ambassador said it was very urgent.
- H.M.Jr: Which Ambassador?
- Bell: Ours. And the General also sent a letter to the President on the 27th of February. I don't know whether we are just getting this or not.
- Cochran: I will give you (Secretary) a copy.
- Bell: Urgent to give aid immediately.
- H.M.Jr: Well, I told you what I agreed to, Dan. I haven't changed since you saw me last, that inasmuch as they were going to put up 20, we would advance them 20. That was your proposal.
- Bell: Yes, and that is in the agreement. We would advance them 20 in April and five million a month with authority from you to advance them any more, but they are very much hurt about the whole five million dollars.
- H.M.Jr: They can go jump in the Yangtze River as far as I am concerned. This man has been trading and trading now for over three months. I am not going to budge. I mean, it is a lousy loan anyway, and they can take it or leave it.
- Bell: Mr. Edward has accepted--
- H.M.Jr: Wait a minute. And as far as I am concerned, I am ready to sign today. I mean, all of this trading business, the thing could have been signed two months ago.
- Bell: Well, we are ready to sign.

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- H.M.Jr: Tell them so and tell them to quit trading.
- Bell: But according to this memorandum, the General has given Soong directions not to accept this loan.
- H.M.Jr: All right, then tell them the loan is off.
- White: I am just troubled by one thing, Mr. Secretary.
- H.M.Jr: Then tell them the loan is off. I don't know who Soong represents anyway. I am doing business with the - with Dr. Hu Shi.
- White: Mr. Secretary, I am troubled about one possibility. I sympathize with your position, but there is just one disturbing factor. It is my understanding that there is a possibility, an increasing possibility, that some peace arrangements may be made. This loan in no sense will be decisive. That is, if they are going to make it, they are going to make it any how. The only thought in my mind is that should they happen to make it any time within the next month or contemplate making it, they may use this as a partial excuse and even though it isn't a real excuse--
- H.M.Jr: All right, you have done your Boy Scout deed, Harry, and on the same thing we have been giving Japan enough oil for the last two years to have a reserve of two years to fight us.
- White: Yes, that is very true.
- H.M.Jr: And is a darn sight worse as far as the United States Government is concerned. Week after

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week we continue to send these people 87 octane gas.

White: I agree with you a hundred percent.

H.M.Jr: And you can throw that back into the teeth of Mr. Hull and his cohorts. I am not going to budge, Harry.

White: No, I merely want to point this part out, that there is that possibility.

H.M.Jr: Listen, that has been told to me again and again and again. The night that Canton fell we made the first loan, and from that day to this I have been begging the President and Mr. Hull to stop selling 87 octane gas, which affects the American people a great deal more than this does. It would be a much more fine gesture. Who is contacting the State Department on this?

Bell: I am.

H.M.Jr: Well, you call up Hamilton and tell him that if he wants to do something, and I would like this to be done this morning, to stiffen the back of General Chiang Kai-shek, tell him to lower, today, from 87 octane to what common gasoline is, which I understand is 65, and that Mr. Welles told me a month or two ago he couldn't understand why it hadn't been done. From 87 to 65, which is ordinary. Why doesn't Mr. Hamilton do that if he wants to cheer up General Chiang Kai-shek?

Bell: He probably doesn't have much to do with that.

H.M.Jr: I beg your pardon, he does. Everybody says so.



They say that Hornbeck wants to do it, Welles wants to do it, and the fellow that doesn't want to do it is Hamilton. I am told that again and again. And you can say that Henry Morgenthau, Jr., wants to know why week after week they are sending 87 octane gas when Mr. Welles told me over a month ago that he couldn't understand it, and you can tell them that I think it is outrageous, and if they want to do something to cheer up the American people, let them stop sending all this gasoline over there.

- White: Would you consider asking them about this 50 million so that if they - let them take the responsibility for it?
- H.M.Jr: No, Harry, the President of the United States--
- Bell: The State Department?
- White: Yes. There is just a possibility--
- H.M.Jr: All right, Harry, we will take it.
- White: O.K.
- Bell: The British want to sign--
- H.M.Jr: But please tell them that I will sign today, and if they don't want to sign today, the whole thing is off. I would like to tell that to Hu Shi myself. I would like to tell it to Hu Shi.
- Bell: The British would like to sign at the same time - Phillips is going to sign the British agreement on this end. Somebody raised the question as to whether we shouldn't have the British in to sign here in the office at the same time. We don't think much of that.

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They had better sign separately.

H.M.Jr: I would get this word to Hu Shi, you see.

Bell: The only other thing I have, Edward has accepted an invitation to speak Wednesday night at a bankers' club in Pittsburgh, and he now finds he has an invitation down home to go to the Azalea Festival, and he is going to make a speech there, isn't he?

Graves: No, that isn't right. The State Committee for South Carolina is holding its first meeting on this Defense Savings Bond thing on Friday, and we all think that Edward could do a great deal more good by going down to South Carolina and assisting in that than he would speaking at this bankers' thing.

Bell: Can't he get to the Friday's meeting by going up there Wednesday night?

Graves: No.

Bell: Now they want me to go to Pittsburgh and take his place, and I don't know. If you are going to go on the Hill Thursday, I certainly don't want to come back here Thursday morning on a sleeper to get my material all ready.

H.M.Jr: Well, let me put it this way, Dan. Unless this is something you want to do very much, I don't want you to use up the little reserve that you have got.

Bell: No, I don't want to do it.

H.M.Jr: Then don't.

Bell: I was just trying to be accommodating.

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H.M.Jr: Unless it is something you want to do--

Bell: I do not want to do it particularly. We can send somebody else.

H.M.Jr: Yes.

Bell: That is all I have.

H.M.Jr: Harold?

Graves: Nothing.

H.M.Jr: Harry?

White: Nothing.

Schwarz: Do you want to see a few clippings on taxes before the press conference?

H.M.Jr: Thank you.

Schwarz: That is all.

H.M.Jr: George?

Haas: (Handing reports to Secretary) I looked up that production of a hundred a month. Ayres' figures show the first three months of this year, 51. Three in January, thirty-two in February, and sixteen in March, but I will double check that again.

H.M.Jr: And don't you--

Haas: But that is the only figure that you can check.

H.M.Jr: Then why not call up Mr. Biggers' office and say that he made the statement and that you are calling for me and would like to know



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where he got it from?

Haas: All right, I will do that.

H.M.Jr: And tell him that I would like to know where he got it from.

Haas: He s\_\_\_\_\_ it out. There is no question they are light tanks.

H.M.Jr: Will you call up Biggers' office and say that we have the figures that are quite different, where did he get his figures from? I would like to know, and I would like to know today.

Haas: All right, I will do that.

H.M.Jr: George, so there is no misunderstanding between you and Bell and you and me, and you two people aren't doing the same thing, do you want to tell Bell what I asked you to do over Saturday and Sunday so that Bell will know?

Haas: Yes. You asked that I take the first hundred days of this year on non-defense expenditures and compare a similar hundred days for each of the past five years to see whether the non-defense expenditures have gone up or down. The Secretary said he was very much interested in looking over these non-defense expenditures with the idea of cutting down everything possible except those items which you are making provision for the needy. I started this morning trying to assemble some figures along that line.

The second thing he asked, if I would--

H.M.Jr: On that, if you (Bell) want to talk with him afterward - I mean, if you (Haas) need any help from Bell--

- 19 -

Haas: I certainly need some help in the accounting department and Dan too. He has been working with the Budget on it.

The second thing the Secretary asked me to do was see if there was any correlation between the Agricultural expenditures and farm income and also consider this whole ramification with the national income. I think those were the two things that you asked for.

Bell: Do you remember the President asked Wickard if he would give him a statement as to how much wages had gone up in the past year and how much agricultural prices had also gone up. You might want to do something on that.

H.M.Jr: Now, what I want, and I would like to have it tomorrow, but I haven't got time to do it myself, it is between you and George, I would like to have, using a breakdown - I mean really a breakdown on CCC and NYA and WPA and all the public works thing. I mean, I just, for instance, don't know if I could get - let's take NYA. I don't know how old the men are. In other words, are they taking men over 21? CCC - in other words - let me just go back a minute and get the picture. I want to make a statement something like this with my tax statement, that this whole Government spending program today is just as different from what it was a year ago on the defense side as day and night. We were readjusting everything. But no re-examination of the non-defense expenditures has been made, and if a million and a quarter is on the books for Agriculture, they just take it for granted they have got to spend at least that much and maybe four or five hundred million more. But they don't question, "Well, can we get

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along without part of it?"

Now, I am rusty. I don't know, for instance - when I raised the question with the President, the Army and Navy should do their own hiring of people and not do it under the guise of WPA, he agreed to it. In other words, WPA should be shrunk down to taking care of the needy CCC, I am told, hires boys from 18 to 21, but I believe they hire a lot of people over 21. If they do, they can stop that because the man over 21, many of them are getting training in the Army. I got a long memorandum here from NYA, and I don't know how much NYA is duplicating the work that Studebaker is doing, and all the other training programs.

In other words, if we could get from each one of these organizations a thumbnail sketch to try to justify themselves either through the Budget or something so that I could take it and read it. Do you see what I mean? I mean, I would like to say to each one of these non-defense organizations, through the Budget or direct, whichever you think, "I want you to justify yourselves in view of the fact that we are spending a billion a month," or whatever it is, "that we haven't spent before." "How can you justify your existence under the present situation." Then if they say, "Well, we are doing this and this for the Army and Navy," I want to say, "Well, the Army and Navy should pay for it themselves." In other words, I don't want them to justify themselves on the basis they are doing National Defense. What can they justify themselves outside of National Defense?

Bell: Well, it is all tied in with National Defense, though.



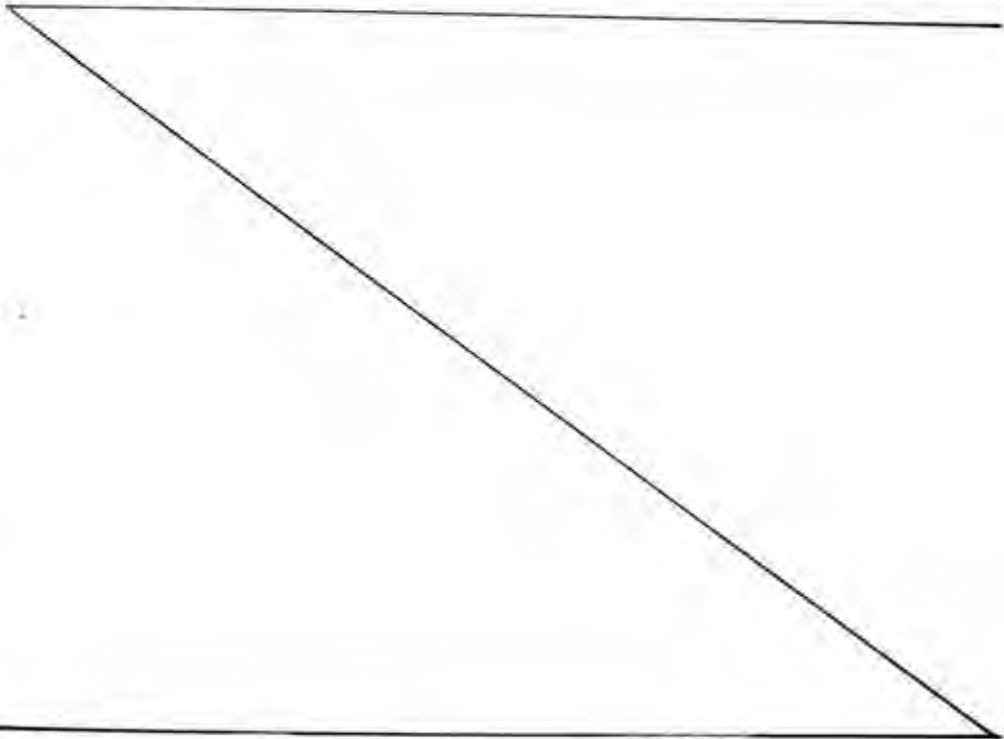
- 21 -

H.M.Jr: Well, let the Army and Navy do their own hiring and firing and let these people - I mean, everyone of them has got an overhead. Everyone of them has got an organization. And they go on - there isn't one of these organizations that has shrunk their overhead.

Bell: You see what happened, the Bureau of Education has the Vocational Training and that was expanded to take in National Defense.

H.M.Jr: But Dan, can you get - do you see what I want?

Bell: Yes.



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H.M. Jr:

I want to have one of these people - they will say they are doing it - I want to know what are they doing other than national defense. Let's charge up - I mean, if half of the WPA men - it isn't quite that high - are working for the Army and Navy, then let the Army and Navy pay for it out of their own appropriations, but let's shrink these things down to taking care of needy or special cases. Then we will know what that problem costs. Otherwise, we will never find out. We will never know. Now, at the White House I have heard again and again that the CCC, the whole morale is shot. I am just quoting what the President and Mrs. Roosevelt have said. I don't know. I haven't been out. Because they are down now and not even the top sergeants are running it. They have taken all the officers away, and the morale is just shot. Now, on the NYA, again quoting the people at the White House, they go out and solicit people to come into NYA. They can't get enough to keep up the work. I am entitled to know. I have got to raise the money. I want to know. I have got to go out and say, "This is the best investment in the world." I want to be sold on the work that we are doing before I can sell it to somebody else. Do you think between you and George I can get this?

Bell:

I think so. We can get something.

E.M. Jr:

Fairly soon?

Bell:

Yes. We can get an outline of it.

H.M. Jr:

But you see, Dan, when they say, "We are doing this for national defense," that isn't what I want. I would like to know how much. What I want to know is, what can all of these organizations do to justify their existence outside of national defense.

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Bell: It is pretty hard to beat. The Budget has been trying to centralize these training programs in the organization that has had a training program previously, and that has been in the NYA from the students' standpoint and in the Bureau of Education from the regular vocational.

H.M.Jr: I am so licked on this thing. I asked you for this over a month ago, and the Budget didn't give it to me. So I have invited an outside organization to come down here tomorrow to give it to me, the National Economy League, to send their economists down. If I am asked why, I am going to say, "The Bureau of the Budget wouldn't give me the information which I have been asking for for over a month."

Bell: Their excuse was they had to pull all their people off on the Lease-Lend.

H.M.Jr: And what have they done to help us on this Agricultural bill?

Bell: Not very much, I have to admit.

H.M.Jr: I have got to go to the enemy. I asked Walter Stewart to check this, whoever the man is, and if he would be loyal to me and play fair, to have him here tomorrow morning. Walter Stewart said he would find out, and I said, "I want you to guarantee that he will be fair," and I am ready to say publicly that the Bureau of the Budget, I just can't get anything out of them, and you can tell that to Harold Smith, too. If you think I am going to sit here and let Harold Smith give me a sit-down strike - and I have been begging for this information. And when you give it to the President, he grabs it. He is tickled to death to get it. He is tickled to death. Harold Smith is so busy building up his own personal machine that he hasn't got time to do what he is hired for. He is all the time trying to grab new power.



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I can't get this allotment for Philip Young because he, Harold Smith, and Harry Hopkins are in a fight. He is constantly trying to build up his own personal machine. When this fellow comes down here, Dan, you and George and I will get together with him.

Bell : All right.

H.M.Jr: I don't know who he is. He may not come, but Walter Stewart said he would check him and he would guarantee that he would be fair and loyal.

Haas: Chick was able to get that release.

H.M.Jr: Do the same thing on Robert Lovett's speech.

Haas: That is not Biggers' speech. That is that National Economy League thing you were looking for Friday.

H.M.Jr: Oh.

Cochran: You saw there was another big vesting of British securities over the weekend?

H.M.Jr: No.

Cochran: A hundred and twenty-five shares and thirty-four bonds. We had another message from London on this Lend-Lease arrangement. It refers to the testimony of the Director of the Budget. Shall I send this to you?

H.M.Jr: No, I thought we had done that once.

Cochran: Well, there was an old one on this, and he repeats a little bit.

H.M.Jr: Well, I had better take it.

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Cochran: I have two or three memos from Heath.

H.M.Jr: Now, while we are on that, Ed, I think that you had better read the letter the President wrote me on the quid pro quo (March 13, 1941), because the President might say to me, "Why haven't you done something?" My impression is, and I am not sure, that the thing is resting with the State Department. The President said to clear it over there with Acheson. Then I think you told me nothing happened and Acheson couldn't get Hull to say yes or no. So that the suggestion I have in mind, so that I am in the clear with the President, is that I write a formal letter to Mr. Hull and say that - give him the history and say we have been waiting to hear from him, if that is correct, and that I feel that this has been going on now for a month or whatever it is and send him a copy of the President's letter, and I would like to move on it. Otherwise, the President may someday snap on me and say, "Why didn't you do this?"

Foley: Yes.

H.M.Jr: Will you handle that?

Foley: Yes.

H.M.Jr: And before it comes to me, will you let Bell see it?

Foley: Sure.

H.M.Jr: What else?

Foley: On American Viscose, they have withdrawn the request for the rulings on the closing agreements, because the three plans they had would have lost the identity of the reserves and surplus of about sixty-seven million dollars, so that any future distribution, the stockholders wouldn't be taxable. So Buck, their attorney, did it voluntarily.

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He understands. He has gone back to submit a new plan which we suggested which would permit the thing to be done as a non-taxable transaction. The identity of the fund of sixty-seven million dollars to be retained so that in any distribution the shareholders would be subject to tax. That they are going to do, and I think by the end of the week, we will be able to give them a clearance. Now, the one thing I want to bring to your attention, I don't know whether you know it or not, is that there is about twenty thousand shares of Viscose stock being retained by Courtauld, or the British.

H.M.Jr: Five percent.

Foley: It is around five percent.

H.M.Jr: Yes. That was in the paper.

Foley: The whole business is not being - I think there are four hundred ninety-one thousand shares, and there are only four hundred forty-eight in this deal. The other - there is about twenty thousand shares that have been retained, and then the other twenty-four, I understand, that have been distributed from time to time to officers as bonus. I have a memorandum on it for your files. (April 21, 1941.)

H.M.Jr: Right.

Foley: Here are these letters to Bob. (To Attorney General Jackson, Mr. Correa, Mr. Ireby, and Mr. Oftedal, dated April 21, 1941.)

Here are the letters to the Vice-President and to the Speaker on the legislation to permit negotiations of contracts by the Budget. I see no objections. Here is a memorandum for the diary (April 18, 1941) and the papers on our conference with Nelson the other day.



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H.M.Jr: Wonderful.

Foley: This is a letter which Istorik would like to have if you can -- he wants it very much. He has talked with Brandeis, and they are entirely satisfied with the treatment they got here. If he gets this letter he feels that he can go back to England now and have a successful mission in this country. He also would like to have us tell Pinsent - give a copy of this letter to Pinsent and tell Pinsent that you think this is a matter which should be taken care of in the sterling area.

H.M.Jr: Will you explain it to Merle, and Merle will do it for me.

Foley: Yes.

Cochran: We had a cablegram from London Saturday telling of very favorable press comment on that Brown-Williamson arrangement. (Addressed to Secretary Hull for the Treasury Department from Winant.) Stopford wanted to know if you would care to meet Professor Noel Hall. He used to be professor of economics in London. He has come over to head the Ministry of Economic Warfare.

H.M.Jr: I would like to very much. I would like to do it when I have plenty of time.

Cochran: All right. And there are two or three things I would like to speak to you and Mr. Gaston before he comes in.

H.M.Jr: Tell Stephens.

Foley: That is all I have.

Gaston: Admiral Waesche got a letter from Admiral Stark

- 28 -

on Saturday formally requesting the transfer of the seven 327-foot cutters to the Navy, and I thought that in view of what passed between you and Knox and the President, that is a matter that should be taken up through another channel, but that is - he has the letter, and he has prepared also - Stark agrees to take over the equatorial islands patrol.

H.M.Jr: That is no way to do it.

Gaston: Of course it isn't.

H.M.Jr: It just makes me so mad. It goes from Frank Knox to me. That Stark, he is a - his smile doesn't indicate what is going on in his mind.

Gaston: Oh, no, he is a dictator.

H.M.Jr: You get Waesche's letter from Stark to me and when Knox's aide comes over here at five minutes to twelve, I am going to hand it to him and tell him to take it back.

Gaston: Yes. Waesche was planning to come over to see me, and I will tell him to bring this letter.

H.M.Jr: Give it to me at five minutes to twelve.

Gaston: I thought it surely must be checked with the President. It is a part of the whole scheme.

H.M.Jr: I am just going to tell Knox that I am sending the letter from Stark back to him, and I am not going to move until he signs a joint memorandum with me.

Gaston: There is a little more than that. Apparently the Navy gave out the story in the papers.

H.M.Jr: I saw they did. Well, shall we go on now? Is that all?

4-21-41.

Dear Mr. Istovik:

I wish to assure you that the Treasury Department has given very full and careful consideration to the proposal which you have submitted for raising funds in this country, and particularly from the American Government, for the purpose of strengthening the liquidity of the Anglo-Palestine Bank and permitting the carrying on of the functions in Palestine of the Palestine Foundation Fund. The proposal was also submitted to the Treasury for consideration by Mr. G. H. S. Pincent, Financial Attache of the British Embassy in Washington.

If large amounts of sterling deposits are again withdrawn from the Anglo-Palestine Bank as a result of troubled circumstances existing in the Middle East, I believe that any funds which the Anglo-Palestine Bank will need in order to be able to meet such withdrawals and maintain its liquidity should come, more appropriately, from within the British Empire.



- 2 -

I am glad to have had an opportunity to discuss these problems with you, but I regret to have to advise you that in my opinion the Government of the United States could not appropriately extend financial assistance of the type which you suggest.

Very truly yours,

Secretary of the Treasury.

Mr. L. Isterik,  
Sherham Hotel,  
Washington, D. C.

April 21, 1941.

MEMORANDUM

TO: Secretary Morgenthau  
FROM: Mr. Gaston

Attached is the letter from Admiral Stark to Admiral Waesche (dated April 17 but received by Admiral Waesche at 12:15 April 19) asking for the immediate detail to the Navy of the remaining five of the seven 327 foot cutters and that the CAMPBELL, which is soon to return from Lisbon upon her relief by the INGHAM, be continued on Navy detail so that the Navy would have all seven of the big cutters. You will note that the Navy undertakes to assume only (1) transport and supply service to the Pacific equatorial islands and (2) the off-shore neutrality patrol, leaving all other present functions under the Coast Guard.

Admiral Stark broached this proposed transfer to Admiral Waesche over the telephone a week ago. At that time Admiral Waesche told him that he saw no reason, so far as he, Waesche, was personally concerned, why assignments of additional vessels as needed should not be made under the same procedure as the CAMPBELL and the INGHAM had been detailed to Navy duty. You will recall that instruction to detail the CAMPBELL to the Lisbon assignment came verbally from the President through you and was later taken up by Stark with Waesche. The arrangement for assigning the INGHAM to replace the CAMPBELL was made on Waesche's initiative so that the CAMPBELL'S crew might have relief from long service abroad and the understanding at that time was that on the CAMPBELL'S return she would revert to Coast Guard duties.

- 2 -

In addition to the CAMPBELL-INGHAM detail other Coast Guard equipment is being used temporarily by the Navy on indefinite assignment under the general arrangement to cooperate as fully as possible with the Navy. At the present time two 125 foot patrol boats are detailed to practice with a Navy mine sweeping group in Chesapeake Bay, an enterprise designed for joint training of Navy and Coast Guard personnel; two 165 foot cutters are at Key West assisting in training Navy and Coast Guard personnel in the operation of under water sound equipment. On this detail they are operating under the orders of the Commandant of the Navy School at Key West; 75 Coast Guard surfmen are soon to return to their stations after having spent the winter with the fleet at Guantanamo Bay practicing surf landings for the training of Navy personnel. In addition Coast Guard District Commanders from time to time have detailed smaller craft to cooperate with the Navy on special assignments at the request of the Navy District Commanders.

When Admiral Waesche told me Saturday evening about the receipt of the letter from Stark, I said, and he agreed, that since the whole matter of the transfer of Coast Guard cutters to the Navy had been placed in the President's hands, this request by Stark would have to be taken up through other channels.

*WWS*



The Secretary gave the original of this photostat to Captain Beatty today, to be returned to Secretary Knox. Captain Beatty is Secretary's Knox's aide.

To reply refer to Initials  
and No.

Op-38-C-LAC

Serial 135338 OFFICE OF THE CHIEF OF NAVAL OPERATIONS  
~~RESTRICTED~~ WASHINGTON

(S13/A4-3(410412)

*Handwritten:*  
- A. G. C. -  
Capt. Buckley  
Reck of P.  
1215-19 Apr  
1941.  
27c

17 April 1941

96

From: The Chief of Naval Operations.  
To: The Commandant, U. S. Coast Guard.  
Subject: Seven - 327' Coast Guard Vessels to duty  
under orders of Chief of Naval Operations.  
Request for.  
Reference: (a) Comdt. Coast Guard letter Op-601 63  
to CO INGHAM dated 14 March 1941.  
(b) CNO dispatch 032256 of April 1941.

1. In accordance with our conversations it is requested that the five following named U. S. Coast Guard vessels be directed to report at the earliest practicable date to the Chief of Naval Operations for duty:

USCG BIBB  
USCG DUANE  
USCG HAMILTON  
USCG SPENCER  
USCG TANEY

2. The USCG INGHAM is now operating under the orders of the Chief of Naval Operations in accordance with reference (a). The CAMPBELL now operating under the orders of the Chief of Naval Operations has been directed by reference (b) to report to the Commandant, Coast Guard for duty upon arrival at New York. Reference (b) will be modified and CAMPBELL directed to continue duty under the Chief of Naval Operations.

3. It is desired that the following functions of the U. S. Coast Guard remain as a responsibility of your organization:

- (1) Off-shore rescue and assistance work.
- (2) Weather observation patrol.
- (3) Bering sea and Alaskan patrol.
- (4) International ice patrol.
- (5) Greenland patrol.

Op-38-C-LAC

Serial 135338  
**RESTRICTED**

The Navy Department will assume responsibility for the following duties which have previously been performed by the Coast Guard:

- (1) Transport and supply service in Pacific equatorial islands.
- (2) Off-shore neutrality patrol.

*J R Starn*



April 21, 1941.

MEMORANDUM

TO: Secretary Morgenthau  
FROM: Mr. Gaston

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When Admiral Wessche told me Saturday evening about the receipt of the letter from Stark, I said, and he agreed, that since the whole matter of the transfer of Coast Guard cutters to the Navy had been placed in the President's hands, this request by Stark would have to be taken up through other channels.

April 21, 1941.

Dear Mr. Secretary:

This is to acknowledge receipt of your letter of April 15th, in which you suggest the desirability of organizing a patrol force, to operate under the Treasury Department, for the better protection of ship repair and manufacturing plants performing Navy contracts and located upon waterfront property in the various United States ports.

I shall be glad to give this matter study and will report my conclusions at an early date.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Secretary of the Navy.

*File sent to Mr. Austin*

By Messenger 4:00 pm  
on 4/22



C  
O  
P  
YTHE SECRETARY OF THE NAVY  
Washington

CONFIDENTIAL

APR 15 1941

My dear Mr. Secretary:

The possibility of the sabotage of ship repair and manufacturing plants performing Navy contracts and located upon waterfront property in the various United States ports is a matter of grave concern to this department. The prevention of such sabotage is rendered particularly difficult because of the ease with which the saboteurs may gain access to such plants by small boats under cover of darkness. The problem presented is of course closely related to the general problem of the protection of shipping in our harbors from sabotage.

Some measure of protection is now afforded by the local Coast Guard harbor patrol units, by local police patrol boats and by the local police patrol along the inshore end of docks and plants. Also in the case of vessels engaged in foreign trade, which may be lying at the docks, some protection is given by the presence of U. S. Customs inspectors on board the vessels or upon the docks. However, as a practical matter the patrol carried on by the Coast Guard and police boats is of an infrequent nature and mostly off the ends of the piers, while the waterfront police confine their efforts largely to the gates and entrances to the piers. The guarding of the slips in between the piers, where the saboteurs will operate in most cases, does not appear to be effective.

The Coast Guard with its present force in New York is able to patrol part of the waterfront only once daily and the balance not over two or three times daily. Obviously, the extent of this patrol is not sufficient to make it an effective defense against sabotage. It is probable that the same ineffective patrol exists in our other large ports.

In view of the foregoing, I desire to bring to your attention the advisability of organizing in each of our

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harbors, where sabotage may be expected to take place, a patrol force operating under the Treasury Department of sufficient size and strength to effectively cope with this problem. This department will be glad to advise you upon request as to the names and location of the ship yards and plants employed on Navy contracts which it considers should receive this waterfront protection.

Sincerely yours,

(Signed) Frank Knox

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

April 21, 1941  
10:45 a.m.

RE PRICE STABILIZATION

Present: Mr. Foley  
Mr. O'Connell  
Mr. Haas  
Mr. White  
Mr. Bell  
Mr. Thompson  
Mrs. Klotz

H.M.Jr: You (Klotz) tell Ferdie Kuhn that he (Knox) is so enthusiastic about that Allen Barth thing. Particularly, he says he has written a statement for Thursday, and he says Allen Barth's statement is the same as his speech, the one that he hopes to give Thursday. He is very enthusiastic about Allen Barth.

There is a meeting Tuesday of Mr. Henderson's committee, and I had no instructions to give you, but you have got Haas here and White, and I wondered if you wanted to ask me anything.

O'Connell: I don't think so. I understand generally what the meeting is about, and it seems to me that with Harry White and George Haas to help me, I can help Leon. I talked to him briefly Saturday morning. He called me and indicated that he was rather pleased that you had made the decision the way you had, and I would have these people



- 2 -

to help me. I don't know that I know enough about it to ask any questions.

H.M.Jr: Now, on those income tax requests, I would like to know why Leon wants those and what are some of his bright young boys doing that they want forty thousand copies of returns.

O'Connell: I talked to Leon about that Saturday morning, and asked him who would be able to talk to me, and he said Ginsburg, but he was away Saturday, so I haven't talked to him in detail. I understood that this letter from him was just a - was sent us in order to get us on an understanding basis and that it would be supplemented by individual returns from individual companies on different industries.

H.M.Jr: Why?

O'Connell: He mentioned steel, for instance. In order to determine what the reason for the price of steel is, he has to know what the profits are.

H.M.Jr: I greatly question that stuff.

White: There is a compromise possible, that you might wish to work out. We also examined some returns for other purposes occasionally when we got your permission. It may be possible later on for such examination to be made by the Treasury people within here and certain conclusions or deductions be made in general terms so that they may get the benefit of the cogent information without letting anybody look over the returns. That is a possibility, to meet their --

H.M.Jr: But I want to go very, very slowly, because I can't imagine a worse public reaction if it got out, which it would, that without even asking a company as to what they did, you see --

- 3 -

- White: I don't know that I would agree with that position at the present time, but it needs careful thought. I think the public might respond rather favorably to the idea that, before they are getting any increase, all the facts are being examined, but it is a divergence of policy. It needs to be carefully considered.
- H.M.Jr: Would you want me to say publicly that I am turning over the income tax statements of U.S. Steel to Leon Henderson?
- White: I wouldn't put it that way.
- H.M.Jr: You have answered me, and I wouldn't do it secretly.
- White: I don't think either step is necessary.
- H.M.Jr: But you answered my question. I won't do it secretly, and you agree with me that it would be bad to do it publicly.
- White: But I do think the information can be made use of.
- H.M.Jr: I don't want to do anything secretly that I am not willing to do publicly, for Leon Henderson.
- O'Connell: We did, Mr. Secretary, make income tax returns available to TNEC and agencies represented on it for the purpose of making studies of the returns in given industries.
- H.M.Jr: Well, we did that, as I recall - you check me - only after the President asked us for it. Didn't we get a letter from the President on that?
- O'Connell: No.
- H.M.Jr: Are you sure?

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O'Connell: Yes.

H.M.Jr: It is your business. I thought I got a formal letter from the President on it.

O'Connell: We made some information available to SEC on the returns of some two hundred large non-financial corporations, and that was based, as I recall it, on a letter from the Chairman of the SEC.

H.M.Jr: I didn't say that, I said it cleared through the President.

O'Connell: Well, I had better check.

H.M.Jr: Just check for fun.

White: There is another possibility.

H.M.Jr: My dumb joke, two wrongs don't make a White.

White: There is another possibility. Leon can get whatever relates to profits and costs on such material as is available. Then he might ask the Treasury to see whether that information is accurate or inaccurate, which would serve the same purpose.

H.M.Jr: That is different, but his letter, as I remember it, said he wanted to photostat forty thousand returns.

O'Connell: That is right.

H.M.Jr: But that is just a fishing expedition, Harry.

White: Yes, that isn't necessary to achieve the purpose.

H.M.Jr: The last thing that you said, in other words, to see whether the steel corporation was kidding them, that is something else again.



- 5 -

White: That is right.

Bell: Why can't the companies file their own information with Leon?

White: They can, and the only purpose he would want to check --

Bell: Then it could be checked by you people to see whether it is correct.

White: That is right, which I think would be the best way of doing it.

H.M.Jr: All right. Take it easy, O'Connell, until you get going and have the ground under your feet, and come and see papa.

O'Connell: Yes, sir.

April 21, 1941  
10:47 a.m.

H.M.Jr: Hello.

Operator: Secretary Knox.

Frank  
Knox: Hello, Henry.

H.M.Jr: How are you, Frank?

K: Fine. I got that summary that you send me frequently and I've just written a speech for next Thursday at New York - the editors, the publishers - and it is amazing how that fellow backs up everything I say in the speech.

H.M.Jr: You mean the summary I send you?

K: Yeah. I just got it this morning and just read it.

H.M.Jr: Is that right?

K: Yeah, and I'd like to send over an advance copy of this speech and let you look at that to show you how closely the two parallel.

H.M.Jr: I'd like very much to see it.

K: The President hasn't released it yet but I'll send it over and you keep it in your pocket.

H.M.Jr: Thank you.

K: All right, Henry.

H.M.Jr: Frank, now wait a minute?

K: What's on your mind?

H.M.Jr: Well, just this. You and I get along fine, but your Admiral there sent a formal letter to Waesche telling - ordering us to send over these 7 cutters.

K: Yeah.

- 2 -

H.M.Jr: Well, now .....

K: I didn't know anything about it.

H.M.Jr: Well, I didn't think that you did, and when your Aide comes over I'm going to give you this letter of Stark's and send it back to you and you can tell Brother Stark, until you and I get together and agree and send something written over to the President, I'm not going to move.

K: All right. I'll tell him. You send it back to me.

H.M.Jr: I'm going to send it back and I was sure that you didn't know because I was sure you didn't work that way.

K: No. Well, I tell you, I'm encountering and you are encountering some of this old stiff-mindedness which characterizes Bureau.

H.M.Jr: Well, you know, they gave out a story to the papers that they were going to take over these seven cutters.

K: When?

H.M.Jr: It was in all the Sunday papers.

K: I didn't see it.

H.M.Jr: Yeah, all the Sunday papers carried it that the Navy was taking these over.

K: Who gave it out, do you know?

H.M.Jr: Well, it must have come from Stark. I don't think that's right, Frank.

K: No. I'm glad you called me up about it and I'll straighten it out right off and you send that right back to me. Will you?

H.M.Jr: Yeah. Thank you.



- 3 -

K: All right, Henry, and I'll send this over  
to you that I spoke about.

H.M.Jr: I'd like to see it.

K: All right. Good-bye.

April 21, 1941  
12:55 p.m.

Walter  
Stewart: ..... economist - a consulting  
economist named Harley Lutz.

H.M.Jr: Named what?

S: Harley Lutz, L-u-t-z, who is a Princeton  
professor.

H.M.Jr: Yeah.

S: But, if you want to put the machinery of  
the National Economy League into action,  
it's a question of whether you want to call  
a professor or whether you want the chairman,  
who is a lawyer man in New York named  
Ernest Angel, whom I don't know.

H.M.Jr: Well, that's Professor Angel.

S: No, not professor. He's a lawyer man down-  
town, 40 Wall Street, named Ernest Angel.  
He's chairman of the organization and said  
to be the person who probably could press  
the button.

H.M.Jr: I see.

S: Now, they are bringing out and have in  
print what they regard as a very good  
pamphlet on agricultural parity, which is  
a general criticism of, I take it, this  
appropriation, of which they plan to print  
5,000 copies. There is a question of whether  
they should have a larger printing.

H.M.Jr: Yeah.

S: Lutz would come, if they approved of his  
coming and if you invited him, but I didn't  
want to make any further move until I found  
out just what you wanted me to do.

H.M.Jr: Well, I think you had better sit tight and  
I had better think it over.

- 2 -

S: That is my feeling too.

H.M.Jr: Yeah.

S: Right. I won't do anything further until I hear from you then.

H.M.Jr: Thank you.

S: All right. Good-bye.



April 21, 1941

113

Taken to White House luncheon today  
by the Secretary.

# STRICTLY CONFIDENTIAL

## Light Tanks 1/ - Scheduled and Actual Deliveries

114

	Jan.	Feb.	Mar.
<b>Monthly</b>			
<b>Total</b>			
Actual.....	1233	1224	1672
Scheduled.....	1233	1224	1672
Deficiency (-) or surplus (+).....	0	0	0
<b>Army and Navy</b>			
Actual.....	1233	1224	1672
Scheduled.....	1233	1224	1672
Deficiency (-) or surplus (+).....	0	0	0
<b>British</b>			
Actual.....	0	0	0
Scheduled.....	0	0	0
Deficiency (-) or surplus (+).....	0	0	0
<b>Cumulative</b>			
<b>Total</b>			
Actual.....	1233	1224	1672
Scheduled.....	1233	1224	1672
Deficiency (-) or surplus (+).....	0	0	0
<b>Army and Navy</b>			
Actual.....	1233	1224	1672
Scheduled.....	1233	1224	1672
Deficiency (-) or surplus (+).....	0	0	0
<b>British</b>			
Actual.....	0	0	0
Scheduled.....	0	0	0
Deficiency (-) or surplus (+).....	0	0	0

Office of the Secretary of the Treasury, Division of Research and Statistics.  
April 21, 1941.

Source: Statistics Branch, Office of the Under Secretary of War, and British Purchasing Commission.

1/ Includes combat cars.

	Jan.	Feb.	Mar.
<b>Monthly</b>			
<b>Total</b>			
Actual.....	6	7	6
Scheduled.....	0	15	25
Deficiency (-) or surplus (+).....	+6	-8	-19
<b>Army &amp; Navy</b>			
Actual.....	6	7	6
Scheduled.....	0	15	25
Deficiency (-) or surplus (+).....	+6	-8	-19
<b>British</b>			
Actual.....	0	0	0
Scheduled.....	0	0	0
Deficiency (-) or surplus (+).....	0	0	0
<b>Cumulative</b>			
<b>Total</b>			
Actual.....	12	25	31
Scheduled.....	0	15	40
Deficiency (-) or surplus (+).....	-12	-10	-9
<b>Army &amp; Navy</b>			
Actual.....	12	25	31
Scheduled.....	0	15	40
Deficiency (-) or surplus (+).....	-12	-10	-9
<b>British</b>			
Actual.....	0	0	0
Scheduled.....	0	0	0
Deficiency (-) or surplus (+).....	0	0	0

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

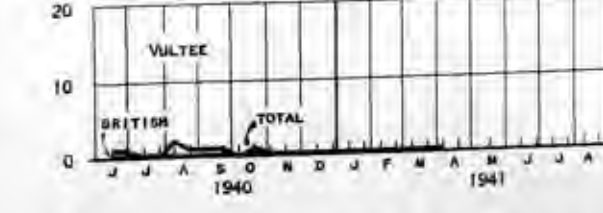
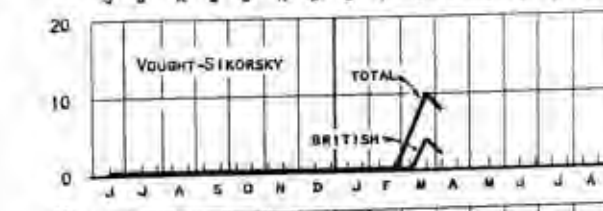
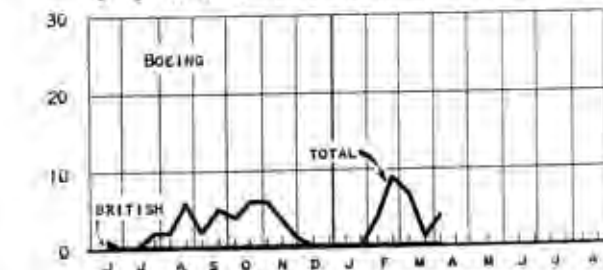
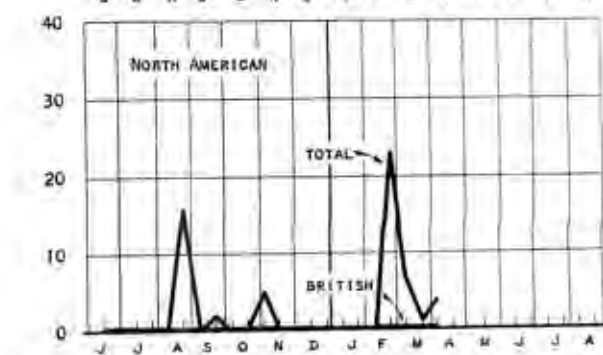
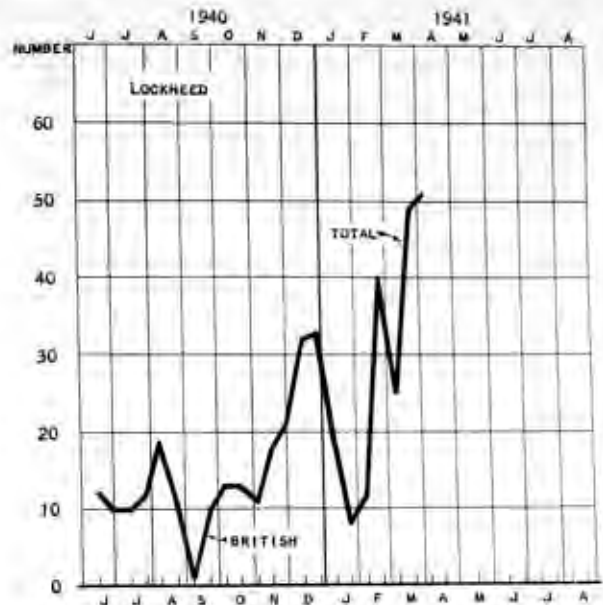
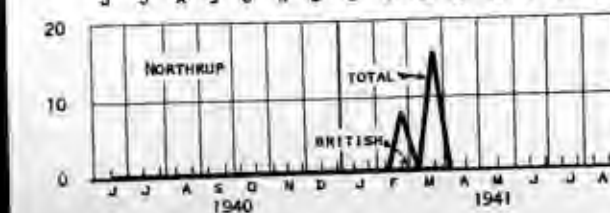
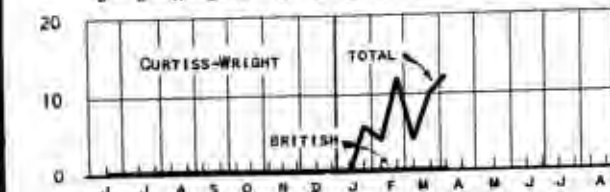
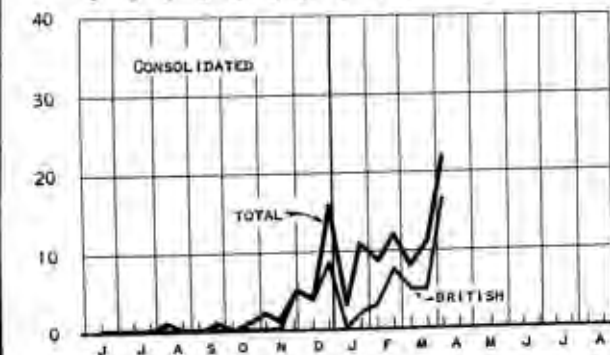
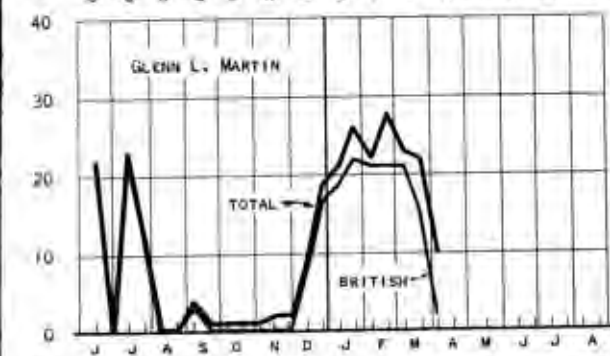
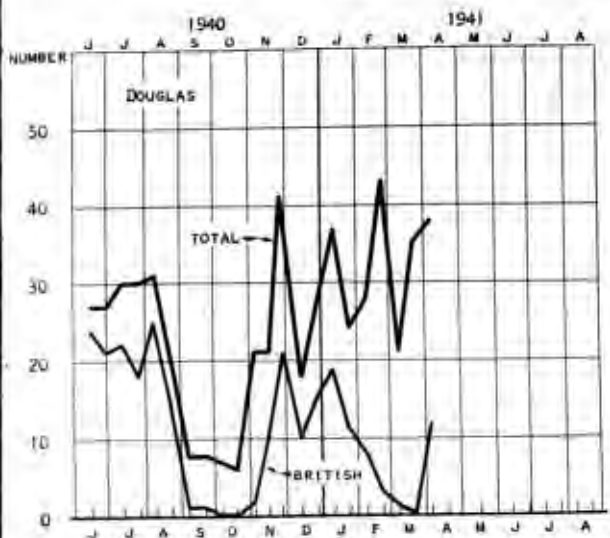
April 21, 1941.

Source: Statistics Branch, Office of the Under Secretary of War,  
and British Purchasing Commission.



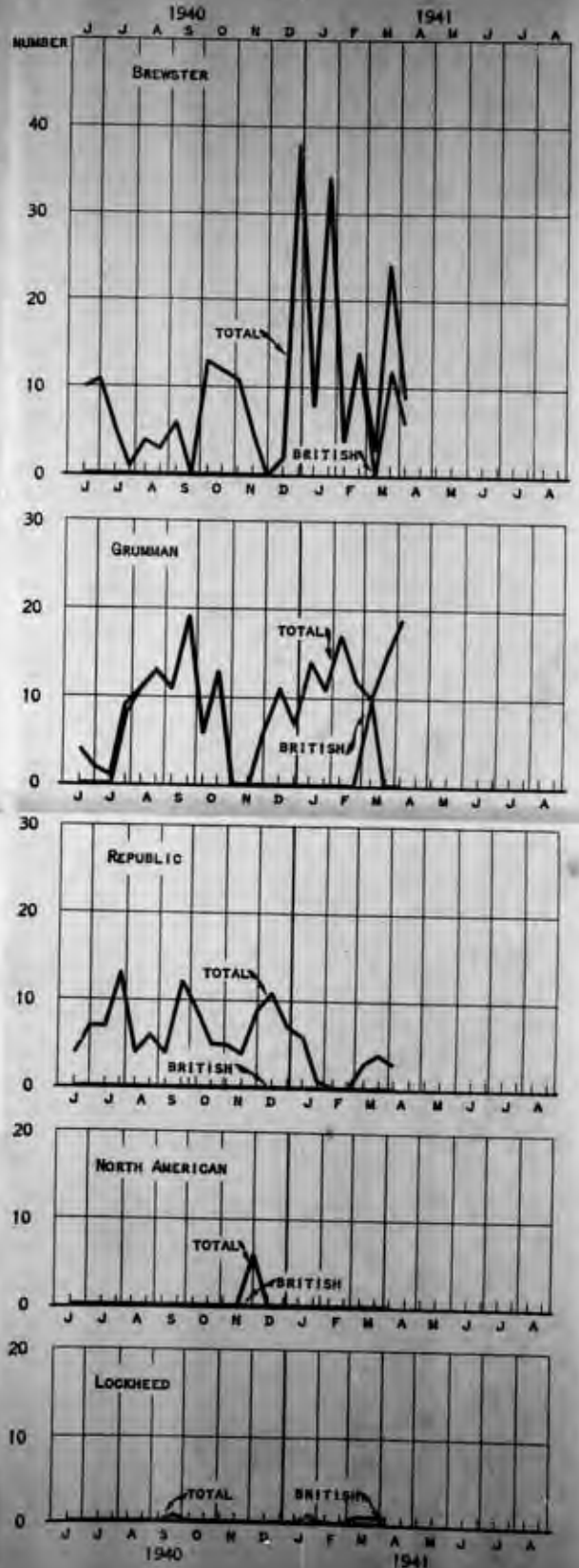
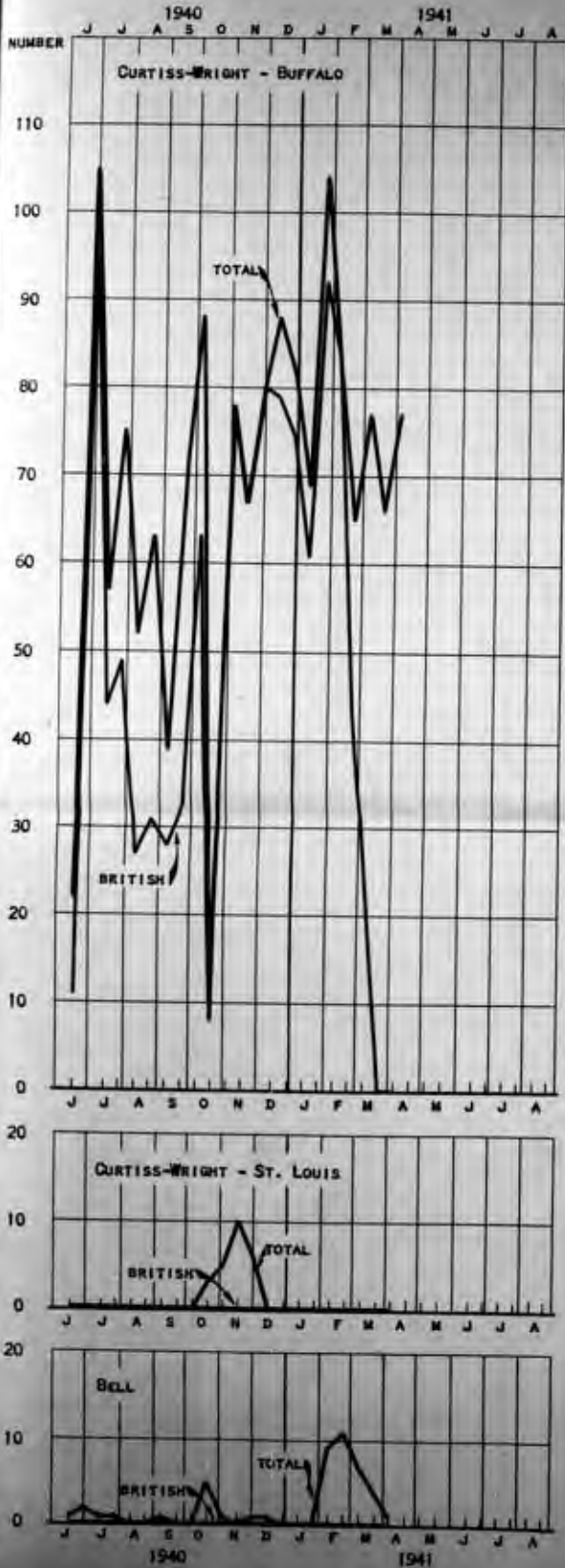
DELIVERIES OF BOMBERS  
By Company, Two Week Periods June 9, 1940 to Date

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DELIVERIES OF PURSUIT PLANES  
By Company, Two Week Periods June 9, 1940 to Date

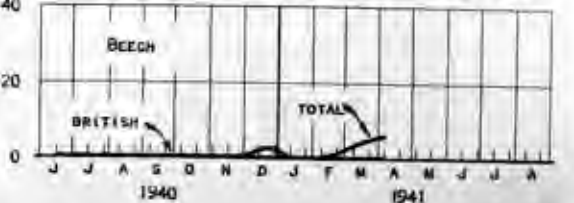
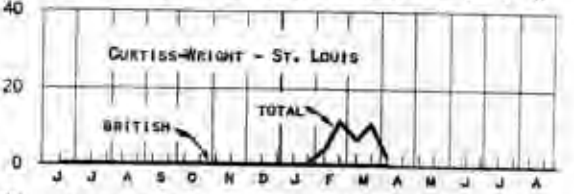
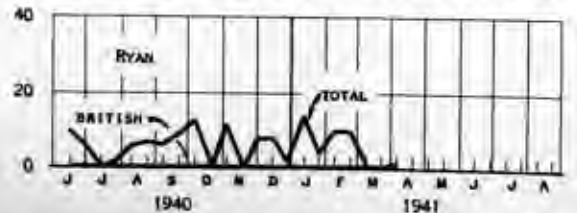
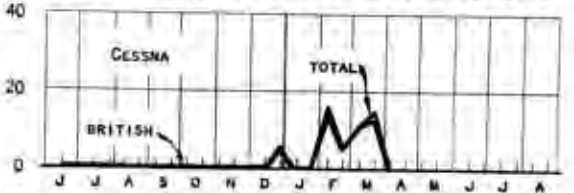
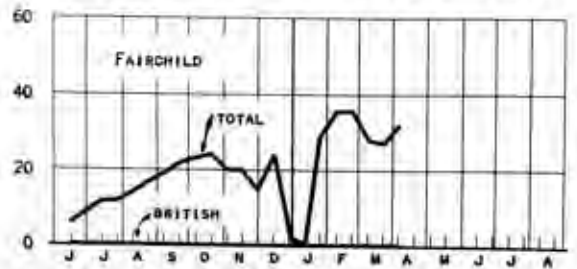
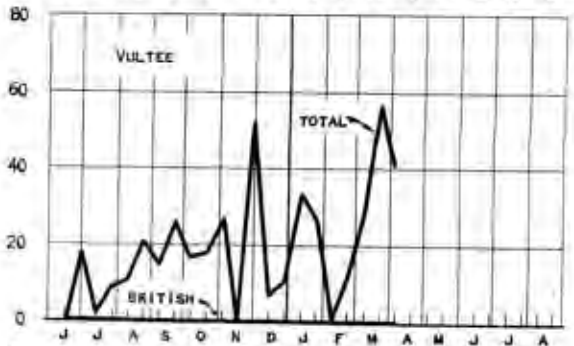
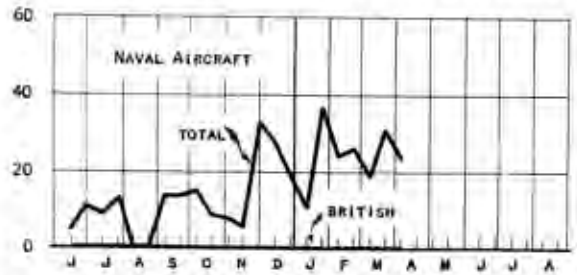
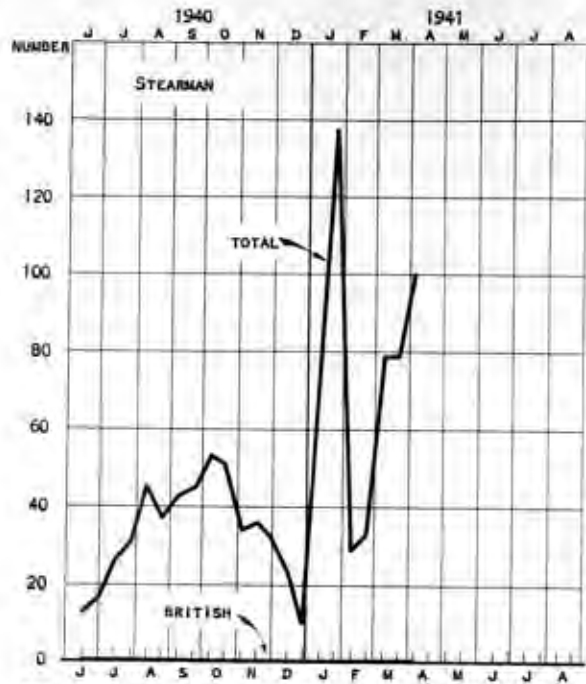
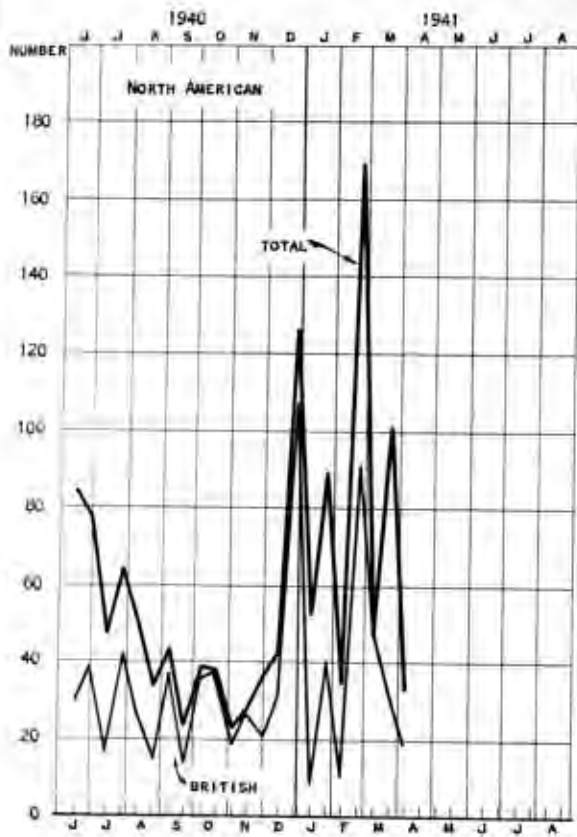
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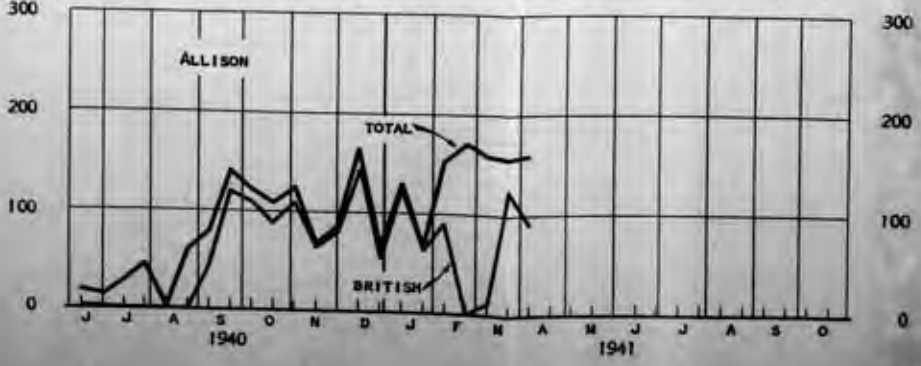
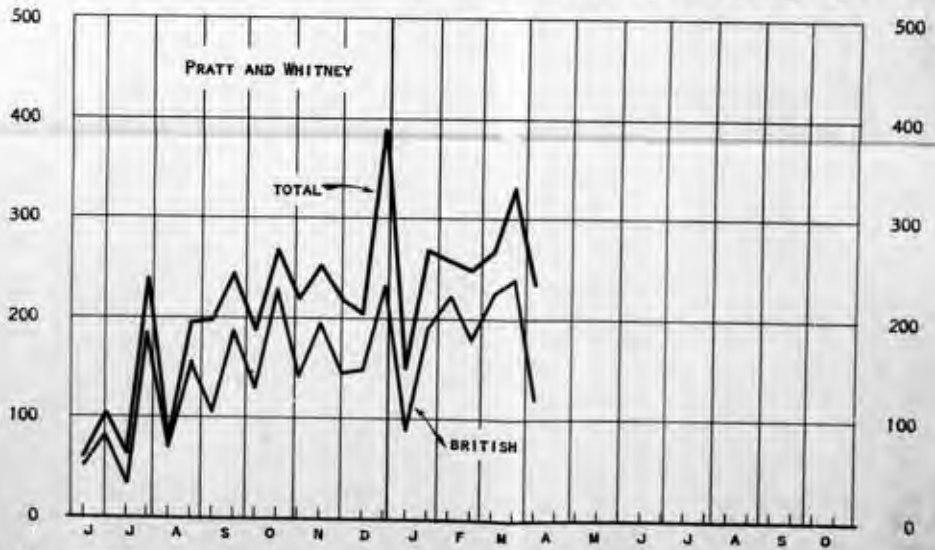
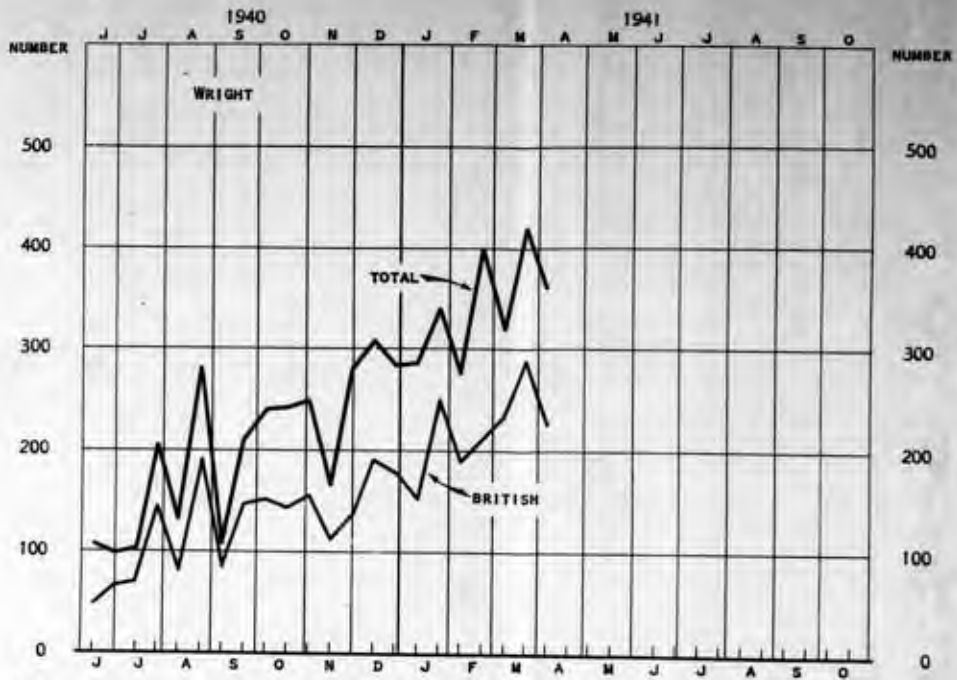
DELIVERIES OF MILITARY TRAINERS  
By Company, Two Week Periods June 9, 1940 to Date

STRICTLY CONFIDENTIAL





DELIVERIES OF ENGINES OVER 1000 HORSE POWER  
By Company, Two Week Periods June 9, 1940 to Date



✓  
STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

120

INTER OFFICE COMMUNICATION

DATE April 21, 1941.

TO Secretary Morgenthau  
FROM Mr. Hase *JA*

Mr. Biggers' statement that light tanks are now being produced at the rate of 100 per month is based upon the following weekly production in April:

Week ending April 5 - - 17  
Week ending April 12 - - 23  
Week ending April 19 - - 31

*71 total to date M-3 = 13 tanks*

The above figures for three weeks of April and the fact that American Car and Foundry, sole producers of this type of tank, is now turning out 6 or 7 tanks a day is the basis for the statement that production is now at the rate of 100 light tanks per month.

Colonel Ayres, of the War Department, gave me the following information as to the deliveries schedule:

Month of March - - - 64  
Month of April - - -  $\frac{192}{256}$

On the basis of the above schedule, even if 100 tanks are produced in April the company will still be behind schedule by 156 tanks, as none were produced in March.

April 21, 1941  
3:15 p.m.

RE CHINESE LOAN

Present: Mr. Bell  
Mr. White  
Mr. Cochran  
Mr. Hamilton  
Mr. Hu Shih  
Mr. Soong

H.M.Jr: When I went in to see the President, I was preceded by Lauch Currie, and while I was sitting there also, Mr. Hull called up and evidently Lauch had sold the President a bill of goods on this.

Mr. Hull called up on the same thing. The President compromised with me on this basis, that we tell the Chinese that they can have the 50 million to save their faces, but they have got to give us their word that above the 20 million they will not draw on us for more than five million a month.

Bell: That is all right. We have somewhat that kind of a control over the funds that we would advance in June in case the Stabilization Fund is not extended, that we would buy the full 50 million and they would not draw it out of the Federal Reserve Bank of New York except at the rate of five million dollars a month.

H.M.Jr: Publicly we will announce that we have put the full 50 million at their disposal, you see.



- 2 -

Bell: We intended to do that anyhow. Not necessarily that way. We would say, "Another important step has been taken in the field of monetary stabilization agreement involving the purchase by the United States Stabilization Fund of \$50,000,000 of Chinese yuan."

And we wouldn't say anything about five million dollars a month.

White: Who is going to give you the word?

H.M.Jr: Soong and the Ambassador will be here in three minutes.

White: You want their word or the Government's?

H.M.Jr: I want their word.

White: There is no legitimate reason why they should want more than that. They can't possibly use it, legitimately.

H.M.Jr: Have they agreed to this, Dan, what you have read to me?

Bell: No. We gave them a copy of it this morning.

H.M.Jr: May I just have it so I can read it to them? What is this?

Bell: That is supposed to be a press release to be given out at the time of the agreement and it is the second paragraph I read to you.

(Mr. Hamilton entered the conference.)

H.M.Jr: Have you seen this statement?

- 3 -

Hamilton: Yes.

H.M.Jr: Have you O.K'd it?

Hamilton: Yes.

H.M.Jr: I haven't seen it. Do you want to read this, Mr. Hamilton?

Hamilton: I think it is just the same as when I saw it.

H.M.Jr: What the President has asked me to do, and I have got the Ambassador and Soong coming in a couple of minutes, is to say we will go ahead and conclude this agreement, but we want the word of the Chinese Ambassador and T. V. Soong that their Government will not, after the first 20 million, use more than five million a month.

Hamilton: You are making the allotment of the full 50 million?

H.M.Jr: Yes, we are making the allotment.

Hamilton: Then you have changed the text of the agreement then.

Bell: Yes. Take out the five million a month and just say 50 million dollars and have an understanding with them.

H.M.Jr: That is what this says, isn't it?

White: But it is the agreement in which that is specified, which they sign.

H.M.Jr: I have only had a minute's head start. We

- 4 -

take that out and simply say --

- Hamilton: That whole lump sum is made available to them, and then you want their informal assurance, their personal word, on the side, that they will withdraw not more than five million a month, except through special authorization.
- White: Unless you give them authority to do so, which is what the agreement now says, that they could draw more than five with your approval.
- Hamilton: And that you are taking out the five million dollars.
- White: They are taking it out of the agreement. In other words, what is in the agreement will be taken out, but it will be understood orally, the word, I take it, being given by Mr. Soong and the Ambassador.
- Bell: Here is the way it reads, "Except as otherwise approved by the Secretary."
- H.M.Jr: That will be out, but I want that paragraph understood.
- White: Mr. Secretary, would they have the authority to give you that orally?
- H.M.Jr: Listen, I will take it. After all, I am --
- White: But I am afraid they will be reluctant to give it.
- H.M.Jr: Well, let's watch and see. By the time the President and Mr. Hull puts the pressure on me to do this - I am going to ask them



- 5 -

for their word. If they don't want to give it, I won't go through with it, but it is up to them, isn't it? This is what the President told me to do.

White: Except they might take the position it is beyond their control.

H.M.Jr: Don't worry, they will give me their word.

Hamilton: I don't know.

H.M.Jr: Well, we will know in a few minutes. From the standpoint of the State Department, have you any objections to this, if they go through with it on this basis, publicly, with the agreement?

Hamilton: It isn't psychologically as favorable as an out and out agreement without this oral proviso, but if that is the decision of the President, I have no objection.

H.M.Jr: If they had signed it a couple of months ago, when we were ready, the thing would have been much better. The President said - I take it - I couldn't hear Mr. Hull's conversation - that this was to be a face saving proposal.

Hamilton: Psychologically.

H.M.Jr: Who the hell is going to know about this?

While I have got you, when are you going to stop okaying 87 octane gas to Japan? They say it is you. That is what everybody says. Get it down to 65. That is regular automobile gas. Mr. Welles told me a month ago that he couldn't understand why it wasn't stopped.

- 6 -

- Hamilton: I will be glad to discuss that outside this meeting.
- H.M.Jr: All right. All right, Dan?
- Bell: Yes.
- H.M.Jr: Merle?
- Cochran: No, not all right, but I will have to take it, that is all.
- H.M.Jr: All right.
- Bell: I hate the pressure, too.
- H.M.Jr: Well, I don't like the pressure.
- Hamilton: Of course, there is a combination of Russian petulance and various things, but we are dealing with a very difficult psychological situation over there.
- H.M.Jr: Well, as I told the President, the joke is on me because next to him I won't take second place to anybody for wanting to help China, and now suddenly I am the fellow that is holding the thing up. Here I have been fighting for a year to try to get this flow of gasoline stopped to Japan, and on the Navy's report they have got two years' supply now and I can't get any support from the State Department, none.
- (Mr. Hu Shih and Mr. Soong enter the conference.)
- H.M.Jr: The President has expressed his interest in this agreement which we have been trying to make with China during the last several months and he asked me to make a change in the agreement along these lines, that instead of having

- 7 -

this paragraph in this agreement which says that after the 20 million dollars has been advanced, that five million dollars in any one month can be drawn by the Government, that we advance the entire 50 million but to have an agreement with you two gentlemen on your word to me that you will not draw more than five million a month without the approval of the Secretary of the Treasury.

In other words, there will be nothing - this will just be lifted bodily, this part about the five million a month, but that you two gentlemen will give me your word that now - that you will not use - after the twenty, you will not use more than five million a month without the approval of the Secretary of the Treasury.

- Hu Shih: Mr. Soong and I thought that it may be necessary for us to ask the instruction of the Government on that point. Would that be all right?
- H.M.Jr: I am ready to sign now. I just want to say one thing that Mr. Bell says. The 20 million dollars would be yours. I mean, the whole 50 million dollars, as far as the public is concerned, is yours; but then what I am asking is your word, personal word and guarantee, that you will carry out the spirit of this agreement as it is written here in this paragraph. This paragraph here is what I would like your word on.
- White: It will be 25, won't it, in another week?
- Bell: Yes. On May 1 it will be another five.
- H.M.Jr: Mr. Ambassador, it is practically twenty-five now, they say, but that agreement - that paragraph will be lifted out of the document and



- 8 -

in place of that you give me your word.

Hu Shih: Mr. Secretary, because of the fact that the Generalissimo has a special instruction to Dr. Soong on that special point, so Dr. Soong and I think that if it wouldn't delay too much, we would send a wire immediately and ask for an instruction.

H.M.Jr: Now, I would like to say something. In my interest and friendship for China, I take second place only to the President of the United States. I think I have demonstrated that. I am not particularly enjoying my present relationship. I don't enjoy the pressure which is put on me.

With the President's knowledge and approval, he wanted me to say to Mr. Soong that he couldn't understand why Mr. Soong thought it was necessary to hire special attorneys to represent him here in Washington and the effect it has had on me is that it - it can only have one effect, and that is to make me suspicious.

I have never had to have - when you were going to be charged four hundred thousand dollars by the export company for a commission on the hundred planes which I got for you, and I got that reduced to a hundred and fifty thousand, you didn't have to pay anybody to get that reduced two hundred and fifty thousand; and I worked day and night with the help of Mr. Philip Young to get that reduced and in my relations with the Chinese Government, it has never been necessary to have special representation of American lawyers. Frankly, I don't like it.

Soong: Mr. Secretary, I think there must be a misunderstanding. I have no American lawyers at all in discussion with you.

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H.M.Jr: Oh, I am sorry.

Soong: I would like really to ascertain from you what you mean by having American lawyers. There is no lawyers connected with me at all in my dealings with you.

H.M.Jr: What is your relationship with Mr. Corcoran?

Soong: Who?

H.M.Jr: Mr. Thomas Corcoran.

Soong: That has nothing to do with this agreement. I beg your pardon.

H.M.Jr: What is Mr. Corcoran doing for you?

Soong: In what way?

H.M.Jr: In any way.

Soong: Well, it has nothing to do with this matter at all.

In my relations with you, I have nothing to do - Mr. Corcoran doesn't enter into it at all.

- 10 -

- H.M.Jr: What do you, as a representative, have to have Mr. Corcoran for? Why do you have to employ Mr. Corcoran?
- Soong: Well, you are only considering my relations with the Treasury?
- H.M.Jr: No, I am talking about the United States Government. I am doing this with the knowledge and at the suggestion of the President.
- Soong: Well, this is a matter that - if the President should want information, I certainly will submit it to him in a report, but to suggest that I have anything to do with Mr. Corcoran on this Stabilization Fund Agreement is something very new to me. On this matter, I may say that it is the wish, desire of the head of my Government to see that this is carried through. I have been trying very hard to modify it. Even before this, I was hoping it would be possible to sign an agreement whereby, even if the money is not available at once, it will be in such a way that I could - we should not involve more use of funds than actually suggested. Well, I referred that to my Government, and General Chiang sent a message through Mr. Currie to the President. Now, that information came from Mr. Currie. If you are in the belief that I am the one that is creating all the trouble, it is I who suggested he should insist upon it, then I must say this is entirely untrue. You could ask Mr. Currie that. You could have an inquiry made of General Chiang himself. After all, surely you must have your own representatives. But to drag in the subject of Mr. Corcoran, who happens to be a friend and who I should wish to get some advice from, as I get advice from everybody I can, is really quite aside from the question.



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- H.M.Jr: Well, I am sorry, I disagree with you.
- Hu-Shih: Mr. Secretary, really we appreciate the effort made --
- H.M.Jr: It is the first time it has happened, and I don't like it, and I am very sorry that when I ask for something you don't feel that you care to answer my questions, but that is your privilege.
- Soong: No, no --
- H.M.Jr: No, you refused to answer me.
- Soong: No --
- H.M.Jr: Yes. You said if the President wanted it, you would make a report to the President. When I say on behalf of the President, I am speaking --
- Soong: If you are speaking on behalf of the President, I will answer you on behalf of --
- H.M.Jr: I said so.
- Soong: I did not catch it. If you want it now, I am ready to tell you.
- H.M.Jr: No, I am --
- Soong: Well, you --
- H.M.Jr: I am --
- Soong: Mr. Secretary, I do not see how this suspicion arises. I have all the time been very friendly with you in seeing that it would be a better presentation to our public, to our people, and in this present emergency in which not only we are involved, but the whole world is involved,

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and I besought you time and again that this proposition should be lifted. Now, it is not only my own wish, it is the wish of General Chiang and Dr. Kung. I tried my best to avoid this - any disagreement. I even begged Mr. Bell before General Chiang's message to tell me that something could be arranged, because I don't want to put - to make - when you have very kindly granted us this loan, I don't want to make mischief out of a little thing like that, you see. It is against my wish, and I tell you most earnestly that I am not the mischief maker. I am not the one who is trying to create trouble for - between our two governments, or that I am trying to make a small point, make a mountain out of a mole hill. I beg you to believe me.

H.M.Jr: This agreement could have been signed months ago. You would have had the use of the money by now.

Bell: The British have been partly responsible for it.

H.M.Jr: But this is the first time that I have ever had this kind of an experience with any government, and I wouldn't have said something if I hadn't first mentioned it to the President, and he suggested that I bring the matter up this afternoon. I have had my say, and whatever your relationships are with Mr. Corcoran, as far as I am concerned, it is a closed book, but it doesn't help my feelings, and it makes it very difficult for me.

Soong: I am sorry, but you will believe me that it is not with any desire to create in the members of the American Government anything that will reflect against their lively interest for China, that I have friendship with Mr. Corcoran as I have with a number of people. I am sorry that

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this happened. I wish I had known it before.

H.M.Jr: Well, the President didn't know about it, and he can't understand it any more than I can. He said he can't understand why the Chinese Government, when everything that we have done for China here - why they have to go out. I will use his language. "Why they have to go out and employ an American lawyer to represent them here in Washington."

Soong: I reiterate again that there is no such thing. Mr. Corcoran doesn't know the existence of this agreement or that we are going to sign the agreement with you.

H.M.Jr: Maybe, Mr. Soong, you can set one thing here and another thing here. I don't know. All I know is that either Mr. Corcoran or his brother, in some capacity, is being retained by you, financially, and --

Soong: Well, as far as Mr. Corcoran's brother is concerned, I have need of him just as I have need of some other Americans to help me in the Lease-Lend Bill. If the American Government thinks it is distasteful, I will have him withdrawn, but it certainly is not with any intention of creating troubles. I have also got Mr. Lawrence Morris. In fact, I even requested Mr. - Mr. White knows all about it.

H.M.Jr: He knows all about Mr. Corcoran?

Soong: No, about Mr. Lawrence Morris.

H.M.Jr: Well, Mr. Lawrence Morris was engaged several years ago by the Universal Trading Corporation, which is something quite different.

White: He has reference to the new development in which



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this new corporation which is being formed, that I think Morris is either the president of or one of the officials, to help them in their arrangements under the Lend-Lease Bill, and I think Dave Corcoran is one of the members --

H.M.Jr: Dave Corcoran?

White: Tom Corcoran's brother....was going to be one of the members in that corporation.

Bell: Is there a new corporation being created?

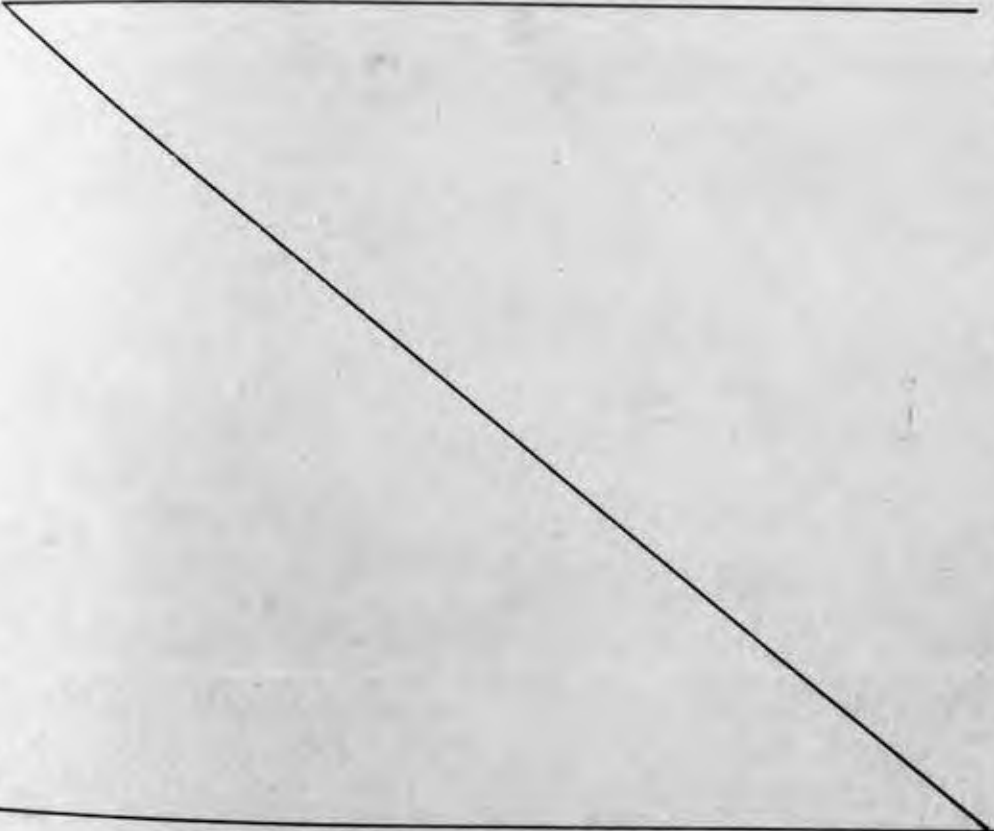
White: Well, it is a new one, but it really is an old one being revived, so there will be two corporations here. One will take care of civilian or industrial needs, the Universal Corporation, and putting all the other military needs, purchasing, shipments, etc., in the - under the leadership of this second corporation.

Cochran: That takes the engineers and so on from the Universal, does it?

Soong: No, the arrangement is this, sometime ago it was suggested by our own people that in dealing with the Lease-Lend Bill, which is a much bigger affair than the ordinary purchases, we ought to get some people who could help us in getting what we need, because it is not like - just like going to the President or the Secretary of the Treasury and get his approval, and the thing is done. No, we have to look - go to every department and try to press the matter continuously. For instance, take the one hundred airplanes. That was agreed on in - about the first of January, but there are certain things that we are still having to push, and in such methods, it is much better that we should get some American who knows where to go to than ourselves running about. I may say that when I came to this country, I came with one

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Chinese cable-coding clerk and one English secretary, a secretary who knew the English language. That is all I had. And to deal in such a tremendous task calls for more men than I could conveniently have from China. That is why we thought of Mr. Morris, that is why we thought of Mr. Corcoran, Major Barneville, and all of these people. It is perfectly frank and above board, and I may say we asked the President if Mr. Delano could help us. It is not lobbying work. When it comes to details, I could not very well run into every department and see every section head, you see.



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- Cochran: I asked Dr. Soong because I had helped Mr. Lochhead in his contacts with the State Department on passports and visas and so on, and I wondered if I was to continue on that, how it would work on that type of purchase.
- H.M.Jr: Well, of course, we here in the Treasury have worked day and night, not only for China, but many other governments and have considered it a privilege and a matter of friendship. When people first began to buy material, my Procurement Division was able to buy trucks for Mr. K. P. Chen at a price even below what we paid for the American Government, and we have taken it as a part of the service we would like to do as our friendship for the Chinese Government.
- Soong: For which it is greatly appreciated.
- H.M.Jr: And now something quite new comes into the picture. I have expressed myself. I don't like it. The President doesn't like it. I never have worked that way, Mr. Ambassador, and I am not going to work that way. As far as the Treasury is concerned, I want to make myself perfectly clear. We don't have that kind of thing going on. I don't have to draw any pictures. I think you understand perfectly.
- Soong: Mr. Secretary, may I ask if it is your belief that the Chinese counterpart of the Lease-Lend Bill should have nobody but Chinese here or do you think that it is - have you any suggestion? As a friend of China, I would ask you, have you any suggestion? Do you think we had better do not have any Americans on our staff?



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- H.M.Jr: Well, Mr. Soong, I was saying something - you objected to it very strenuously, you see. I am going to let the matter drop. You are a very smart gentleman. You understand perfectly what I am talking about, but you don't like it. It is your privilege. That is your privilege.
- Soong: I did not believe that this thing has anything to do with this corporation matter. We are discussing about the corporation.
- H.M.Jr: You are very intelligent, a very smart gentleman. You understand perfectly what I am talking about. As far as I am concerned, it is a closed book.
- White: Mr. Secretary, I have some little responsibility since Dr. Soong did discuss these matters with me earlier. I think there is some slight misunderstanding which I think in justice to him and to the situation should be cleared up. It was his opinion that he could be of most service to China in getting more aid by getting men who were familiar with the operations of the American Government, and he formed this corporation which was to be under him, and help him in the details to do much with them that the British Purchasing Commission has with their large group here, but he didn't have and didn't think he could get enough Chinese who could replace them and who could talk with the men as well as Mr. Morris and Mr. Dave Corcoran.
- H.M.Jr: I never heard of this corporation until just now. It is the first time I ever heard of it. No one has ever mentioned it to me.
- White: I thought Mr. Foley and I talked about it.

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- H.M.Jr: No, you never mentioned it.
- White: I think in justice to him, he did not intend, as far as I know, or has no intentions of utilizing these men whom he has put on this corporation in any way to bring pressure which was illegitimate or I think that you would agree with what he did intend to utilize them, their better knowledge and their acquaintance, their knowledge with men in the Government, so that they would be enabled to get as much out of Lend-Lease arrangements for China as they possibly could, and I think that he acted in perfectly good faith, and I know he talked it over with Mr. Foley. He talked it over with me. We had certain suggestions to make, and he was at all times, to my knowledge, perfectly frank in what he had in mind, and I don't think he had anything but the interests of China in mind.
- H.M.Jr: Well, I am afraid you have given them bad advice, as far as I am concerned and as far as the President is concerned, because this is the first I have heard about any corporation.
- Did you know about the corporation, Dan?
- Bell: I heard about it today for the first time.
- Cochran: I mentioned it to Dan today.
- H.M.Jr: Mr. Bell has never heard about it until today, either.
- White: It hasn't been formed yet. They were discussing making Mr. Delano the chairman of the board, and so far as I know, it hasn't been formed yet.

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Has it been formed yet, Dr. Soong?

Soong:

No.

White:

It has been in discussion.

H.M.Jr:

You haven't heard about it?

Bell:

No, sir, I have not until today.

White:

I don't know to what point they should have brought it up because I don't know that they were doing anything that wasn't quite useful.

H.M.Jr:

It is unfortunate it wasn't brought to either Mr. Bell's or my attention.

White:

Well, if that fault lies with anybody, Mr. Secretary, it lies with your own staff and not with Dr. Soong. It is Mr. Foley and myself, because we knew of it.

H.M.Jr:

Then you have done both Dr. Soong and me a disservice. I mean, if Dr. Soong has gone to you and Mr. Foley, then I have got to hold him faultless.

Soong:

Mr. Secretary, I hope you will continue your very strong personal sympathy for my country. As far as I am concerned, I am not in the picture. You think I have been doing a smart business. I give you my word, this is the last intention on my mind, to deal so with people who are so generous with us, so I wish you would regard this matter with generosity.

H.M.Jr:

Well, if Mr. Foley and Mr. White knew this and advised you, I am very sorry that at some stage either Mr. Bell or I wasn't advised, but I can't blame you if you go to these people and then they have advised you this



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way, but I have always said on all of these matters that as far as I am concerned, I am only one individual and the cause is what I am working for and I want China to continue. I want China to prosper, and I want China to win. As far as I am concerned, I am always willing to eliminate myself from any picture if the final result can be accomplished and I never lose sight of the accomplishment. I want to see China win. I am very unimportant in the whole picture, but the whole cause is very important. I am sorry this has come up. I wish I had known more about it, because it is a thing which is most unpleasant for me and would never have come up. I am sorry it had to come up, so let's forget it and we will start over again.

Soong:

O.K.

Bell:

Dr. Soong, have you seen the press release, the draft of the press release? You were supposed to have had it this morning.

Soong:

Yes, I have seen it.

Bell:

Was that satisfactory?

Soong:

Except for two matters. There is mention of Dr. Kan Lee of the Central Bank. I think that is not so very important because what is needed now is just what the Secretary and myself sign. That is one thing. So I propose, if it is agreeable to you, to omit the reference to the Central Bank. That is not the important point.

Bell:

He does sign the agreement.

Soong:

He does sign, but it is not important because

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it is going to go to Shanghai. Dr. Kan Lee is not known to them. He is not a member of the Central Bank. He is just ordered by the Government to represent a signature for the Central Bank.

Bell: I think we would have to leave that, probably, to the Ambassador.

H.M.Jr: If you gentlemen could consult your Government and then come back, let's get this thing signed and let's get an announcement. That is what I take it you want, and that is what the President wants, and that is what Mr. Hull wants, and that is what I would like. So if you can get your answer from your Government, I will sign it very quickly.

Hu Shih: Then we will immediately consult the Government and we will give you, Mr. Secretary, the answer as soon as we get it.

H.M.Jr: And I hold the Chinese so highly that your word is all that I am asking.

Hu Shih: If it is a personal word you ask --

H.M.Jr: That is all, just the personal word of you two gentlemen.

Soong: Mr. Secretary, one thing --

H.M.Jr: I mean, I hold you people in such high regard if you say, "You have our word," that ends it.

Soong: May I say something, Mr. Secretary?

H.M.Jr: Please.

Soong: This Government has announced that they want

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Three Chinese members on the Stabilization Fund Committee. I wanted to report to you.

Bell: Yes, there is to be a board of five, three of whom would be Chinese citizens and he says he wants to report to you on that.

H.M.Jr: Oh!

Soong: The Government wanted me and Mr. K. P. Chen and Mr. Hsi.

White: He was here in the first silver loan.

Soong: As to myself, I feel that my presence here in Washington in dealing with the Lease-Lend Bill will prevent my accepting, but Mr. K. P. Chen and Mr. Hsi will be on it.

H.M.Jr: Then there would be a third Chinese member.

Soong: I have cabled back for a third Chinese member.

H.M.Jr: Well, whatever the wish of the Government is.

Hu Shih: Thank you.



The following joint statement is made by the Secretary of the Treasury, Mr. Henry Morgenthau, Jr., by his Excellency T. V. Soong, representing the Republic of China and by Dr. Hsu Lee representing the Central Bank of China:

Another important step has been taken in the field of monetary cooperation between the United States and China by the signing of a stabilization agreement involving the purchase by the United States Stabilization Fund of \$50,000,000 of Chinese yuan. The Agreement provides, under conditions acceptable to both parties, for the establishment by China of a United States Dollar - Chinese Yuan Stabilization Fund. Included in the Fund's resources will be the dollars acquired from the United States through the purchase of Chinese yuan and further substantial dollar amounts contributed by Chinese Government banks.

This is a cooperative agreement between friendly nations that are working together in many ways to preserve the basic freedoms. Apart from the obvious purpose of stabilizing the relationship between the currencies concerned, it will be an important factor in promoting trade and in fostering the welfare of the participating countries.

China is also entering into an Agreement with the British Treasury with respect to the Chinese Yuan - British Sterling stabilization funds. This Agreement provides additional sterling funds and closely parallels the Agreement between the United States and China.

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These stabilization funds will be managed by a five-man Board which China is creating. The Board will consist of three Chinese, an American appointed by China on the recommendation of the Secretary of the Treasury, and a British national appointed on the recommendation of the British Treasury.



REPORT ON MALARIA SINCE THE WAR

The outbreak of the war at first attracted immediate attention to the need for surgical treatment of the wounded casualties which were pouring back in enormous numbers. The establishment of hospitals for the wounded, the enlistment of surgeons and the provision of surgical supplies, as well as the organization of a transportation service for the wounded, engaged all the resources available. As the war continued, more and more cases appeared, demanding medical care of a somewhat different kind. Most of the medical diseases, moreover, have potentialities of assuming epidemic proportions. Thus the mosquito-borne disease-malaria, the water-borne diseases-cholera, dysentery and typhoid, and the louse-borne diseases-typhus and relapsing fever, claim more and more attention. Among this group, which are controllable to a greater or less extent, malaria is by far the most important. The Chinese Red Cross statistics show that malaria alone constitutes 30.2% of all the notifiable diseases seen by the field-units, the water-borne group 17.0% and the louse-borne group 2.2%. (Table 1)

Malaria has been prevalent throughout China before the war, but the war has provided unprecedentedly favourable circumstances for the spread of the disease, far and wide, to all fronts and places hitherto little affected. On the one hand, the historic inland migration of the refugees has brought, along with them, the disease, and on the other the extensive movement of troops from provinces where malaria, especially the malignant form, is highly prevalent, such as southern Kwangtung, Kwangsi, Yunnan and Kweichow, must have been instrumental in the spread of numerous foci of infection from the endemic centres. New engineering developments such as the opening of highways etc., enhance the chances of infection. Malaria as a disease per se is not a deadly one, but the morbidity it causes, with its accompanying suffering and dislocation of function and loss of time, is enormous. Regiments, nay, even divisions, have been known to be put out of action, villages have declined in prosperity and railway, highway and other war-time projects to have been seriously hampered as a result of the ravages of the disease.

Attempts to control malaria have been made, but are fraught with many difficulties, financial as well as technical. The principles of control can be resolved into (1) the abolition of breeding-places of mosquitoes known to carry malaria by sanitary and engineering measures, (2) the protection against mosquito bites by screening of houses and use of mosquito-netting and (3) the treatment of cases and "carriers". The first requisite, however, is to determine for each region the degree of endemicity or epidemicity and the species of mosquito responsible for the transmission of malaria.

In the war areas malaria is prevalent among the fighting troops on all fronts, especially in the valleys of the Yellow, Han and Yangtze rivers, and the lowlands adjacent to the Tungting and Poyang lakes. Control measures in these regions are limited to the treatment and isolation of the cases and at best to some provision of protection against mosquito bites by means of mosquito-netting. Lack of microscopes for diagnosis and quinine and atabrin for treatment, not to say prophylaxis, considerably limit the scope of the work. Provision of mosquito-netting to all troops in the highly malarious areas is difficult, because of prohibitive costs. Lack of suitable material for mosquito-netting in sufficient quantities is another deterrent. The Chinese Red Cross and the Army Sanitary



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Corps are the only two organizations, apart from the medical personnel of the army, who give technical help to the army in the diagnosis and treatment of the disease. The Chinese Red Cross has further secured millions of tablets of quinine from abroad for free distribution to the army. The drug has so far, however, only been recommended for treatment, as the amount required for prophylaxis would have been many times larger and quite prohibitive from the standpoint of transportation alone. Screening of houses and the use of mosquito-netting has not been sufficiently made use of as a control measure. The Chinese Red Cross intends, however, to make an appeal for screening material its next objective. Extensive drainage and larvicidal measures purporting to destroy the malaria-transmitting mosquito are not considered feasible, because there is neither the technical personnel to do the necessary preliminary survey nor the financial backing to carry out the engineering measures. It is evident that the measures so far taken have been quite ineffective.

In the rear areas attempts have been made to control the disease in malarious regions to somewhat better advantage. Thus in 1938 the South China Anti-Epidemic Unit of the National Health Administration and the League of Nations conducted a malaria survey in Kwangsi province. The results of this work (23 counties surveyed), showed that the north-western part, (Pai-sai and Tien-si counties), the western part, (Tien-pao and ~~Shan-pang~~ counties), and the south-western part, (Lung-ching, Ping-shiang and Ningming counties), are most heavily infected. A spleen index of 89.29% was recorded in Manpatou in Ningming county and a parasite index of 57.80% in Chuyungchieh in Tien-pao county. The predominant species of malaria parasite was found to be the malignant tertian (*Pl. falciparum*) - 50.23% in 618 positive smears examined. (See Tables II and III). Six species of anophelids were found, of which *A. hyrcanus* was found to be the predominant species, whereas *A. sinicus* was found to be the most important vector of malaria. (See Table IV). Control measures were affected through propaganda and distribution of quinine. The military situation later prevented the furtherance of anti-malaria activities.

In Kweichow anti-malarial activities were no less energetic. An anti-malaria unit was formed early in 1939 under the auspices of the Kweichow Provincial Health Commission. Dr. S.C. Kwok, later in collaboration with Dr. H.C. Kan of the Central Field Health Station, made malarial surveys during 1939 and 1940 in various parts of the province. Their investigations may be summarized as follows: (Tables IV, V, VI, VII, VIII, IX and X). In the north-eastern part of Kweichow, in the rural districts of Sung-tao and Tung-jen haicms, the disease was prevalent with a splenic index of 37.38% and 25.67% and a parasitic index of 29.27% and 14.80% respectively. (Table VI). In the south-eastern part, in the districts of Chih-hong and Wang-mo malaria was highly endemic with a splenic index of 64.67% and 73.90% and a parasitic index of 42.88% and 52.22% respectively. (Table IX). In the southern part, in Ia-tien haicm, it was also prevalent with a splenic index of 20.10% and a parasitic index of 25.10%. (Table VII). Elsewhere, e.g., in the north, west and south-east of the province, the incidence was relatively low. (Tables V, VIII and X). The species of mosquito mainly responsible for the transmission of the disease is believed to be *A. sinicus*, although no dissections were made in these investigations. As regards the splenic distribution the malignant tertian type was again the predominant one where the disease had a high incidence. Little was done, however, in the way of control apart from the treatment of those found to be infected, owing to lack of personnel and funds.

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Prior to the war, investigations were made in the southern part of Yunnan and Kweichow, in 1935, by the Central Field Health Station of the National Health Administration, which showed that what used to be called "Chang Chi" in those regions was really malaria. When the China-Burma highway was opened, malaria followed closely in its wake. The Highway bisected the province from east to west and malaria was found to be particularly serious along its western section near the border. This attracted Government attention and the Anti-Malaria Commission was formed in the latter part of 1939, with the collaboration of Dr. Williams of the U.S. Public Health Service. Out of this Commission a Malaria Research Institute and a Malaria Control Corps were created. The former undertakes to make all the necessary preliminary surveys and collection of information related thereto, while the latter organizes anti-malaria stations in various parts of the province for treatment and control. The Rockefeller Foundation was invited to participate in the research since May 1940 and has assigned Dr. Sweet to continue the work begun by Dr. Williams.

Dr. Williams and his colleagues, working at Chefang, on the China-Burma border, identified eleven species of anopheles in the area. (Table IV). They found further that the highest rate of infection was in A. minimus - 9.8%. In a series of 237 Chinese and Shan examined a spleen index of 60.8% and a parasitic index of 52.3% was found. The species distribution was found to be 67.7% for malignant tertian malaria (Pl. falciparum), 29.0% for tertian malaria (Pl. vivax) and 3.2% for the mixed infection of malignant and benign tertian malaria. (Table II). Control measures adopted included sub-soil drainage, spraying <sup>and</sup> larvicides, shading and stocking of gambusia and local larva-eating fishes and house-spraying for destruction of roosting adult mosquitoes.

Dr. Y.T. Yao, Mr. C.C. Wu and their colleagues of the Malaria Research Institute identified 15 species of anopheles in Mengshih and its environs (see Table IV). Dissections showed only 3 species to be naturally infected; thus of 5708 A. minimus mosquitoes dissected, 194 were found infected - 3.4%; of 1314 A. jeyporiensis, 3 were found infected - 0.2% and of 701 A. hyrcanus 1 was found infected - 0.01%.

Dr. Sweet's report has not yet been published, but a tentative summary of his work may be made. Continuing the work of collecting and dissecting mosquitoes, some 8000 mosquitoes have been dissected and A. minimus has been found to be by far the most important transmitter of malaria in the western part of the Burma highway. Malaria is prevalent during  $\frac{4}{5}$  - 5 months in the year, beginning from May. The disease affects Chinese residents most severely, next the local tribespeople and last the transient transport personnel (drivers etc.).

The importance of these various findings is the indication that A. minimus, rather than A. hyrcanus, is the main transmitter of malaria. From the sanitary engineering standpoint this means that attention should be paid, not to rice-fields in which A. hyrcanus breeds, but to drainage <sup>channels</sup> streams and channels which harbour A. minimus.

The fact that the malaria outbreaks are confined chiefly to  $\frac{4}{5}$  - 5 months in the year, admits the possibility of applying quinine or atabrin prophylaxis to important war workers in affected regions. Atabrin is to be preferred, as it affords better protection against relapses. Further provision of facilities for diagnosing and treating malaria can be mobilized and concentrated during the "malaria season". As above mentioned, more extensive use of house screening and mosquito netting would add greatly to the value of other preventive measures.



**TABLE I**

Notifiable Communicable Diseases  
 reported by the Chinese Red Cross  
 Medical Relief Corps Field Units  
 in the War Areas.  
 (January 1939 - December 1940)

Name of Disease	No. of Cases	Percentage
Malaria	110,931	80.22
Dysentery	22,431	16.23
Cholera	509	0.36
Typhoid	589	0.43
Relapsing Fever	2,551	1.84
Typhus Fever	525	0.38
Smallpox	396	0.29
Tetanus	190	0.14
Cerebrospinal meningitis	102	0.07
Diphtheria	41	0.03
Scarlet Fever	8	0.005
<b>Total</b>	<b>138,273</b>	<b>100.00</b>



II. Splenic and Parasitic Indices of 23 Hsiens in Kwangsi.  
 (Feb. 20th - Nov. 30th, 1936)

Name of Locality (Hsiens)	Persons exam- ined above 13 yrs.	No. with enlarg- ed Spleen	No. with Para- site	Child- ren exam- ined under 13 yrs.	No. with enlarg- ed Spleen	Spleen In- dex	No. with Para- site	Para- site In- dex
Nanning (6)	9	4	2	615	37	5.02	29	4.72
Tiansi (1)	35	26	16	66	47	71.21	33	50.00
Pei Sai (3)	-	-	-	297	53	17.05	38	12.79
Pingchiang (9)	52	7	10	322	53	16.46	52	16.15
Kwei (5)	31	3	15	189	2	1.66	8	4.23
Pei Liu (5)	1	-	-	279	5	1.79	1	0.36
Pingyang (2)	-	-	-	125	1	0.80	2	1.60
Tu An (3)	-	-	-	191	5	2.62	3	1.53
Na Ma (2)	6	-	6	64	10	15.56	16	25.00
Wu Ming (3)	-	-	-	178	3	1.69	7	3.93
Kweilin (1)	-	0	-	52	1	1.92	-	-
Chuan (1)	-	-	-	59	0	0	0	0
Liu Cheng (4)	11	3	1	164	14	8.54	12	7.32
Tienpao (12)	49	8	17	380	62	23.85	56	32.97
Tientung (8)	5	1	4	341	63	18.48	59	26.69
Tienyang (6)	2	-	-	240	61	25.42	16	57.14 <sup>x</sup>
Langching (5)	12	4	4	146	25	16.89	13	8.78
Sonching (2)	2	-	1	59	6	10.17	1	1.70

x --- one village only

(continued over)

TABLE II(continued).

Name of Locality (Hsien)	Persons exam- ined above 13 yrs.	No. with enlarg- ed Spleen	No. with Para- site	Child- ren exam- ined under 13 yrs.	No. with enlarg- ed Spleen	Spleen In- dex	No. with Para- site	Para- site In- dex
Lanning (3)	1	-	2	116	52	44.83	26	41.94
Minkiang (3)	1	-	-	84	2	2.38	-	-
Kung Cheng (4)	83	17	62	25	6	24.00	9	36.00
Sse-an (2)	37	4	5	108	30	27.78	27	25.00
Sonling (2)	23	-	15	53	19	35.85	21	39.62
TOTAL (23 hsien)	360	77	158	4,035	557	13.80		

The figure in brackets indicates the number of villages or towns investigated in each hsien.

III. Species Distribution of Malaria in 23 hsien of Kwangsi,  
(Feb. 20th - Nov. 30th, 1938)

Name of Locality (Hsien)	No. with Para- site	Species of Parasites							
		<i>P. falciparum</i>		<i>P. vivax</i>		<i>P. malariae</i>		Mixed	
		No.	%	No.	%	No.	%	No.	%
Nanning (6)	31	23	74.19	6	19.35	1	3.23	1	3.23
Fei Sei (3)	38	25	68.42	7	18.42	5	13.16		
Tiensi (1)	49	30	61.22	9	18.37	2	4.08	8	16.33
Pingchiang (9)	62	31	50.00	23	37.10	5	8.06	3	4.84
Kwei (4)	23	13	56.52	9	39.13	1	4.35		
Fei Idu (1)	1	1	100.00						
Pingyang (1)	2	1	50.00			1	50.00		
Tu An (2)	3	2	66.67			1	33.33		
Ma (2)	22	8	36.36	13	59.09			1	4.55
Wu Hing (3)	7	5	71.42			1	14.29	1	14.29
Iducheng (3)	13	7	58.85	5	38.46	1	7.69		
Hienao (12)	87	30	34.48	45	51.72	10	11.50	2	2.30
Hientung (6)	63	21	33.33	33	52.39	9	14.28		
Hienyang (5)	31	12	38.70	17	54.84	1	3.23	1	3.23
Langching (5)	17	8	47.06	2	11.76	7	41.18		
Sonching (1)	2	1	50.00			1	50.00		
Jinning (3)	27	13	48.15	10	27.04	3	11.11	1	7.70
Minkiang (1)	1	1	100.00						
Kung Cheng (4)	71	40	56.34	26	36.62	4	5.63	1	1.41
Sig-wu (2)	32	21	65.62	9	28.12	1	3.13	1	3.13
Sonling (2)	36	17	47.22	15	42.86			4	11.11
TOTAL	618	311	50.32	229	37.06	54	8.74	24	3.88

The figure in brackets indicates the number of villages or towns investigated in each hsien.



IV. Distribution of Different Species of Anopheles in Kwaichow, Kwangai and Tunnan.

Species of Anopheles	Kwaichow (Drs. Kwok & Kan) 1939 - 1940			Kwangai (Dr. Yao et al.) 1938	Tunnan		
	S.E.	N.E.	S.W.		Chafang Williams) 1939-40	Kwangshih Dr. Robertson 1939	Kwangshih (Dr. Yao et al.) 1940
<i>A. hyrcanus</i>	x <sup>*</sup>	x	x	x <sup>*</sup>	x <sup>*</sup>	x	x <sup>*</sup>
<i>A. minimus</i>		x <sup>*</sup>	x <sup>*</sup>	x <sup>*</sup>	x <sup>*</sup>	x	x <sup>*</sup>
<i>A. maculatus</i>		x	x	x		x	x
<i>A. vexans</i>		x	x	x		x	x
<i>A. annularis</i>				x	x	x	x
<i>A. leyporensis</i>				x	x	x	x
<i>A. tetralatus</i>				x	x	x	x
<i>A. aikeni</i>					x	x	x
<i>A. barthrostris</i>					x	x	x
<i>A. signus</i>					x	x	x
<i>A. splendidus</i>					x	x	x
<i>A. stephensi</i>					x	x	
<i>A. culicifacies</i>						x	x
<i>A. fluviatilis</i>							x
<i>A. subdectus</i>							x
<i>A. lindesayi</i>						x	
<i>A. kochi</i>						x	
<i>A. komari</i>						x	
<i>A. philippinensis</i>							x

S.E. Kwaichow refers to the following haens where the species is found:-  
Yun-shiang, Tushiang, Fatsai, Sanho, Tuyun and Machang.  
(June and July).

S.W. Kwaichow refers to the following haen where the species is found:-  
Chih-hang (July).

N.E. Kwaichow refers to the following haens where the species is found:-  
Tung-jan, Sun-tao and Chiang-kou (October).

x-- species found  
x<sup>\*</sup>-- predominant species found.

V. Splenic and Parasitic Indices and Species Distribution in South East Kwelchow (1939-1940).

Name of Haem	No. Examined	Splenic Index		Parasitic Index		Species Distribution					
		No.	%	No.	%	Pl. viv. No.	%	Pl. mal. No.	%	Pl. falcip. No.	%
Tu-shan	261	3	1.15	3	1.15	3	100	-	-	-	-
Tu-tun	378	4	1.05	1	0.26	1	100	-	-	-	-
San-sh	173	8	4.62	1	0.57	-	-	-	-	1	100
Tu-chiang	106	8	7.54	1	0.94	1	100	-	-	-	-
Tun-chiang	330	16	4.84	3	0.90	2	66.7	1	33.3	-	-
Ma-chiang	60	2	3.33	1	1.67	1	100	-	-	-	-
Tu-tsu	180	11	6.11	5	2.77	4	80	-	-	1	20
TOTAL	1,488	52	3.5	15	1.00	12	80	1	6.7	2	13.3

VI. Splenic and Parasitic Indices and Species Distribution in North East Kwelchow (1939-1940).

Name of Haem	No. Examined	Splenic Index		Parasitic Index		Species Distribution							
		No.	%	No.	%	Pl. viv. No.	%	Pl. mal. No.	%	Pl. falc. No.	%	Mixed. No.	%
Yung-jen	331	85	25.67	49	14.8	11	22.65	23	46.93	15	30.6	-	-
Chiang-kou	42	3	7.14	8	19.0	2	25.0	3	37.5	3	37.5	-	-
Sun-tsu	222	83	37.38	65	29.27	9	13.84	18	27.69	37	56.9	1	1.52
Yung-kong	56	4	7.10	2	3.60	2	100.0	-	-	-	-	-	-
Hsi-tan	238	7	2.99	11	4.62	8	72.72	2	18.18	1	9.1	-	-
TOTAL	889	182	20.47	135	15.18	32	23.70	46	34.0	56	41.47	1	0.74

VII. Splenic and Parasitic Indices and Species Distribution in Southern Kwelchow (1939-1940)

Name of Haem	No. Examined	Splenic Index		Parasitic Index		Species Distribution					
		No.	%	No.	%	Pl. vivax No.	%	Pl. malar. No.	%	Pl. falcip. No.	%
Chi-fan	794	18	2.30	38	4.8	6	15.8	2	5.3	20	78.9
Lo-tien	339	68	20.10	85	25.1	9	10.6	10	11.8	66	77.6
TOTAL	1,133	86	7.67	123	10.85	15	12.2	12	9.78	96	78.0



VII. Splenic and Parasitic Indices and Species Distribution of Malaria in Western Kweichow, 1939 - 40.

Name of Hsien.	No. of Examined.	Splenic Index		Parasitic Index		Species Distribution							
		No.	%	No.	%	Pl.vivax No.	%	Pl.malar. No.	%	Pl.falc. No.	%	Mixed No.	%
An-shun	991	25	2.50	16	1.6	11	68.75	5	31.25	-	-	-	-
Tsai-shen	360	57	15.84	55	9.17	15	45.45	4	12.12	12	36.36	2	6.0
Po-tin	180	11	6.11	10	5.56	6	60.0	4	40.0	-	-	-	-
Total	1551	95	6.07	59	3.85	32	54.23	15	22.0	12	20.0	2	3.38

IX. Splenic and Parasitic Indices and Species Distribution of Malaria in South-western Kweichow, 1939 - 40.

Name of Hsien.	No. of Examined.	Splenic Index		Parasitic Index		Species Distribution							
		No.	%	No.	%	Pl.vivax No.	%	Pl.malar. No.	%	Pl.falc. No.	%	Mixed No.	%
Shing-i	380	8	2.10	13	3.42	2	15.38	4	30.78	7	53.85	-	-
An-lung	1347	124	9.20	142	10.54	20	14.08	15	10.56	106	74.64	1	0.70
Chih-heng	702	454	64.67	301	42.88	49	16.27	33	10.96	217	72.09	3	0.99
Wong-mo	180	155	75.90	94	52.22	5	5.32	8	8.40	78	83.0	3	3.20
Total	2609	719	27.20	550	21.08	76	13.92	60	10.90	408	74.18	7	1.27

X. Splenic and Parasitic Indices and Species Distribution of Malaria in northern Kweichow, 1939 - 40.

Name of Hsien.	No. of Examined.	Splenic Index		Parasitic Index		Species Distribution							
		No.	%	No.	%	Pl.vivax No.	%	Pl.malar. No.	%	Pl.falc. No.	%	Mixed No.	%
Kweiyang	504	5	0.6	8	1.0	6	75.0	-	-	2	25.0	-	-
Tsung-i	64	21	32.81	15	23.43	8	53.33	1	6.06	6	40.0	-	-
T'ung-tee	356	7	1.96	8	2.24	8	100.0	-	-	-	-	-	-
Total	1224	33	2.68	31	2.52	22	70.90	1	3.22	8	25.8	-	-



II. Splenic and Parasitic Indices and Species Distribution  
in Chefang, Yunnan (1939-1940)

	No. Ex- amined	Splenic Index		Parasitic Inds:		Species Distribution					
		No.	%	No.	%	Pl. falcip.		Pl. vivax		Pl. falc. & viv.	
						No.	%	No.	%	No.	%
Chinese	43	38	88.14	27	62.79	16	59.0	10	37.0	1	4
Shans	194	106	54.60	97	50.00	68	70.0	26	27.0	3	3
TOTAL	237	144	60.76	124	52.32	84	67.74	36	29.03	4	3.23

References:

Red Cross Medical Relief Corps Reports;  
Jan.-June, July-Dec, 1939  
Jan.-June and July-Dec, 1940.

Report of Laboratory of Malariology and  
Parasitology, South China Anti-Epidemic  
Unit of National Health Administration  
and League of Nations, Feb.-Nov. 1938.

Report of Anti-Malaria Unit, Kweichow  
Provincial Health Commission, 1939-1940,  
by Dr. C.S. Kwok. (unpublished).

Report on the Investigation of Epidemic  
Conditions on the China-Burma Highway,  
Nov. 1939-May 1940 by L.L. Williams,  
H.J. Bush and Bruce Mayne.

Monthly Reports of Malaria Research  
Institute, Yunnan, June-Dec. 1940.

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Kweiyang, Kweichow,  
April 21st, 1941.

April 21, 1941  
4:27 p.m.

H.M.Jr: Hello.

Operator: Mr. Currie.

Lauchlin Currie: Hello, Mr. Secretary.

H.M.Jr: Yes, Lauch.

C: There are one or two things I want to tell you - bring up to date. One is, I mentioned again to the President this morning about China - this question of freezing, and he told me to take it up again with Hull.

H.M.Jr: Wonderful.

C: (Laughs). So we go back and forth, but I'll do that. I've got an appointment tomorrow. The President is for it, you know, but he doesn't seem able to get it. The other thing that came up was that question of the stabilization loan and - did he speak to you about it?

H.M.Jr: Yes, he did.

C: Well, that's all right then.

H.M.Jr: Well, I tell you - how did he leave it with you?

C: He thought that we ought not to insist on that monthly limitation purely from a psychological point of view. I read him a telegram that I had received from Major McHugh, the Naval Attache there, who I got to know very well when I was out there, and he says I ought to show it to you. If you like I'll just read it to you.

H.M.Jr: I haven't got time now, Lauch.

C: All right, Mr. Morgenthau.

- 2 -

H.M.Jr: Maybe tomorrow. But so that you know what instructions the President gave me, it was to tell them that publicly they could have the fifty provided that they would give me their word of honor not to use more than the twenty and then five a month.

C: I see.

H.M.Jr: And I told them that, and they said they would send that word to their Government and let me know.

C: I see.

H.M.Jr: I mean, in other words have a signed agreement the way it is written but publicly we'll transfer the fifty.

C: Yeah. Well, I hope that's all right.

H.M.Jr: Well, doesn't that sound all right to you?

C: Well, I'm afraid it doesn't quite meet their point about an evidence of distrust on our part, you see.

H.M.Jr: Oh, well, that's nuts. They want the fifty but .....

C: No, I think it is psychological now because they can't use the money anyway, you see.

H.M.Jr: Well, anyway, that was the President's own suggestion. It wasn't mine. That was his, so I gave them that.

C: O.K.

H.M.Jr: All right, Lauch.

C: All right, Mr. Secretary.



THE WHITE HOUSE  
WASHINGTON

April 21, 1941

My dear Mr. Secretary:

Consultation having been had with the Chief of Staff of the Army, I find that:

(1) The defense of the United Kingdom is vital to the defense of the United States;

(2) Sections 4 and 7 of the Act of March 11, 1941 have been complied with by the necessary agreement on the part of His Majesty's Government in the United Kingdom;

(3) It would be in the interests of our national defense to transfer the defense articles set forth in the annexed schedule.

I therefore authorize you immediately to make the transfer to His Majesty's Government in the United Kingdom of the defense articles set forth in the annexed schedule.

I would appreciate it if you would arrange with the Chairman of the British Supply Council in North America for the time, method, and other details of the disposition.

Very sincerely yours,



The Honorable

The Secretary of the Treasury.

DEFENSE ARTICLES AUTHORIZED FOR TRANSFER  
BY THE SECRETARY OF THE TREASURY TO THE  
UNITED KINGDOM

-----

80 Diesel Driven Bitumen Paddle Mixers and Spare  
Parts

120 Stone Crushers and Spare Parts

15 Chipping Granulators and Spare Parts

50 Diesel Driven Portable Air Compressors, 105 C.F.M.  
Spare Parts for Road Rollers

900,000 Feet 2-1/2" Fire Hose

170 Bituminous Tar Kettles

1,000 Rolls Metal Screen Wire

April 21, 1941

*Apr 1/41*

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Very sincerely yours,

*Agd Franklin D. Roosevelt*

The Honorable

The Secretary of the Treasury.

aja - 4 12/41



DEFENSE ARTICLES AUTHORIZED FOR TRANSFER  
BY THE SECRETARY OF THE TREASURY TO THE  
UNITED KINGDOM

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Parts

120 Stone Crushers and Spare Parts

15 Chipping Granulators and Spare Parts

50 Diesel Driven Portable Air Compressors, 105 C.F.M.

Spare Parts for Road Rollers

900,000 Feet 2-1/2" Fire Hose

170 Bituminous Tar Kettles

1,000 Rolls Metal Screen Wire

<sup>21</sup>  
April , 1941

a ja - 4/12/41

April 21, 1941.

Dear Mr. Ballantyne:

Thank you for your letter of April 17th in which you enclosed this week's statement of British aircraft deliveries.

We will look forward to receiving these in the future, and I shall be glad to have you send them as you did this one, direct to my office.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,  
Private Secretary.

Mr. C. T. Ballantyne,  
The British Supply Council in  
North America,  
Box 680, Benjamin Franklin Station,  
Washington, D. C.

GEF/jba/dbs

April 21, 1941.

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Private Secretary.

Mr. C. F. Ballantyne,  
The British Supply Council in  
North America,  
Box 600, Benjamin Franklin Station,  
Washington, D. C.

GHY/jba/dbs



## THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

TELEPHONE: REPUBLIC 7860

Box 680  
BENJAMIN FRANKLIN STATION  
WASHINGTON, D. C.SECRET*W-4*

April 17, 1941.

Dear Mrs. Klotz,

Herewith this week's statement of British aircraft deliveries, which we used to send to Mr. Philip Young for the Secretary. On the advice of Mr. Philip Young we shall in future send these statements direct to you every week.

Yours very truly,

*C.T. Ballantyne*

Associate Secretary

Mrs. H.S. Klotz,  
Room 280,  
United States Treasury,  
Washington, D.C.

enc.

Copy to Mr. Philip Young

165-

STATEMENT NO. 10  
AIRCRAFT SHIPPED TO U. K. & OVERSEAS COMMANDS

TYPE	DESTINATION	ASSEMBLY POINT	By Sea during week ending March 22/41	By Air during week ending April 12/41
<u>Stiss</u>				
Tomahawk	M. E.	Alexandria Takoradi	5 22	
<u>Glas</u>				
Boston II	U. K.	U. K.	2	
<u>Ann Martin</u>				
Maryland I	M. E.	Alexandria Takoradi	5 5	
<u>Skheed</u>				
Hudson V	U. K.	U. K.	7	
Hudson III	U. K.	U. K. (via Gander)		2
<u>Solidated</u>				
Catalina	F. E.	Singapore (ex San Diego)		1
		Australia (ex San Diego)		1
erator	U. K.	U. K. (via Gander)		2
24				
<b>O T A L</b>			<b>46</b>	<b>6</b>

British Air Commission  
April 15, 1941

## STATEMENT NO. 11

## AIRCRAFT SHIPPED TO U.K. &amp; OVERSEAS COMMANDS

TYPE	DESTINATION	ASSEMBLY POINT	By Sea during week ending March 29, 1941	By Air during week ending April 19, 1941
<u>CURTISS</u>				
Tomahawk	M. E.	Alexandria	5	
<u>DOUGLAS</u>				
Boston II	U. K.	U. K.	1	
<u>GLENN MARTIN</u>				
Maryland I	M. E.	Alexandria	5	
<u>LOCKHEED</u>				
Hudson V	U. K.	U. K.	14	
<u>CONSOLIDATED</u>				
Catalina	U. K.	U. K. (via Bermuda)		4
<u>BOEING</u>				
B-17	U. K.	U. K. (via Gander)		3
T O T A L			25	7

British Air Commission  
April 21, 1941



TREASURY DEPARTMENT  
INTER-OFFICE COMMUNICATION

DATE APR 21 1941

TO Secretary Morgenthau

FROM Mr. Foley

Re: American Viscose

As a result of a conference at the Bureau of Internal Revenue on the three alternative plans presented by Messrs. Stanley and Dillon, the request for rulings and closing agreements in the alternative has been withdrawn. The Bureau would have been required to refuse to enter into closing agreements which would have been favorable to American Viscose because each of the three plans resulted in the present surplus and reserves of American Viscose amounting to about \$67,000,000 losing its identity so that any future distribution to stockholders from this fund would have been nontaxable.

The attorney (Mr. Buck) representing the underwriters at the conference agreed that this would result from the plans submitted. In accordance with the plan suggested to him by Messrs. Mooney and Reed of the Bureau, Mr. Buck agreed to submit on Tuesday morning a new request for a ruling and closing agreement which would preserve the identity of the \$67,000,000 surplus and reserves. This plan contemplates the organization of a new corporation to acquire the stock in American Viscose, which would thereupon be completely liquidated, and stock in its new parent sold to the public. Such a re-organization would be held nontaxable but would not have the adverse

- 2 -

effect upon the revenue of the three plans suggested by the underwriters.

During the course of the discussion at the Bureau, it was stated by Mr. Buck that Morgan, Stanley & Co. had insisted that Courtald (or the British Government) retain an interest in American Viscose and that for this reason the underwriters had acquired 448,000 of the 491,000 shares of stock outstanding, Courtald (or the British Government) retaining about 20,000 shares. [The balance of 24,000 shares are held by officers and employees to whom the stock was distributed as a bonus.] It was stated that the underwriters required the retention of this interest by Courtald because otherwise the stock in American Viscose could not have been expeditiously distributed to the American public.

If Mr. Buck brings in the request for the ruling and closing agreement as he agreed to do on Tuesday, we should be able to have a ruling in the hands of the underwriters by the end of the week as the problem involved is being given immediate and special attention by both the Commissioner's Office and the Chief Counsel's Office simultaneously.

*L. S. F. H.*



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE April 21, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£40,000
Purchased from commercial concerns	£30,000

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

In contrast to last week's decline, open market sterling improved today from an initial quotation of 4.01-1/2 to 4.03-1/4 late in the afternoon. The closing quotation was 4.03. Transactions of the reporting banks were as follows:

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

The Canadian dollar improved to a closing discount of 11-5/8%, as compared with 11-13/16% on Saturday.

The Swiss franc, after opening at the current low of .2316, advanced to .2319-1/2 by noontime, and closed at that level. Today's rise cancelled more than half the loss sustained last week. The principal buyer in today's trading was the Chase National Bank, which received instructions from the State Bank of the U.S.S.R. to purchase \$250,000 worth of Swiss francs. Another prominent buyer was the Guaranty Trust Company, which received this afternoon an order from Uruguay to buy 500,000 Swiss francs. Against this demand, the New York bank which recently received orders to sell Swiss francs from Portugal and Shanghai had no difficulty in executing the balance outstanding. In connection with the Russian order to Chase, we were informed that the Russian State Bank also instructed the New York Federal Reserve Bank to charge its account and pay \$250,000 to the Swiss National Bank account. Although it is possible that the Russian transfer of \$500,000 worth of funds from this market to Switzerland represents a flight of capital, it appears more likely that Russia undertook these operations in order to settle commercial obligations with Switzerland. A Swiss-Russian trade agreement has reportedly been in operation since February 24, and we have just received a cable from Moscow stating that a Swiss banking representative arrived in Russia about ten days ago for the purpose of arranging the financing of this agreement. Around the first week in March, Russia was reported to be a seller of \$4,500,000 worth of gold in the Swiss market in order to raise Swiss francs to pay for the importation of Swiss machinery.



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

Swedish krona	.2384
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2350
Brazilian milreis (free)	.0505
Mexican peso	.2056
Cuban peso	4-1/8% discount

In Shanghai, the yuan in terms of our currency was quoted at 5-3/16¢, off 1/16¢. Sterling was 1¢ lower at 3.90-1/2.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

We were informed that the Bombay gold price for April 19 was equivalent to \$35.03, representing a gain of 35¢ from the quotation of April 5. Silver was equivalent to 44.92¢ on April 19, up 1/2¢. Recent Allied setbacks in the Balkans and North Africa were reported to have stimulated the Indian demand for precious metals.

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

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

We made two purchases of silver totaling 175,000 ounces under the Silver Purchase Act, all of which consisted of new production from various foreign countries, for forward delivery.

The Federal Reserve Bank's report of April 16, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled \$93,110,000, a reduction of \$11,780,000 since April 9. Most of the change in deposits took place on the books of the Yokohama Specie Bank's New York agency. The latter's principal dollar liabilities to and dollar claims on Japanese banks in Asia stood as follows on April 16:

	<u>April 16</u>	<u>Change from April 9</u>
Liabilities: Deposits for Japan and Manchuria.....	\$59,374,000	- \$ 5,627,000
Deposits for China.....	25,710,000	- 5,274,000
; U.S.Treas.Bills, comm. paper, etc.....	23,240,000	+ 671,000
Claims : Loans.....	\$48,361,000	- \$10,724,000
; Other - mainly Jap. import bills.....	7,401,000	- 556,000

The decline in Chinese bank deposits by \$5,274,000 presumably resulted from another transfer from the account of the Yokohama's Tientsin branch to that of the head office. Japanese bank deposits thus decreased only \$5,627,000, as against the reduction of \$10,724,000 in loans granted by the Agency (mainly to Japanese banks).

*J.M.R.*  
**CONFIDENTIAL**

April 21, 1941

Messrs. White and Geo

Mr. Cochran

Since the full amount of information called for by Mr. Taylor's outline would require the cooperation of the American Embassy at Chungking as well as that of several Consular Offices in China, and since the Treasury request should be addressed directly to the Department of State, I have taken the liberty of replacing the draft letter to the American Consul General at Shanghai with the attached letter to Secretary Hall.

HMC:lap-4/21/41

APR 23 1941

My dear Mr. Secretary:

With the consummation of our Exchange Stabilization Agreement with China, the Treasury Department will desire to be kept as fully informed as possible upon current financial, monetary and economic developments in that country, and naturally turns to your Department for the cooperation of its Foreign Service Officers.

Much valuable material is being received through your Department from the American Embassy at Chungking and from Shanghai and other Consular posts. When Consul Horace H. Smith was recently detailed to the Treasury Department for a few days he provided helpful information and was instructed as to our particular interests in China. It is not desired that duplication of the reporting work now being done take place, or that any new reporting system be instituted which would not fit entirely into the present arrangements of your office in China.

For your possible guidance, I am attaching a brief outline of topics indicating the full range of information on economic and monetary conditions in China which the Treasury requires. This Department would welcome warmly your assistance in obtaining as full and complete a picture of affairs in China as possible, in order that we may be guided wisely in the operations of the Exchange Stabilization Agreement under reference.

Sincerely yours,

(Signed) D. W. BELL

Acting Secretary of the Treasury.

Attachment.

The Honorable  
Cordell Hall,  
Secretary of State.

EMC:lap-4/21/41



**Memorandum in regard to Data of Interest to  
Treasury from Shanghai**

**A. Monthly Reports, covering statistical material and analyses of**

**(1) Foreign exchange rates.**

- (a) Supply of and demand for U.S. \$, UK £, and Ch. \$.
- (b) Exchange interrelationships of competing and conflicting currencies.

**(2) Foreign exchange control.**

- (a) Details of operation in both unoccupied and occupied areas.
- (b) Special notes on changes in the controls.

**(3) Banking notes.**

- (a) Current developments.
- (b) Operations of Chinese Government banks, private Chinese bankers, foreign banks (particularly British, American, Japanese and puppet banks).
- (c) Changes in interest rates, note issuance, loan policies, etc.
- (d) Capital movements; nationality, purpose, result.

**(4) CURRENCY NOTES.**

- (a) Issuance.
- (b) Amounts outstanding.
- (c) Effect on prices and economic conditions.

**B. Monthly Reports.**

**(1) Merchandise trade. Volume, value and nature of imports and exports with leading areas, U.S., U.K., Japan, Southeast Asia, etc.**

- (a) Periodical analyses of changes in trade.
- (b) Trade agreements, payments agreement with other countries.
- (c) Trade controls; tariffs, discrimination, quotas, prohibitions, etc.
- (d) Purchases and sales of war or vital materials.
- (e) Trade routes; approved and illicit smuggling, organization of trade through Japanese lines.

- 2 -

- (2) Gold and Silver shipments. Sources, ownership, destination.
- (3) Foreign exchange assets and obligations, with leading areas, U.S., U.K., Japan, etc.
- (a) Assets: trade balances, foreign exchange, loans, location, ownership, etc.
- (b) Obligations: imports, payments on services, capital movements, etc.
- (4) National economy. Analysis and data on production, costs of living, investments and ownership, prices, stocks on hand of vital materials, transportation facilities, etc.
- (5) Government operations.
- (a) Budget: revenues and expenditures.
- (b) Public Debt.
- (c) Methods of finance.
- (d) Currency situation.
- (e) Central bank activities.
- (f) Bank deposits: domestic and foreign.
- (g) Savings: voluntary and compulsory.
- (6) Banking developments
- (a) Types of business in which the leading banks are interested.
- (b) Inter-bank relationships.
- (c) Withdrawal or establishment of new banks in various areas.
- (d) Changes in quantity and quality of credit available.
- (e) Reserves: nature and location.

### C. Special Reports:

From the foregoing list of topics you may gather that when there are significant developments in any of these fields special reports would be helpful.

WV/ed  
4/4/51

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P  
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Dear Mr. Lockhart:

A short time ago I had the opportunity of conversing with Mr. Horace E. Smith, a staff member of your office in Shanghai. We discussed the general situation prevailing in China, and Mr. Smith inquired further about our particular interests.

We are interested in the full range of general economic and monetary conditions. For your information, I am enclosing a brief outline of topics around which material might be collated and interpretation tendered. The inclusion below of any topic does not mean we have not received information on that subject. On some topics we have been receiving excellent reports and advice. The topics are listed to show the general scope of our interests.

We have naturally a very keen concern in getting as full and complete a picture of affairs in China as possible, and we should welcome your cooperation in this respect.

Very truly yours,

H. D. White,  
Director of Monetary Research

Mr. Frank F. Lockhart,  
American Consul General,  
American Consulate,  
Shanghai, China.

FF/Drl  
7/41

*Not Hand*

COPI:mg:4/28/41



## PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Rio de Janeiro.

DATE: April 21, 1941, 6 p.m.

NO.: 222

This is for Gaffery's information.

You are requested to make a paraphrase of the message which follows and then deliver it in Rio de Janeiro to the Yugoslav Chief of Mission.

QUOTE As soon as the receipt of an order from our Government has been received for the return of \$11,000,000 to New York, you are requested to cable me before you take any action so that I may also take the steps which are necessary.

An open cable, to the effect that the order has been received, will be sufficient.

Fotic signed the above. END QUOTE.

HULL  
(RA)

EU:RDC:MKL EA

EA:PAK

10 INF  
JFCMIL

1011 158 58 101 7 28

1857 100. 1000000000  
RECEIVED

TO:

Mrs. Klotz

177

First draft - Tax Statement  
submitted to the Secretary,  
April 21, 1941.

*J.K.*

MR. KUHN

## SUGGESTED STATEMENT BY SECRETARY MORGENTHAU ON NEW TAXES

I have come before you today to discuss with you ways and means of producing three and a half billion dollars in additional revenue for the defense of our country. Such an increase is probably without precedent in the experience of this Committee, but the situation confronting us today is also without its parallel. We are faced with a challenge of greater strength and greater potential danger than any in the history of the Republic. It calls for a response of still greater strength. The American people are resolved to make such a response, and to make it willingly.

I hope that no member of this Committee will let himself be shocked or dismayed by the size of the figures we shall discuss today. Other countries, as free and progressive as our own, have cheerfully assumed far heavier defense burdens in proportion to their size and population. In our own case, I am proposing that we divert an additional four per cent of a swiftly rising income to



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the cause of national defense. This, surely, is not unreasonable in a time of industrial prosperity like the present. We are big and rich and strong. We are better able to carry this load than any other people in the world. We can "take it"; and unless I mistake the temper of the American taxpayer, we are going to take this in our stride.

The American people would not take back one penny of the billions that have already been appropriated for national defense. If any complaint about these expenditures is justified, it is that we are not spending fast enough, that we are not translating appropriations into actual production and outlay as quickly as we should. There can be no stinting of our expenditure upon production and the means of production, upon weapons and the plants that make them, upon army camps and uniforms, upon naval bases and shipyards, upon air bases and all the thousand and one elements of our national security. Nobody can argue for one moment that these expenditures are unnecessary.

Nor would anyone in this room deliberately stop providing for those of our people who are in want, or who face old age without means of their own, or who need urgent relief for causes beyond their control.

But there is another set of expenditures which, as I suggested to this Committee on January 29, we should now "re-examine with a magnifying glass." These are the expenditures which are neither for purposes of defense nor for purposes of relief and security from want. We have been spending in these fields as if there were no defense program, and as if we could superimpose our huge rearmament effort upon business as usual. We simply cannot carry on business as usual at such a time as this.

In the past twelve months, we have completely revised our thinking on defense expenditures, as every member of this Committee knows; we have caught up mentally with the urgent necessities of these times. We now accept the need for expenditures on the scale required to make this country safe and strong. We have not, however,

cept pace with events in our thinking about non-defense spending. Our conceptions of what to spend on these things not directly connected with defense has remained curiously static. My first plea to this Committee and to the Congress -- and it has a direct relationship to the tax program we are now considering -- is that we develop the same clear vision regarding non-defense spending as we have already developed regarding the armed protection of our country. The whistle of the fire engine has sounded. Ordinary traffic must get to one side to let the engines get through. Planes and ships and guns now have the right of way; other traffic can be permitted only if it serves the national purpose. If we keep constantly in mind the distinction between essential and non-essential spending, it will help us to shoulder the new tax burden, and shoulder it without difficulty.

One other condition, in my opinion, needs to be fulfilled if this tax program is to be taken in our stride. This is that no particular group, whether business or labor or farmers or consumers, should



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be greedy or self-seeking at this time. The Treasury, as one of the largest purchasers among government departments, has always had to keep close watch on the price situation, to see that raw materials and other vital commodities do not show any unjustifiable rises. I have been glad of the fine work already done in this field by Leon Henderson and his colleagues. This work, I think, has had results; prices have not risen appreciably, and our national task has been made easier in consequence. The entire effort is thrown out of balance, however, if wages go up while prices are frozen, or if profits should rise while wages are static, or if prices should rise without a corresponding advance in wages. We shall have to keep all the elements of our economy strictly in line.

In framing the new tax program, this Committee and the Treasury have had the usual friendly advice from newspapers and from public figures as to what the new taxes ought to be. There has been general agreement that much higher taxes are necessary; but one

- 6 -

group has urged that the rich and prosperous can afford to bear the whole load. I suggest that the time has come to disregard both kinds of advice. The job before us is so big that all the American people must help to carry it out, in proportion to their ability to pay. It is unsound, especially at a time like this, to proceed on the assumption that any great section of our people should be penalized or that any group should be exempted from sharing in the common task. In discussing the new tax program with you today, I shall assume that we all want labor to earn fair wages and business to make a fair profit. If wages, prices and profits can be kept in a sound relationship to one another, I believe that it will help very greatly in enabling us to carry the new taxes without dislocating our economic structure.

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time like this, to proceed on the assumption that any great section of our people should be penalized or that any group should be exempted from sharing in the common task. In discussing the new tax program with you today, I shall assume that we all want labor to earn fair wages and business to make a fair profit. If wages, prices and profits can be kept in a sound relationship to one another, I believe that it will help very greatly in enabling us to carry the new taxes without dislocating our economic structure.

You will notice that I used the phrase "fair profit". You and I know quite accurately, I think, what that phrase means and what it does not mean. It means that when the year's taxes have been paid, the businessman should be left with a just and reasonable return. It certainly does not mean that he, or any other American, should make inordinate and excessive profits out of this national emergency. The Congress has tried to do away with defense profiteering through excess profits taxes; I am sorry to say, however, that certain companies are still making abnormal profits utterly out of line with what is fair



- 8 -

and reasonable. It is hard to devise any excess profits tax which is 100 per cent protection against defense profiteering, but I should like to suggest that this Committee now make another effort. The proposals I shall submit today may be helpful in removing the evil of profiteering. In any case, the American people do not intend that a few of their number shall grow rich and fat out of this country's danger. They will, in my opinion, support any workable tax that will prevent profiteering from raising its ugly head.

I should like now to look, for a few moments, at our present fiscal situation, and to show why it seems wise and necessary to find three and a half billion dollars in new revenue in the coming fiscal year. . . .

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(suggested ending)

. . . In conclusion, I should like to make just this brief observation. The American people, I believe, have outgrown the old idea that

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Building our defenses is a problem of production and the ultimate elements in production are labor, natural resources, machinery and management. We do not build planes and tanks, ships and guns with money. We build them with labor, natural resources, machinery and management. These must be devoted to the purpose now. If they have been idle they must be put to work producing defense materials. If they have been producing other things they must be diverted and put to work producing defense materials insofar as is necessary to assure the fulfillment of the program. The real cost of the defense program lies in the productive elements which must be diverted from other purposes and put to work on the program.

This real cost cannot be postponed. We cannot borrow planes and guns from the future. We must make them in the present.

The financial mechanism is merely a method of accomplishing this result and of distributing the burden among the people of the country. Since the cost must be borne now, the logical way to finance the

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-X-

burden is to distribute the cost among the members of our population by equitable taxation now. There is another method which sometimes seems to be easier at the moment. The other method, that of borrowing, does not postpone the burden; it distributes it in one manner now and redistributes it later through taxation.

As much as possible should be borne through current taxation. There are limits. A margin of safety must be left for the stable operation of the economy. Disruption of business and production might, under some circumstances, result from the sudden impact of a <sup>too</sup> large tax burden; this should be avoided. Within the limits of safety taxes should be pushed to the utmost.

There are several reasons for financing the defense program as largely as possible through current taxes. It is desirable that the total interest load of the government be kept low and that to this end the amount borrowed should be kept to a minimum. It is desirable also that the interest rates, both to government and throughout industry,



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- 1 -

be kept low and this too leads to the conclusion that the amount of borrowing should be as small as possible in order that interest rates may not be forced upward.

The share of taxes should be large during this period <sup>and</sup> because the people see the importance of the need. It is important that the necessary sacrifice and the understanding of the need occur together. The need is before our eyes now and we should shoulder the burden now.

If financing is through taxes the burden of the defense effort is more likely to be distributed equitably among the various persons and groups in the population than if financing is through borrowing. When the program is financed through taxes the burden is distributed as Congress desires. When borrowing is employed it happens all too often that the debt gradually accumulates in the hands of the well-to-do, to be paid with interest, through taxes on the lower income groups.

The people have the ability to pay now. Defense expenditures are stimulating business and increasing incomes. This is the period when

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we can afford best to pay for the program. Indeed, the stimulation of business and the expansion of incomes may lead to rapid and continued price rises and the danger of inflation. These results would be bad, possibly tragic. Heavy taxes will help prevent such results from occurring.

We should distinguish clearly deficit financing in a period of deep depression when the spending of government in excess of taxes is required for its stimulating effect, and deficit financing in a period when scarcity of certain resources, plants, and labor skills may limit production and when incomes threaten to rise more rapidly than the available amounts of goods. Under the latter circumstances deficit financing should be avoided insofar as may be possible.

It is my considered opinion, which I have expressed previously before committees of Congress, that current taxes should finance two-thirds of Federal expenditures during this emergency defense period. Expenditures during the fiscal year 1942 are expected to be at least

\$19 billion. Two-thirds of that amount is \$12,667,000,000. Taxes now on the books are expected, with the expansion of business and the rise in income, to yield \$9,223,000,000, leaving approximately \$3.5 billion to be supplied by new taxes. It is this amount which we are asking the Congress to supply.

This increase is a large amount of money. The total tax load, after it is imposed, will be a large tax load. I do not know whether it will be sufficient to yield two-thirds of expenditures throughout the next few years, <sup>but I believe it</sup> It leaves an ample margin of safety for the stable operation of the economy and does not approach the limits of our taxable capacity.

We are proposing to raise this \$3.5 billion from everyone with taxpaying ability and, insofar as possible, we are proposing that the burden be distributed in proportion to taxpaying ability. Accordingly, we are proposing increases in the taxes on personal incomes, corporation incomes and excess profits, estates and gifts, and commodities that are not essentials of life.



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- 6 -

Our taxes on personal incomes, although very productive, have been light on the recipients of middle sized incomes; it is on such persons that the largest increases are proposed. Available evidence indicates that the total burden of taxation on persons with such incomes has been lower in proportion to income than tax burdens on persons with very small incomes and on persons with very large incomes. Last year we brought into the income taxpaying group several million new taxpayers, but the proportion of taxpayers in the total population is still a minority. In general the income tax does not yet reach down into the incomes necessary for decent living and accordingly the rates can properly be substantially increased on all income taxpayers.

In the corporation field it is highly desirable that the excess profits tax be tightened so that more of the abnormal profits which are being derived from the defense program will be subject to the excess profits tax and taken by government. Excessive profits of all kinds, whether or not due to the defense program, can stand especially

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-7-

heavy taxation. Increases in excess profits taxes, however, will not be enough and it is proposed that an increase in the normal corporation tax be imposed also.

Estate and gift taxes, while not primarily emergency taxes, should be raised to increase the small proportion of revenue now derived from this source. Beside the revenue they raise estate and gift taxes are especially valuable in maintaining equality of opportunity.

The excise taxes on commodities will fall to some extent on every person in the population. However, an effort has been made to omit, insofar as possible, commodities that are essentials of life in order that persons with incomes insufficient to supply the minimum requirements for decent living may not be further hampered through taxes. General consumption or sales taxation are not proposed. Such taxes would fall heavily on persons with the least ability to pay and should be employed only as a last resort.

In conclusion, it should not be made just this brief observation: The American people, I believe, have outgrown the old idea that

taxes were exactions forced upon them by their Government. We have come to understand, especially in the past eight years, that taxes are payments for services rendered. We can look about us and see highways, schools, airports, reclamation work and Government activities of all kinds which have been paid for by our own efforts. Our daily lives would be hard and probably insupportable if it were not for the necessities and the conveniences which our taxes have made possible.

We are now about to pay for the greatest service of all: the safety and protection of our country. I doubt if any taxpayer can compute what this protection is worth to him and to his family in terms of dollars. I doubt if he can assess how much it means to him to have a navy guarding American shores, how much it means to have airplanes and other weapons of national defense, how much it is worth to be a free man living in a land of freedom. If we look at our coming taxes as a lump sum, they are a forbidding sight; but if we remember always the services we are receiving as individuals, the taxes will seem a cheap price to pay. This time everything we have, everything



we value and treasure, is at stake in the world. The American people,  
I know, are ready to defend that stake, no matter what the cost may be.

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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 19, 1941

	: JAPAN :	: RUSSIA :	: SPAIN :	: GREAT BRITAIN :
<b>PETROLEUM PRODUCTS</b>				
Fuel and Gas Oil (including Diesel Oil)	301,453 Bbls.	--	--	44,575 Bbls.
Crude -				
Blended or California High Octane Crude*	--	--	--	--
All Other Crude	--	--	--	--
Gasoline -				
Gasoline A**	--	--	--	--
Gasoline B*	--	84,000 Bbls.	--	1,301 Bbls.
All Other Gasoline	--	--	--	100,094 Bbls.
Lubricating Oil -				
Aviation Lubricating Oil***	4,451 Bbls.	--	--	22,268 Bbls.
All Other Lubricating Oil	5,757 Bbls.	--	--	73,440 Bbls.
Tetraethyl Lead***	--	--	--	--
*Boosters*, such as Iso-Octane, Iso-Hexane, or Iso-Pentane	--	--	--	--
<b>SCRAP IRON AND SCRAP STEEL</b>				
Number 1 Heavy Melting Scrap	--	--	--	--
All Other Scrap	--	--	--	3,350 Tons

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

April 21, 1941.

Source: Office of Merchant Ship Control, Treasury Department.

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

\*\* Aviation Gasoline.

\*\*\* As defined in the President's regulations of July 26, 1940.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE April 21, 1941

TO Secretary Mergenthau  
FROM Mr. Haas *HAAS*  
Subject: The Business Situation,  
Week ending April 19, 1941.

Summary

(1) After reaching a new high in March, business activity in the current month has declined somewhat, largely as a result of strikes in the soft coal and automobile industries. Additional blast furnaces have had to close down, due to coke shortages resulting from the coal strike, and steel production has dropped. Settlement of the strike cannot be deferred much longer without serious repercussions on industrial production.

(2) The increasing inability of steel mills to keep up with the volume of orders, as clearly shown by U. S. Steel Corporation data, indicates the imperative necessity of (a) determining what is holding up steel production, and (b) taking immediate steps to expand capacity where expansion is clearly required.

(3) The railroad earnings situation continues to improve, although car loadings currently have been affected by the coal strike. Despite increased equipment orders in recent months, railroads later in the year may find themselves hard pressed to move prospective freight traffic without car shortages.

(4) New high levels for various components of the Federal Reserve index are reported for March, including iron and steel, machinery, non-ferrous metals and other defense industries. Only a few consumer goods industries have much excess capacity, judging from past production records.

(5) Retail trade indexes for March are running well above last year, even after allowance is made for price changes during the period. Department store sales in Easter week this year were much higher than in either the corresponding week, or the Easter week, last year.

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### Business activity lower in April

In contrast to a new high level of business activity in March as measured by the New York Times index, and of industrial production, as measured by the Federal Reserve index, production is remaining somewhat lower in April. Strikes have been the primary cause, with bituminous coal and automobiles most immediately affected, although repercussions of the stoppages are already known to be more widely spread.

After a spurt at the end of March, the New York Times weekly index of business activity reacted rather sharply in the first 2 weeks of the current month. Thus from a high of 124.3 for the week ended March 29, the index dropped in the next 2 weeks to 121.7 and 120.6 successively. (See Chart 1, upper section.)

### Drop in business activity reflects strikes

The major factor in this decline has been the drop in carloadings of coal, resulting from the bituminous coal strike, which has brought a drop in coal production very similar to that during the strike of 1939. (See Chart 1, lower section.) Prior to the outbreak of the strike, coal stocks had been built up somewhat, and production during March ran 37 per cent above March 1940. Although some blast furnaces in the steel industry have been forced to close down due to a shortage of coke, production in other industries appears to have been little affected thus far by the coal strike. Current reports indicate, however, that unless the strike is soon settled serious curtailment of production in other industries is likely to develop in the very near future.

Another factor in the recent decline in the weekly business index has been the drop in automobile production caused by the Ford strike, which has since been settled. As a result of this loss in production, automobile output in the past two weeks fell below year-earlier levels for the first time since the New Year's holiday week. (See Chart 1, lower section.) It now appears likely, however, that Ford will resume volume production during the present week.

Trade reports indicate that automobile sales continue to make an unusually strong showing. This trend may be further accelerated for a while by the wage increases being granted factory workers, and by the effect of last week's announcement by the OPM that production of 1942 model cars would be cut 20 per cent.

- 3 -

Partly offsetting other declines, the adjusted index of cotton mill activity advanced to a new high of 164.3 compared with 161.2 in the preceding week. (See Chart 1, lower section.) In spite of the current high level of activity in the cotton textile industry, unfilled orders on the books of cotton mills as of April 1 are estimated by the New York Cotton Exchange Service at approximately 25 per cent higher than on March 1. Domestic cotton consumption in March reached a new high of 854,200 running bales compared with 793,600 in February.

#### Steel operations slowed by coal strike

Steel operations last week were scheduled at 98.3 per cent of capacity as compared with 99.3 per cent in the previous week. (See Chart 1, lower section.) During the current week a further decrease is in prospect, with operations scheduled at 96.0 per cent of capacity. This slowing down has been due largely to the effects of the coal strike, which has curtailed the supply of coke chiefly because of a drastic cut in beehive coke production. (Beehive coke workers are on strike with the coal miners). By the middle of last week the Carnegie Illinois Steel Corporation had closed two blast furnaces at Chicago and three at Pittsburgh, and more shutdowns were in prospect for this company in the coming week. At Cleveland the U. S. Steel Corporation and the Republic Steel Corporation had cut pig iron production by 50 per cent and 12 per cent, respectively.

#### Steel mills unable to meet orders

The coal strike comes at a particularly unfortunate time, since the steel mills had previously been unable to keep up with orders, even when adequate coke supplies were available.

The inability of steel mills to handle the current volume of orders is clearly indicated by reported figures on finished steel shipments of the U. S. Steel Corporation, as compared with confidential figures on new steel orders. As shown in Chart 2, new orders during March were again far in excess of shipments, as they have been in all but one month since April 1940. New steel orders during the current month, according to both the Iron Age and Steel, have exceeded the high March figures.

While steel shipments in March were at a new record high, a levelling-out tendency has been evident over the past several months, indicating that any material further increase



- 4 -

will be difficult without an expansion of capacity. The failure of shipments to increase as rapidly as new orders has greatly increased the volume of unfilled orders (lower section of chart). In part, however, these represent orders that are not intended for delivery until late in the year.

It would have been necessary to reduce new orders of the U. S. Steel Corporation by 49 per cent over the entire first quarter, and in March by 58 per cent, to bring them to the level of shipments -- much more than any reduction yet contemplated through use of priorities, judging from current press reports. This situation indicates the imperative necessity of (1) determining what is holding up the production of finished steel, and (2) taking immediate steps to expand capacity where expansion is clearly required.

Pig iron production likewise appears to have been close to the limit of capacity even before the coal strike. The tightness in pig iron supplies early in the month is indicated by the following quotation from the American Metal Market of April 9, referring to the situation in the Pittsburgh area:

"The British Purchasing Commission is inquiring for 150,000 tons of Bessemer pig iron for delivery during the remainder of the year. The stringent position of order books at all furnaces here . . . makes it virtually impossible for any producers in this area to negotiate for the British tonnage at present."

#### Rise in steel prices forestalled

Despite the recent general steel wage increase, a rise in steel prices has been forestalled, at least for the time being, by an order of Price Administrator Henderson freezing prices at levels prevailing during the first quarter of the year. However, Mr. Henderson stated that his office was undertaking a study of steel prices and costs, and indicated that adjustments in the price schedule would be made quickly if warranted. It was also made known that contracts previously drawn up with escalator provisions could be carried out as originally stipulated. Thus in these instances, at least, producers would be permitted to recoup increased costs due to the wage increase.

#### Railroad outlook

The railroad earnings situation continues to improve, although the future possibility of railroad car shortages is becoming more threatening. During March, freight carloadings



- 5 -

extended their rise and ran 23 per cent above year-earlier levels. Part of the increase was undoubtedly due to some advance stocking of soft coal. (See Chart 3, upper section.) Total freight carloadings have dropped sharply thus far in April as a result of the coal strike, but a very strong recovery in traffic appears virtually certain as soon as the strike is settled.

The increased carloadings are being reflected in an expansion of railroad earnings. Although complete earnings data for March are not yet available, February net railway operating income of Class I railroads gained no less than 78 per cent over February 1940. (See Chart 3, middle section.)

As a result of the improvement in traffic and earnings, new freight car orders for domestic service continued to be placed in large volume, with 7,685 cars being ordered in March as compared with only 1,851 in the corresponding month of 1940. (See Chart 3, lower section.) Likewise, locomotive orders totaled 119 as compared with only 41 in March 1940. As a result, new freight car orders during the first quarter of this year reached the highest levels for any corresponding quarter since 1929, while locomotive orders surpassed all comparable quarters in the entire 1929-1941 period.

#### Car shortages becoming more probable

However, despite the increase in equipment orders, evidence is accumulating that the available freight car supply will be severely burdened before the year is over. By the middle of March, the freight car surplus was already down to the unusually low level of 77,000 cars, despite the fact that traffic at that time is normally well below the year's peak reached in the fall. In fact, the surplus mentioned was no more than 2,000 cars above that prevailing at the seasonal peak last fall.

In addition to the increased pressure on equipment facilities which will develop whenever the coal strike is settled, a shift of 25,000 cars to western territory by June 1 has been ordered to handle an anticipated heavy movement of winter wheat and increasing defense traffic. In addition, the tight ocean shipping situation is expected to put an increasing burden on the railroads. Thus, railroads are now planning to transport large amounts of rubber and tin from San Francisco to eastern consuming centers. Heretofore, these cargoes have moved from the Far East to our east coast ports via the Panama Canal. The Car Service Division of the Association of American Railroads may issue an order next month prohibiting the loading of western cars in the East, in order to facilitate return of cars to western lines.

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### Production at new highs in various industries

An increase in the FRB index to 143 in March, from 141 in February, reflects an increase in output to new high levels in such industries as iron and steel, machinery, non-ferrous metals, textiles, rubber, and chemicals. The extent to which actual production in these industries (unadjusted FRB indexes) has exceeded the peaks reached in 1929 and in the 1937-1939 period is shown in Chart 4. The level of production a year earlier for comparison is indicated by red arrows.

In a number of industries, chiefly in the consumer-goods group, it will be noted that production has not yet reached the peaks established in earlier years. This apparently indicates the presence of unused capacity in these industries. In the case of automobiles, however, it should be mentioned that the FRB index measures production only in terms of automobiles and trucks produced, although a substantial part of automobile plant capacity is being diverted to the production of defense materials.

To be effective in preventing price increases, unused capacity should be available in the industries where the heaviest volume of demand is centered, namely in the war material industries. Available evidence, however, indicates that in most of these industries little excess capacity exists at present, hence the pressure of demand is diverted toward raising prices.

### Expansion in retail sales

Easter business for some retail merchants, according to press reports, was the best in a decade. Weekly department store sales as reported by the Federal Reserve Board were strikingly higher than the corresponding week last year, and also much higher than last year's Easter week. Retailers believe that clothing sales, in particular, were expanded by replacement demand from those now working who have been unemployed for some time.

Chart 5 shows three retail trade indexes, seasonally adjusted, all of which are running well above the preceding year. The index of department store sales held unchanged from February to March; the variety store sales index advanced, while the index of rural retail sales declined slightly. In each case it should be remembered that some part of the increase over last year is caused by higher prices. In the case of department store sales, for example, we estimate that 3 points of the 13-point rise in the index was due to increased prices.



- 7 -

### New orders continue high

Our index of new orders for the week ended April 12, (See Chart 6) declined from the very high figure of the preceding week, but still remained relatively high. The decline in the textile component from an extremely high level in the preceding week largely accounts for the current decline in the combined index. The steel component also declined slightly, but the total excluding steel and textiles showed a noticeable increase.

### Commodity prices higher

With the commodity price situation taking on an increasing resemblance to that at the beginning of the extensive price rise of the World War period, the sharp rise of 0.7 point in the BLS all-commodity index in the week ended April 12, to 82.9 may be of more than usual significance. Price increases for fats and oils, livestock, and poultry were most pronounced.

The prices of basic commodities also registered a net increase last week, although some of the advance in the early part of the week was offset by a later decline, as commodity prices reacted adversely to unfavorable war news. The movement of the general index was shared by both the import and domestic components. (See Chart 7, upper section.) The order to freeze steel prices at existing levels doubtless had some restraining influence on commodity prices, establishing a precedent for vigorous and prompt action on the part of the new price administration.

In the period April 10 to April 18 the following individual price changes may be separately mentioned (see Chart 7, lower section).

**Burlap:** Price increased 6.1 per cent. Growing scarcity of available supplies and small daily offerings.

**Cocoa:** Price increased 2.4 per cent, reflecting bullish rumors on proposed quota plan.

**Sugar:** Noticeable decrease in price during period covered, partly due to expectations of an increase in the quota. Futures lower. Prices have since risen somewhat on statement from AAA that restriction on domestic planting will not be relaxed.



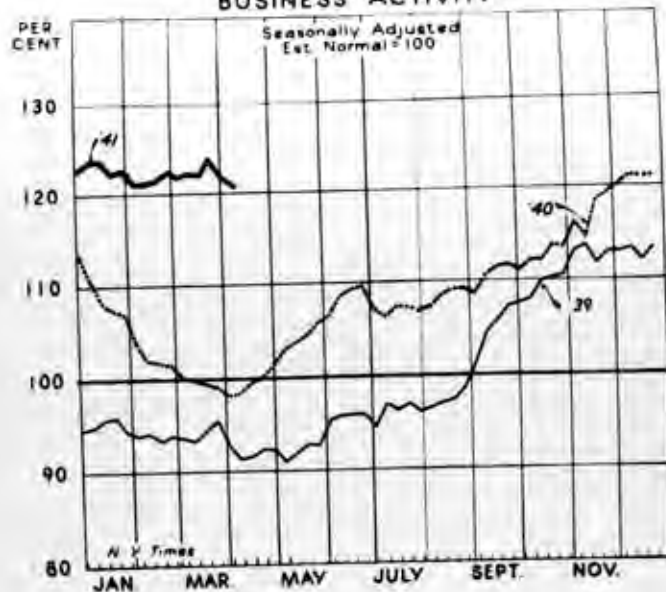
- 8 -

Tallow and cottonseed oil: Prices increased. Heavy buying of tallow by soap makers (1½ to 2 million pounds in New York area alone last week) and by lubricant manufacturers. Prices of shortening increased. An increased proportion of tallow is being used in lubricating oils and greases. The Government is reported seeking to purchase 1 million pounds of low grade tallow for export.

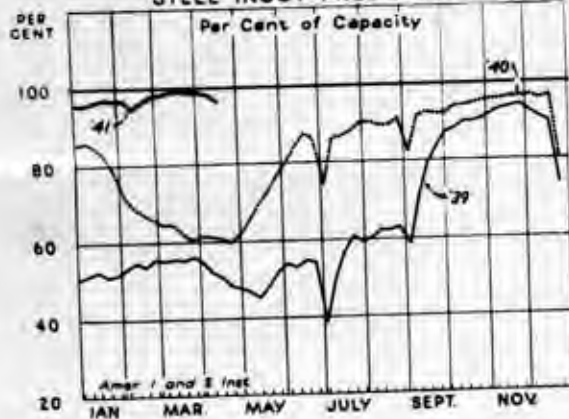
Steers, hogs, and lard: Prices decreased after recent sharp advance. Since March 15 Government has purchased 53 million pounds of pork and pork products.

# SELECTED BUSINESS INDICES

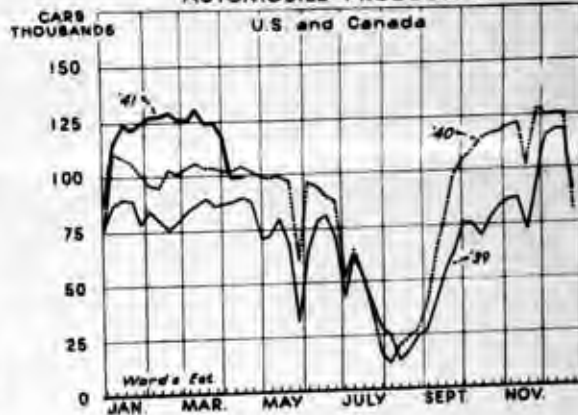
## BUSINESS ACTIVITY



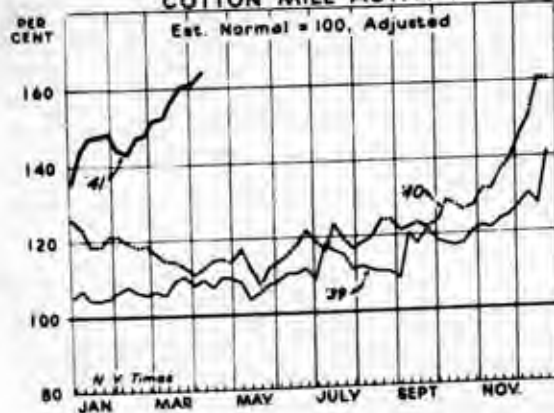
## STEEL INGOT PRODUCTION



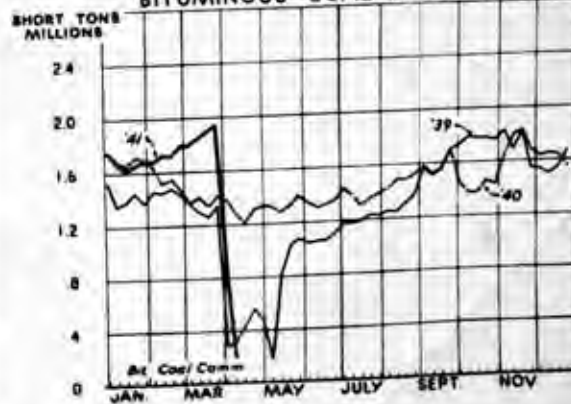
## AUTOMOBILE PRODUCTION



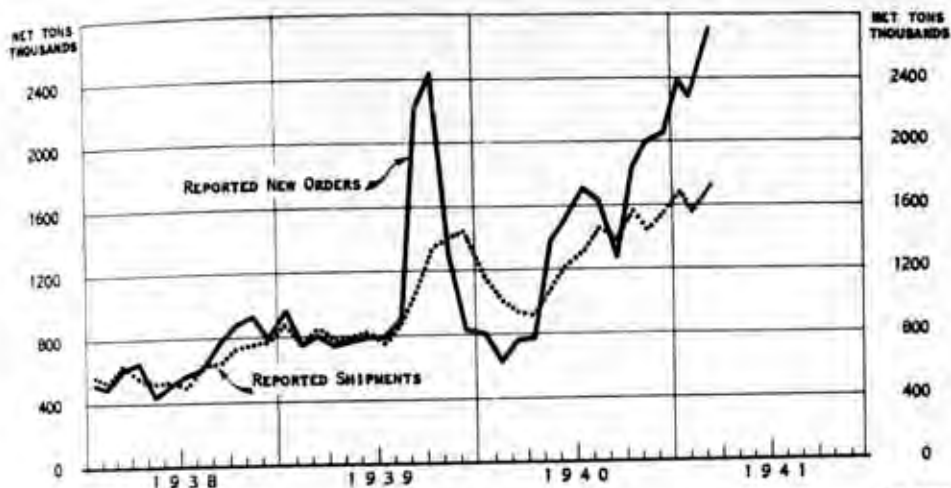
## COTTON MILL ACTIVITY



## BITUMINOUS COAL PRODUCTION

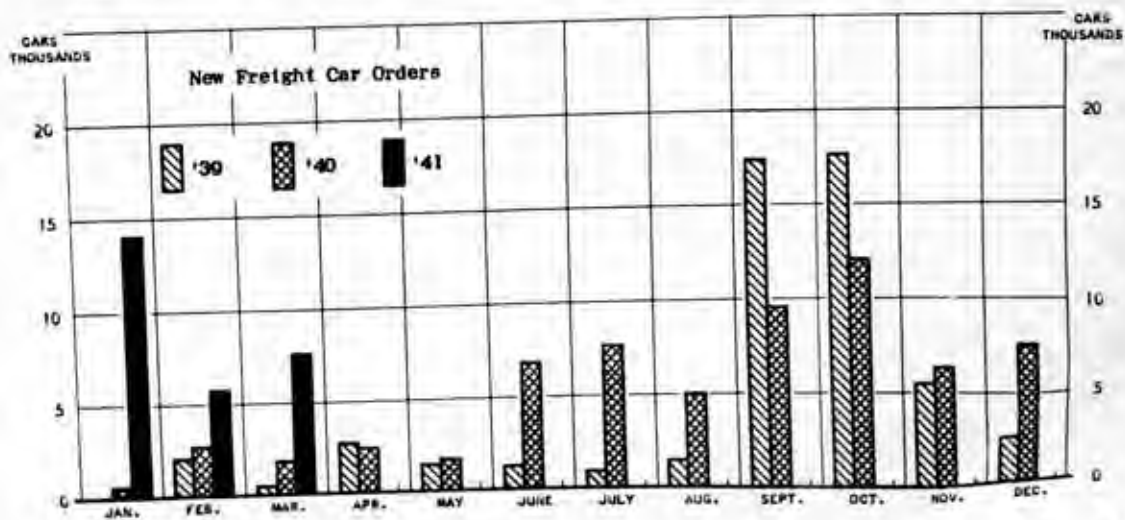
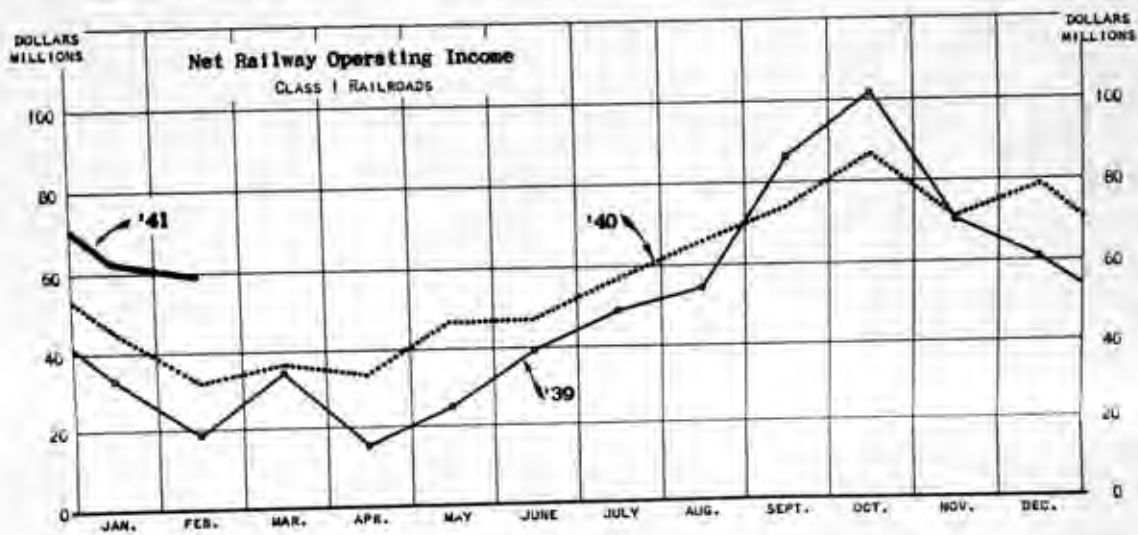
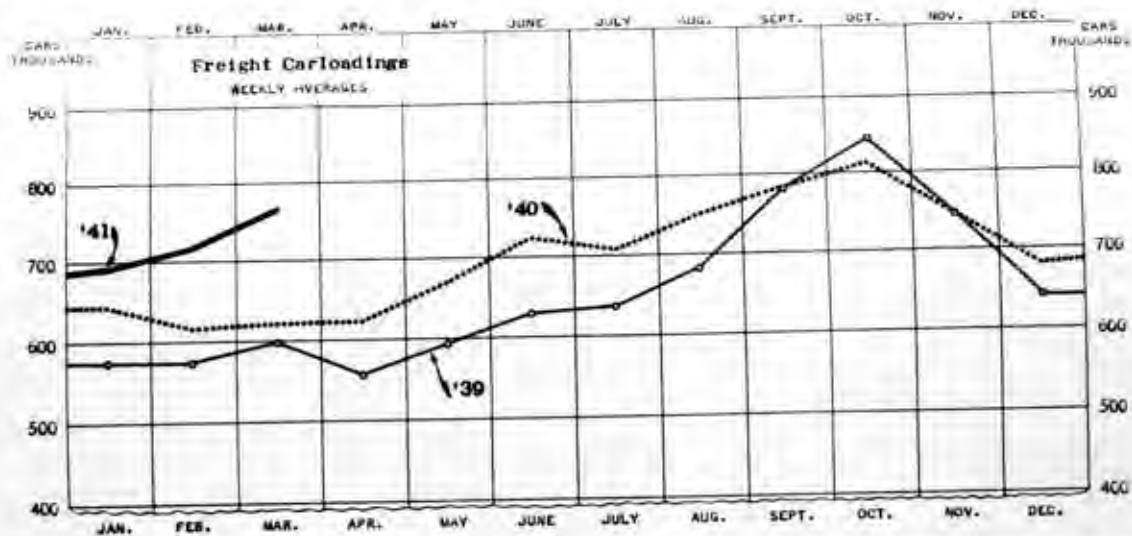


REPORTED NEW ORDERS, SHIPMENTS, AND INDICATED UNFILLED ORDERS OF THE U.S. STEEL CORPORATION





## RAILROAD SITUATION

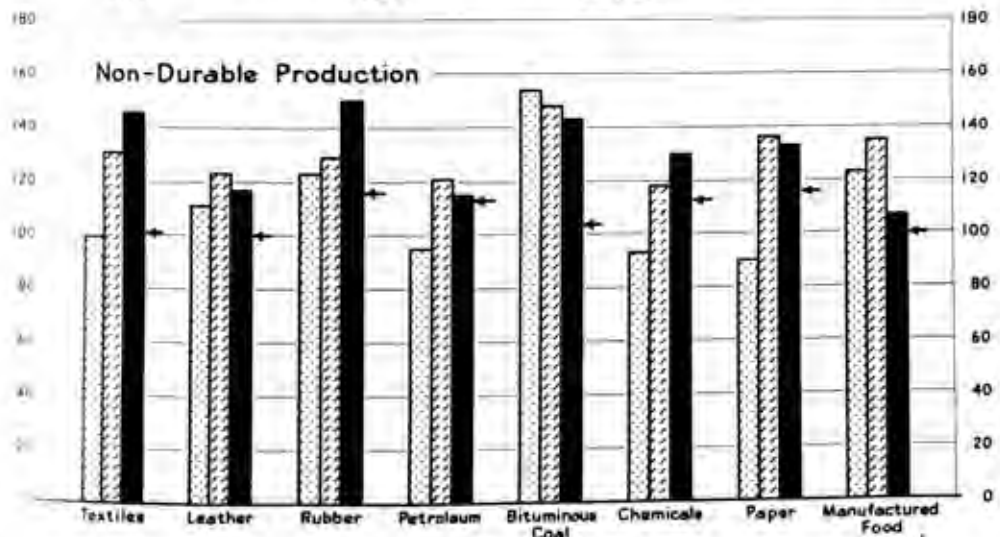
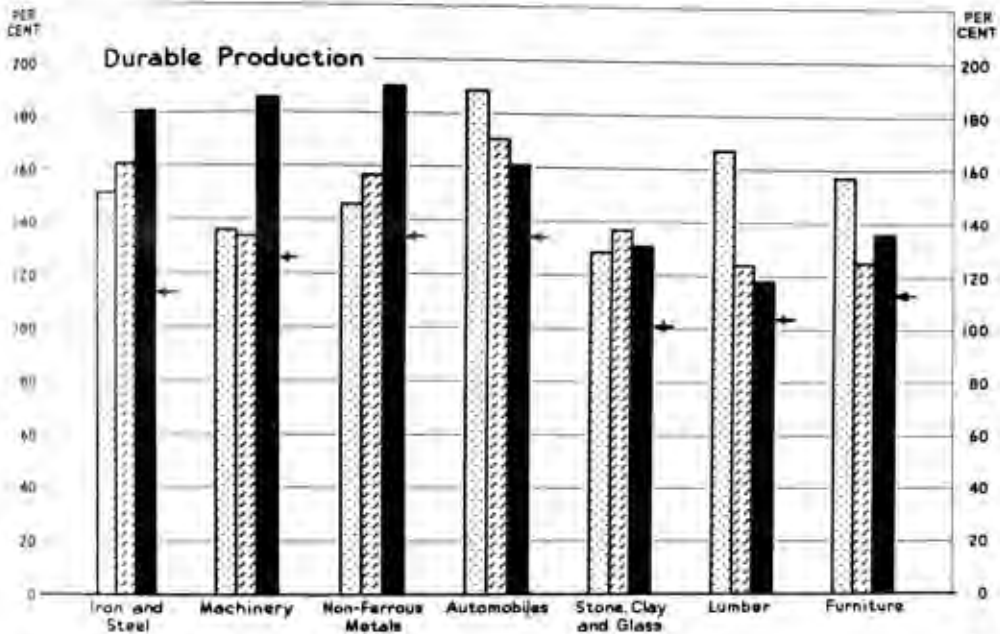


# FRB INDUSTRIAL PRODUCTION IN SELECTED INDUSTRIES

Latest Month Compared With Peak Month in 1929  
and Peak Month in Period 1937-1939

1935-'39 = 100, UNADJUSTED

□ 1929 Peak    ▨ 1937-1939 Peak    ■ March 1941\*    (←) March 1940\*

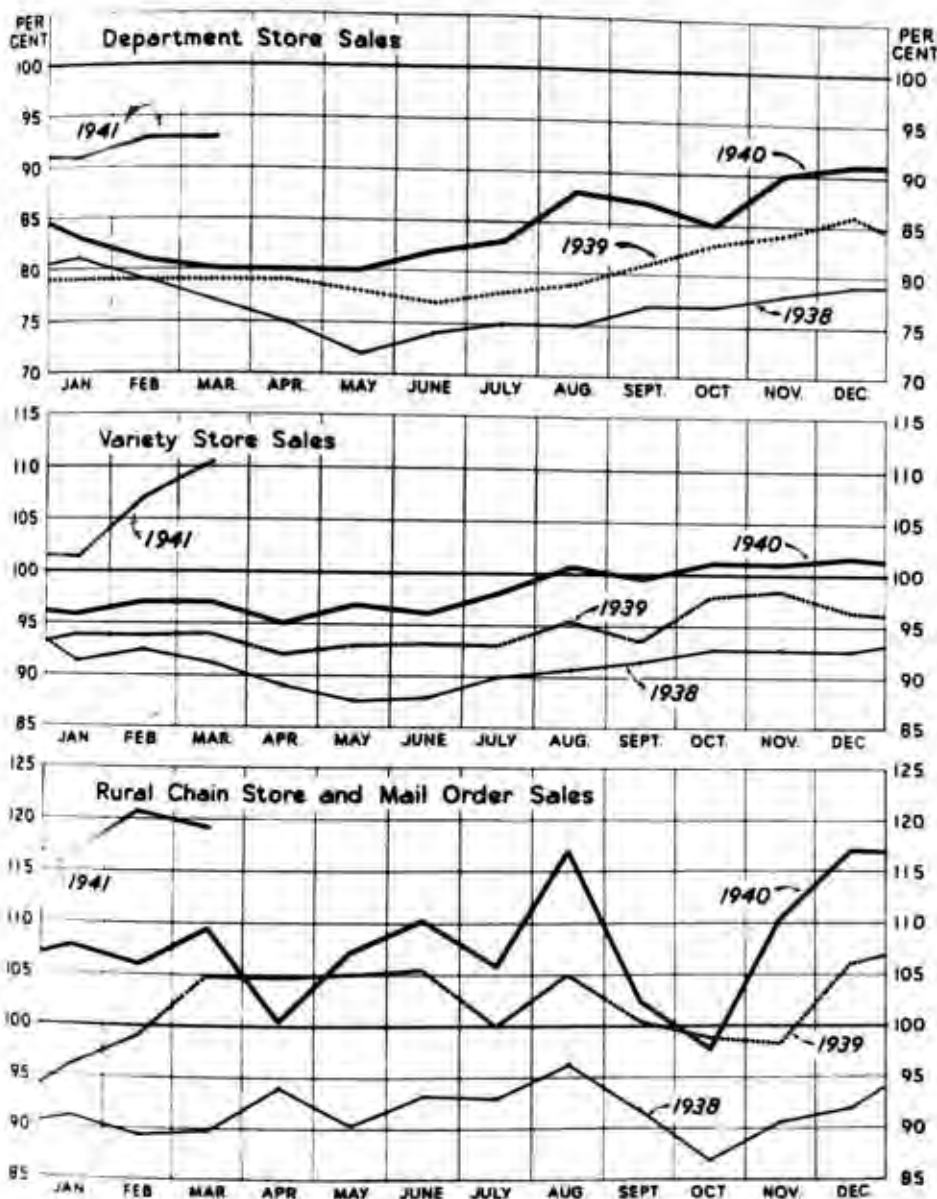


\* Paper and Petroleum, February

# RETAIL TRADE

## Urban and Rural Sales of General Merchandise

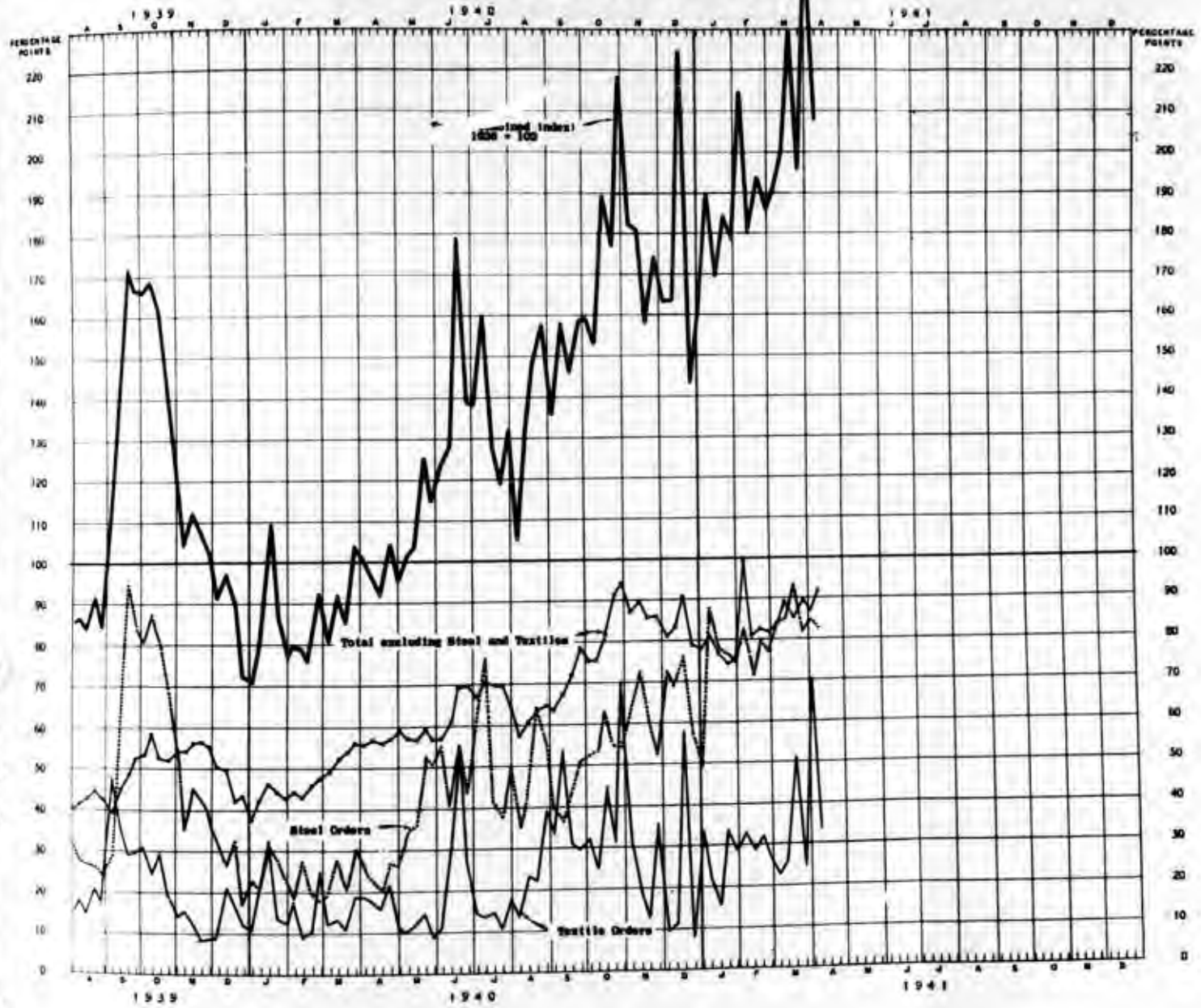
1929 = 100, ADJUSTED





### INDEXES OF NEW ORDERS

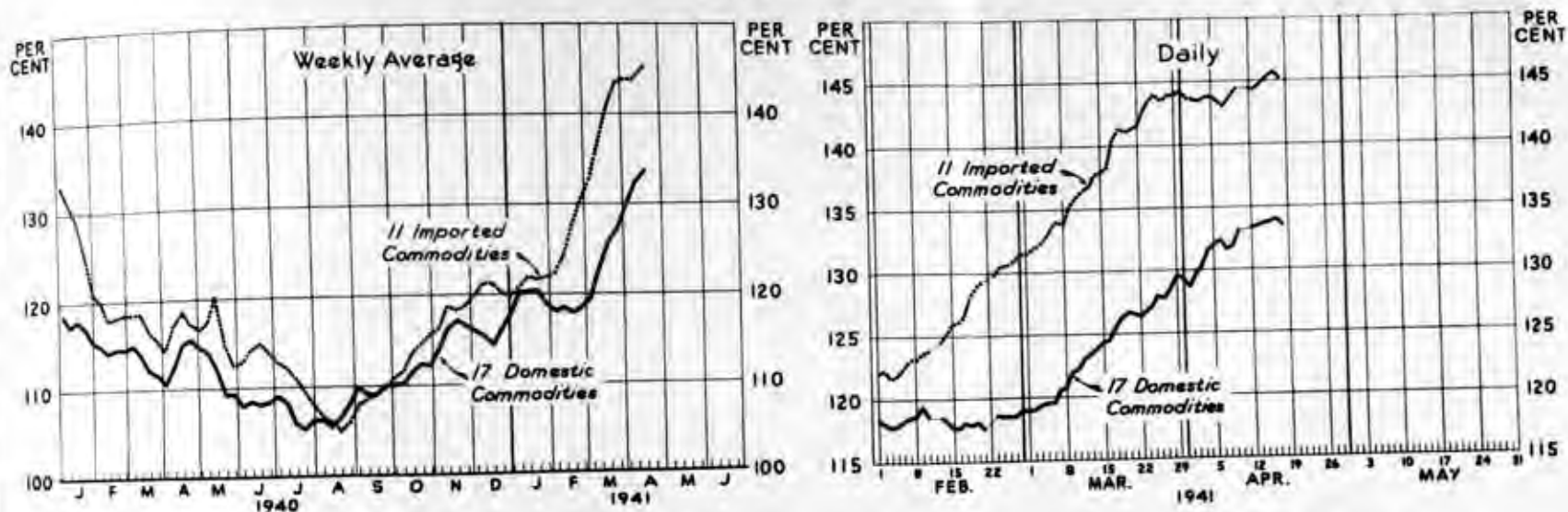
Combined Index of New Orders and Selected Components



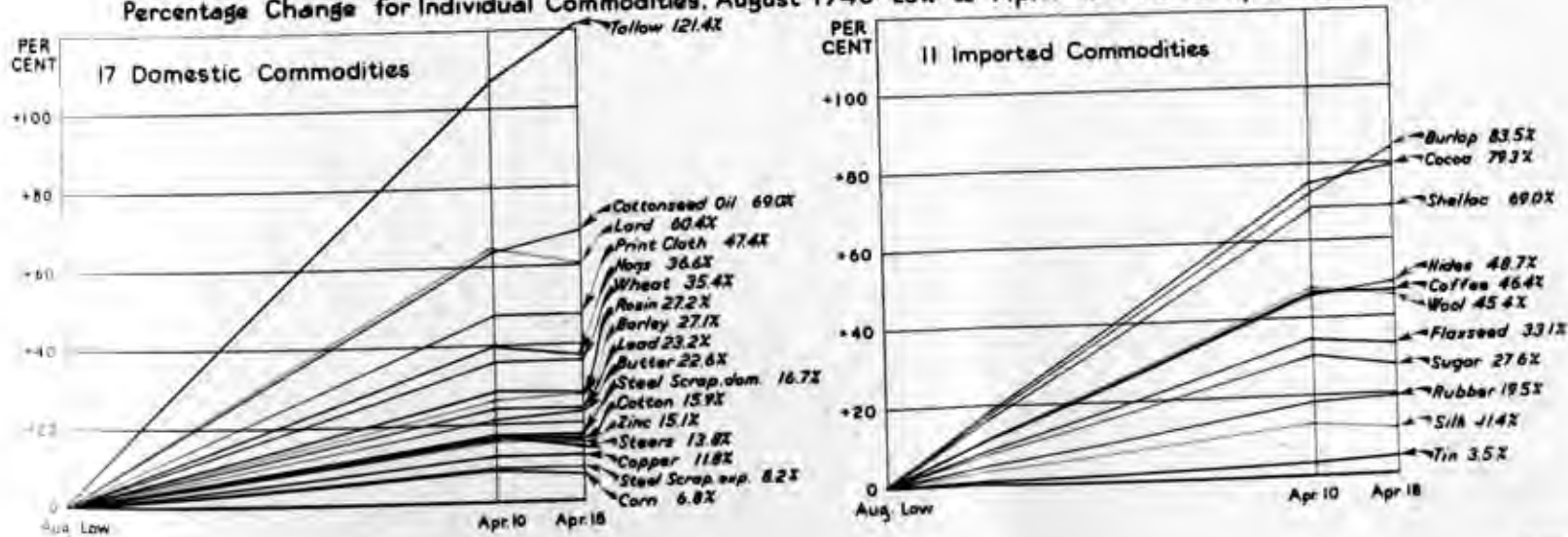
Plotted by the Bureau of Economic Warfare  
Source: Bureau of Economic Warfare

# MOVEMENT OF BASIC COMMODITY PRICES Domestic and Imported

AUGUST 1939 = 100



Percentage Change for Individual Commodities, August 1940 Low to April 10 and to April 18, 1941



## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE April 21, 1941

TO Secretary Morgenthau

FROM Mr. Hass *BA*

During the week ended April 9, 1941, employment under the Work Projects Administration declined from 1,662,000 to 1,634,000 persons.

Attachments



WORK PROJECTS ADMINISTRATION  
Number of Workers Employed - Weekly  
United States

Week ending	Number of Workers (In thousands)
1940-41	
August 7	1,709
August 14	1,708
August 21	1,698
August 28	1,691
September 4	1,690
September 11	1,687
September 18	1,689
September 25	1,704
October 2	1,747
October 9	1,763
October 16	1,768
October 23	1,776
October 30	1,779
November 6	1,783
November 13	1,786
November 20	1,807
November 27	1,822
December 4	1,832
December 11	1,855
December 18	1,872
December 25	1,878
January 1	1,880
January 8	1,887
January 15	1,894
January 22	1,895
January 29	1,895
February 5	1,892
February 12	1,893
February 19	1,885
February 26	1,867
March 5	1,806
March 12	1,764
March 19	1,736
March 26	1,708
April 2	1,662
April 9	1,634

Source: Work Projects Administration

WORK PROJECTS ADMINISTRATION  
 Number of Workers Employed - Monthly  
 United States

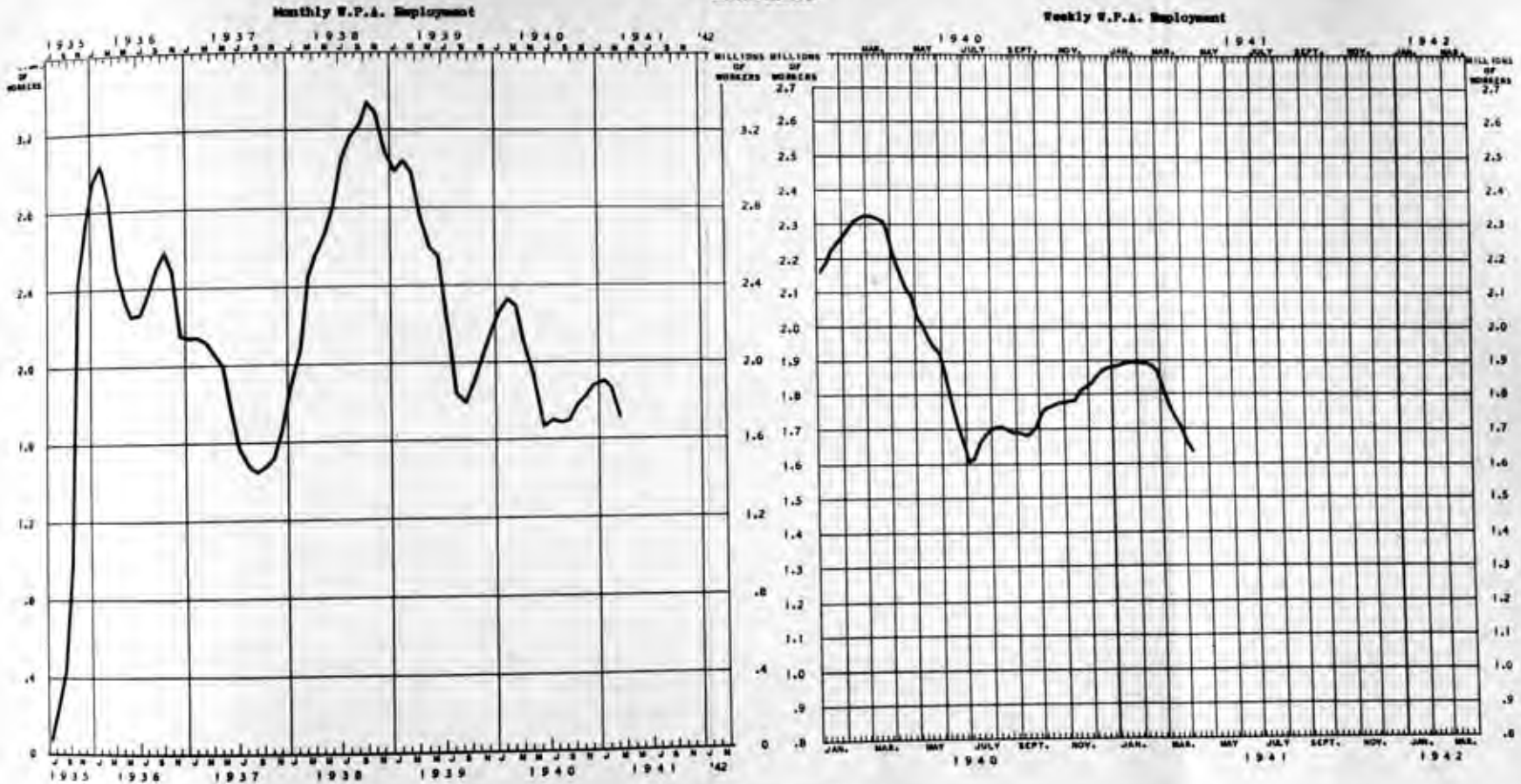
	Number of Workers (In thousands)
1938	
July	3,053
August	3,171
September	3,228
October	3,346
November	3,287
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,926
June	1,665
July	1,701
August	1,691
September	1,704
October	1,779
November	1,821
December	1,878
1941	
January	1,895
February	1,867
March	1,708

Source: Work Projects Administration

Monthly figures are weekly figures for the latest week of the month.

They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION  
Number of Workers Employed  
United States



SOURCE: WORK PROJECTS ADMINISTRATION



BRITISH EMBASSY,  
WASHINGTON, D. C.

21st April, 1941.

PERSONAL AND SECRET.

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,

*Halifax*

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

TELEGRAM FROM LONDON DATED April 18th, 1941.NAVAL.

During air attack on Portsmouth night of 17th/18th some bombs fell in dockyard and two parachute mines on Vernon.

2. E-boats attacked convoy off Southwold 0830/17. 2 merchant vessels sunk and one British 673 tons damaged and beached. Believed one E-boat hit.

3. On 15th our gun boats bombarded Gazala and Bardia areas. Gnat damaged by mobile battery. On 18th Gloucester successfully bombarded Fort Capuzzo.

4. No serious damage to the Port of London ship repairing facilities in air raid on night of 16th/17th.

5. At 8:50 a.m. on the 17th German battle cruisers still at Brest in the same positions, dry dock was flooded.

6. Military, Libya.  
April 17th. 800 Italians captured after stiff fight by our patrols April 16th. Offensive spirit of our men remains excellent.

7. Greece.  
German threat to Crevena had not developed as seriously as was expected but we suffered considerable losses of cruiser-tanks owing to mechanical defects.

8. Withdrawal of Greek troops from North Kefeyre continuing in face of heavy Italian attacks. From North Kefeyre to the sea Greeks appear to be maintaining positions against Italian pressure.

9. Yugoslavia. Armistice between Germany and Yugoslavia comes into force 12.00 noon German time 18th April.

10. Royal Air Force. Day 17th. 17 Blenheims made successful attack on docks at Cherbourg.

11. Night of 17th/18th.

/160 Bombers

## 3.

160 Bombers despatched; Berlin (118), remainder to Cologne, Mannheim and Rotterdam. Mine laying off Brest and Frisian Islands. 4 of our aircraft came down in the sea and 7 not yet reported to base.

12. Libya.  
During the 15th and 16th heavy bombing attacks carried out on enemy aerodromes and communications. Considerable damage inflicted on armoured vehicles.

13. Greece.  
Night of 16th/16th. Attacks carried out on enemy M.T. columns Kosai - Ptolemais Road, bombs falling amongst vehicles.

14. Number of Yugoslav military aircraft landed in Greece. Several subsequently damaged in enemy attacks.

15. German Air Force.  
Day 17th. Enemy activity slight. 2 ME 110's destroyed.

16. Night of 17th-18th. 189 enemy aircraft operated including 145 against Portsmouth. 1 enemy aircraft known to have been destroyed.

17. Home Security. Night of 16th-17th London - over 2000 fires started. Amongst public buildings damaged, St. Pauls Cathedral, Houses of Parliament, Admiralty Law Courts and National Gallery. Damage to factories slight. Casualties so far reported 653 killed and 2000 injured.



Telegram from London dated April 19th, 1941

1. Naval.

British Hospital ship "Vita" deliberately bombed afternoon of 14th while evacuating casualties from Tobruk.

2. British submarine sank enemy barque carrying explosives off Morocco on April 14th.

3. Sixty thousand two hundred and twenty-nine ships have been convoyed since the beginning of the war of which 297 have been lost by enemy action.

4. H.M.S. "Aphis" destroyed 5 enemy aircraft during the bombardment of Gazala aerodrome.

5. Fire of H.M.S. "Stuart" "Griffin" and "Gnat" enabled our troops to hold Solum - April 15th.

6. New German battleship "Bismarck" with two Leipzig Cruisers and destroyers reported steering North-West into the Skagerrak early April 14th.

7. Piraeus reported clear of mines.

8. Admiralty House - Portsmouth received direct hit during the enemy air-raid on April 17-18. Three or four H.E.'s dropped in the dockyard. No other serious naval damage reported.

9. Military. Greece April 17th.

Our troops withdrew, as arranged, from positions near Misserini and Servia. On the right flank, they were engaged by superior forces and were withdrawing through Peneols Gorge. On the left, German troops reported across the river Venetikos, but their progress slow. On the Albanian front, the Greeks withdrawing on the 18th on a general line: Sea West of Argyrocastan-Fernet-Betsovo

-2-

(on Yenina-Kalabaka Road).

10. British Somaliland

Zella reported clear of Italian troops.

11. Royal Air Force, April 18th.

Elenheims attacked a dock in Holland and ships off Heligoland. Three ships totalling nearly 10,000 tons and an A.A. ship received direct hits. At Harve a Elenheim attacked 3 barges full of troops escorted by an A.A. ship. Elenheims also bombed a convoy of 8 merchant ships off Stavanger. A 7000 ton vessel set alight and another 3000 ton left sinking. From the above and other daylight operations, 9 aircraft are missing.

12. Libya

Night of April 18th-17th.

2½ tons of bombs were dropped on Eladem and Derna where a munitions store was exploded.

13. April 17th

Medium bombers attacked M.T. vehicles South of Tobruk. Aircraft on Derna aerodrome and suspected H.Q. East of Tobruk. Large fires were started among about 450 mechanised vehicles in Bardia area. On April 18th, photographic reconnaissance in Tripoli, showed 5 destroyers - 3 T.B.D's - 7 escort vessels - 31 merchant vessels varying from 2000 to 8000 tons and 11 seaplanes.

14. German Air Force.

Slight enemy activity chiefly off the coasts.

15. Air Raids on Malta during night of April 17 - 18 caused very slight damage.

RESTRICTED

G-2/2657-220; No. 371 M.I.D., W.D. 12:00 M., April 21, 1941.

SITUATION REPORTI. Western Theater of War.

Air: German. On the night of April 19-20 the London area was heavily attacked by an estimated 350 planes. During the remainder of the week-end German offensive activity was slight and scattered.

British. Normal offensive operations, principally against the Rhineland and focussing on Cologne on the night of the 20th-21st. Normal coastal raids during the 19th and 20th. Brest was bombed twice.

II. Greek Theater of War.

Ground: Following the capture of Kalabaka, Trikala and Larissa, the Germans are pressing strongly the Allied army, which is retiring to the southeast. A strong German thrust is developing across the Pindus mountains and is directed at Yanina. This attack is directed at cutting off the relatively large Greek forces disposed along the Albanian frontier, whose only avenue of withdrawal is the corridor between the Pindus mountains and the Ionian Sea.

Air: Main German effort continues to be in close support of ground forces, with occasional bombing of ports. The Allied air force in this theater now appears to be practically eliminated.

III. North African and Mediterranean Theaters of War.

Ground: There has been no marked change in the situation. Any further Axis thrust to the east is believed dependent on ground and air reinforcements as well as supplies. In this connection there is evidence that Bengazi is now being used by Axis ships, which, if continued, will greatly facilitate Axis operations.

Air: Axis. Tobruk was again raided on the 19th. Malta was bombed on the 20th.

British. Bengazi and Tripoli were attacked on the 19th. Numerous minor raids were executed throughout the theaters.

RESTRICTED



CONFIDENTIAL

MILITARY INTELLIGENCE DIVISION  
WAR DEPARTMENT  
Washington, April 21, 1941

TENTATIVE LESSONS BULLETIN  
No. 94  
G-2/2657-235

NOTICE

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

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

NOTES ON GERMAN AMPHIBIOUS TANKSSOURCE

Section 1 of this bulletin is quoted from a report from a high British official source, dated December 28, 1940, while Section 2 is quoted from the report of an American official observer in Berlin, dated January 7, 1941.

CONTENTS

1. BRITISH NOTE
2. NOTE BY AMERICAN OBSERVER

CONFIDENTIAL

CONFIDENTIALNOTES ON GERMAN AMPHIBIOUS TANKS1. BRITISH NOTE

"Reports continue to state that Germany is constructing amphibious tanks. The weights quoted vary from six to 1,000 tons, and dimensions up to 105 feet by 40 feet have been mentioned. Although amphibians of large size are not impossible to design, it is doubtful whether a tank would in fact be designed to cross the Channel under its own power; the requirement of seaworthiness would seriously prejudice its usefulness on land.

"It may therefore be deduced that if amphibians are being constructed on a large scale, it is planned to transport them as near as possible to a beach. The most useful type of tank would probably weigh from 10 to 15 tons. Large numbers of these could be transported, and once they had gained land with or without their buoyancy apparatus, they would have far greater mobility than larger amphibians. Recent reports indicate that German military authorities have asked the Ceskomorovska Kolben Danek works to increase production of the Czech T.N.H.P. to 60 tanks per month and that a special floating device, which can be automatically detached, is now being fitted to convert the tank into an amphibian with a speed of 7.5 miles per hour in water.

"The transport may be either of the following:

"a. Large ships that would have to stand a fair way off shore. If these were used, amphibians could be unloaded by means of a specially constructed outlet from a deck near the water line, and thereafter proceed to the beach under their own power. Such a method would obviate the use of cranes for unloading, always a slow process.

"b. Specially constructed barges, the existence of which is certain. Amphibians would have the advantage of being able to land without the transporting barge running aground.

"The heavier amphibians mentioned in reports, both those of approximately 30 tons and those of over 100 tons, should be borne in mind, however, as technical possibilities, for the frequency of these reports can be taken as an indication of the serious consideration being given the development of such tanks by the Germans."

2. NOTE BY AMERICAN OBSERVER

"While traveling by automobile on the Potsdam-Hamburg road near Lake Wannsee, a former officer of the United States Naval Reserve

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recently met an amphibious tank preceded by two men wearing civilian clothes and riding in an Army automobile.

"He estimated a number of the characteristics of this vehicle as follows:

Length..... 24 feet.  
 Width..... 10 feet.  
 Height..... 12 feet.  
 Engine..... Not visible, but believed to be gasoline rather than Diesel.  
 Speeds..... 20 miles per hour as observed on the road; not observed in water.  
 Track:  
   Type..... Flat plate; plates appeared unusually thin and light in weight.  
   Width..... 10 inches.  
   Ground contact 18 feet.

"Two propeller shafts extended through the rear of the body hull. Each shaft was about 30 inches from the sidewall of the tank. Each propeller consisted of two blades, each about 20 inches long. A rudder, about 24 inches high and 18 inches wide, appeared to be attached to the rear of each propeller shaft housing.

"The sides of the upper part of the hull extended out over the tracks. The lower forward section of the hull curved upward at an angle of approximately 45 degrees. The entire forward section of the hull presented a blunt appearance. The observer was of the opinion that such construction of the forward end would enable this vehicle to ride waves of considerable size.

"The observer was unable to see the roof of the tank from his automobile but the upper edge of the hull was encircled by a  $1\frac{1}{2}$  to 2-inch rope. The bottom of the hull was a flat surface except for the forward end. Ground clearance was estimated to be 26 inches. When first observed, this vehicle was making a 180 degree change in direction, pivoting in place on the road on one track.

"Another American citizen, living at present in Vienna, saw a similar vehicle while traveling in southern Germany several months ago."

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# CONFIDENTIAL

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Paraphrase of Code Calligram  
Received at the War Department  
at 12:16, April 21, 1941.

London, filed 14:13, April 21, 1941.

1. British Air Activity over the Continent.

a. Daylight, April 20.

Pursuit squadrons performed two missions over occupied France and made attacks on sea borne traffic off the Norwegian and Lowland coasts. One small vessel was sunk and one damaged.

b. Night, April 19-20.

British activities were limited to mining coast of France and bombing the two German battleships in Brest harbor.

2. German Air Activity over Britain.

a. Night, April 20-21.

No report of damages or of planes destroyed is yet available as a result of scattered small raids over airfields in Yorkshire, Norfolk, and Lincolnshire. Only two planes appeared over London.

b. Daylight, April 20.

German air operations were limited to pursuit missions over Kent airfields and to sea patrols.

3. Air Losses, British Theater.

a. Daylight, April 20.

In the course of British patrols over occupied France one German plane was shot down and two were damaged.

# CONFIDENTIAL

4. British Air Activity, Middle East Theater.

2. Twilight, April 20.

(1) Liberia

Large scale destruction was claimed by the British after continuous bombing of Axis troop and motor transport columns and tanks by bombing and pursuit squadrons.

(2) Greece

British squadrons bombed German airfields and motor convoys.

5. German Air Activity, Middle East Theater.

2. Twilight, April 20.

(1) Malta

Minor destruction was caused by enemy bombing.

(2) Greece

British columns were heavily bombed in their withdrawal as were also the roads in advance of their columns.

6. German Air Losses, Middle East Theater.

2. Twilight, April 20.

(1) Liberia

Four German planes were shot down and five damaged

(2) Greece

British pursuit planes shot down a total of nine German aircraft with four more probable.

(3) Malta

Three German bombers were shot down during raids on Malta.

7. In the course of evacuating casualties from Tobruk the British hospital ship "Vita" was deliberately attacked by bombers.

8. From the commencement of hostilities to April 18, inclusive, 60,829 merchant ships have been conveyed by the British Navy with a loss due to enemy action of 297 ships.

9. The newly constructed German battleship "Bismarck" was identified in the Shagurak on April 18.

10. Photographs of the harbor of Tripoli, taken on April 18, revealed the presence of five destroyers, 31 freighters from 2,000 to 8,000 tons burden each, three torpedo boats, seven escort vessels and 11 sea planes.

END

**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



**CONFIDENTIAL**

Paraphrase of Code Cablegram  
Received at the War Department  
16:30, April 21, 1941

Rome, filed April 21, 1941.

Tanks of French and German manufacture continue to enter Italy in large numbers and circulate among the population. There are 450 ten-ton French tanks, which are supposed to be R 35. In Rome there is a tank regiment equipped with one hundred and fifty 10 and 20-ton French tanks. It is thought these are 335. The same models in large numbers have been seen at Bracciano and at Naples. Their presence at Bracciano may indicate possible intention of embarking at Civitavecchia.

**VISEE**

**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  
Armored Force  
Cavalry

**CONFIDENTIAL**

1. April 17 report from Berlin on German troop dispositions:

228

On or near Russian frontier	89 divisions
In the Balkans	<u>66</u> divisions
Total in the East	155 divisions

(Total number of German divisions is only 260.)

2. Total German strength available against Russia then comes to approximately 3,000,000 men

Total Russian strength in position against Germany totals approximately 2,800,000 men

CONFIDENTIAL

229

Paraphrase of Code Radiogram  
Received at the War Department at  
10:04, April 21, 1941.

Moscow, Filed April 21, 1941.

The present location of troops on the western frontier of the U.S.S.R. is basically defensive:

	Cavalry Divisions	Infantry Divisions	Tank Bridges
Northwest frontier (with Minsk as a central point)	9	38	23
Southwest frontier (with Proskurov as a central point)	<u>14</u>	<u>57</u>	<u>20</u>
Total	23	95	43

The basic policy of the U.S.S.R., as well as its combat strategy, is predicated on defense. In all likelihood the Red Army will put forth stubborn resistance on all fronts, and it is believed that it can hold out for three months at the most. The principal resistance will probably occur in the Ukraine, with withdrawal to the Dnepr as the ultimate line of defense.

Confirmation has been obtained of the suspension for ten days of train and boat service between the U.S.S.R. and Persia, and this is believed to have been at the instigation of the Iranian Government. The Iranian Embassy in Moscow can give no political ground for this action.

Additional information will be forwarded by radio as it becomes available.

YBATON.

Distribution:

Secretary of War  
State Department  
Secretary of Treasury ✓  
Under Secretary of War  
Chief of Staff

Assistant Chief of Staff, G-2  
War Plans Division  
Office of Naval Intelligence

CONFIDENTIAL



April 22, 1941  
9:16 a.m.

H.M.Jr: Hello.

Operator: Secretary Knox.

Frank Knox: Hello, Henry.

H.M.Jr: Frank, how are you?

K: I'm fine.

H.M.Jr: Frank, would you care to have me make a criticism of your speech?

K: Make a what?

H.M.Jr: A criticism.

K: Yeah.

H.M.Jr: Or would you not.

K: Yes, I would. I may not take it but I'd be glad to have you make it.

H.M.Jr: (Laughs). Well, I would feel neglectful as a friend if I didn't call you up and ask you. On page 8, the first sentence.

K: Wait a minute, let me get a copy. Hang on just a minute. (Pause). I hope you got the corrected copy because the President sent over a note - what page did you say that was?

H.M.Jr: Page 8, the first two sentences.

K: No, he didn't get anything on page 8.

H.M.Jr: He didn't?

K: No, he got page 6, page 5, page 6, page 7, page 10, and page 11.

H.M.Jr: I got page 8 here.

K: They might not be numbered the same.

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H.M.Jr: I'm talking about the mimeographed copy.

K: Well, what is the sentence to which you object?

H.M.Jr: There are two sentences:

"All of these things we have done, and some of these things constitute acts of war."

K: That about the "acts of war" has been cut out.

H.M.Jr: ..... "and hence we are now at war with the Axis powers."

K: Yeah, that's cut out.

H.M.Jr: Those two sentences.

K: Yeah, those are both out.

H.M.Jr: Well, that's the only .....

K: The President did me the compliment of going through the darn thing with a great deal of care. He left the guts of the thing in all right; he took out a few brash sentences like that.

H.M.Jr: But those two sentences are out.

K: Yeah.

H.M.Jr: That's all I had.

K: What did you think of it as a whole?

H.M.Jr: Good. Very good.

K: Did you notice how apparently the fellow who writes that summary for you and I had developed the same general thought?

H.M.Jr: Absolutely.

K: Who is that fellow? He does a good job.

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H.M.Jr: Alan Barth.

K: What's his name?

H.M.Jr: B-a-r-t-h.

K: Barth.

H.M.Jr: Alan Barth.

K: He certainly is a good writer and he has good news sense.

H.M.Jr: Well, he reads 350 newspapers - the editorials - every week for me. The editorials from 350 newspapers.

K: Is he a newspaperman?

H.M.Jr: Yes, he is.

K: He's a good one.

H.M.Jr: Don't hire him away from me now.

K: (Laughs). No, I won't.

H.M.Jr: All right.

K: Say, I tell you what I think we had better do about this damn Coast Guard. I had another talk with Stark. I think we'll take your summary of what you want and you and I go to the President and get that O.K.'d by him and then we'll write it out on the basis of that and that will be that.

H.M.Jr: That suits me.

K: All right.

H.M.Jr: Any time.

K: All right, Henry.

H.M.Jr : Thank you.



April 22, 1941  
9:30 a.m.

GROUP MEETING

Present: Mr. Sullivan  
Dr. Viner  
Mr. Bell  
Mr. Haas  
Mr. Graves  
Mr. Kuhn  
Mr. Foley  
Mr. Gaston  
Mr. Haas  
Mr. Schwarz  
Mr. Cochran  
Mr. White  
Mr. Thompson  
Mrs. Klotz

H.M.Jr: Let's see, we will do John first. Is there anything you want to tell the group?

Sullivan: Well, I hope none of them are being misled by the stories in the newspapers this morning about what this new tax bill is, because they haven't got anything about it right.

This announcement by the Republican members of the Committee was pretty much of a bombshell, because it was discussed in the meeting yesterday in executive session whether they should go ahead with an immediate public hearing or wait until they had heard Mr. Stam's views and come to some conclusions among themselves before

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opening the fight up for the public, and no motion was made on opening it up immediately and they broke up with an understanding they were to meet at ten o'clock this morning; and everything was apparently peaceful, although it hasn't been peaceful among the members of the Committee for the first half or three quarters of an hour, and this came as pretty much of a surprise to the Chairman and to all of the Democratic members; but we are going ahead at ten o'clock this morning in continuation of our general discussion of the program as we discussed it yesterday, and I think that probably the hearings will start some time this week. I don't know whether it will be tomorrow or Thursday.

- H.M.Jr: Well, where is Kuhn? Do you (Bell) want to say something?
- Bell: I should think we ought to have a little more advance notice because I take it you will have to prepare a statement and there will have to be quite a lot of information gotten together.
- H.M.Jr: Well, I started yesterday, and Kuhn and I are going to continue at ten fifteen this morning; and then I asked Dr. Viner to come down and help.
- (Mrs. Klotz entered the conference.)
- Bell: Have you got a lot of figures ready?
- H.M.Jr: No.
- Bell: We can get some additional figures from the Budget's revised estimates.

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H.M.Jr: The statement yesterday had no figures.

Bell: I think you may have to explain the nineteen billion. It is going to be different, I am sure, from what the Budget puts out.

H.M.Jr: You mean they will be higher?

Bell: I think so.

H.M.Jr: I hope I will have to explain it. I would be disappointed if I wasn't asked. When will you be ready?

Bell: I may get them today.

H.M.Jr: Don't you think - couldn't you insist on them today?

Bell: Well, I talked to him yesterday and they hadn't gotten all their figures from the War and Navy. They expected them last night. I will call them again this morning.

H.M.Jr: You had better put the pressure on, because I want the President to see this before I give it. I think it is a very good chance that I will be called Thursday.

Bell: I think so.

Sullivan: I think so, too, sir.

H.M.Jr: Better put the pressure on. There were no figures in yesterday's statement. None that I accepted, at least. None along this line.

Bell: If the Budget is agreeable, you really ought to give a revised Budget picture just like you did last year.



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- H.M.Jr: You had better put the heat on.
- Bell: I think you will have to explain that nineteen billion was taken because you started your study along at the first of March, the end of February, and these are later estimates by the Budget, but you will have to stick to the nineteen billion as a base.
- H.M.Jr: That is right. Well, see what you can get me today.
- Sullivan: Dr. Gulick would like to get your approval of hiring Heer and Groves on this study.
- H.M.Jr: Do you recommend it?
- Sullivan: I think they are the best he can get. He is doing a good job. Everything is waiting on that, and I think we had better clear it now.
- H.M.Jr: O.K.
- Sullivan: That is all I have.
- H.M.Jr: You stay as long as you want.
- Sullivan: I think I had better get up, because they may want to see me before they start this meeting.
- H.M.Jr: All right.  
Herbert?
- Gaston: Nothing happened during the night on the Yugoslav vessels. Apparently all is quiet. I will talk to Long again today and see what has happened.

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H.M.Jr: I was at the Brazilian Embassy last night, and the question came up about could they get some contracts to build some ships.

I wish you would call up Nelson Rockefeller this morning and ask him what, if anything, they have done; and then after you have any information they have over there, you might ask the State Department for the information as to what kind of ships Brazil could build.

Gaston: What they can build, yes.

H.M.Jr: You see?

Gaston: Yes.

H.M.Jr: You let me know so I can have a report tomorrow morning at this time.

Gaston: Yes. That was the Ambassador who spoke to you?

H.M.Jr: Well, it was the people there. They have got a man up here, an industrialist, they call him, who is working on it. I didn't get his name. He is working on this thing.

Gaston: All right, I will talk to State on the thing.

H.M.Jr: He is up here. He says he has been here, and he didn't seem to know - I mean, I would ask him questions and I would say, "How far along is your steel mill?" And he would say, "Just five hours from Rio de Janeiro." His English wasn't so good.

Foley: He is a friend of Harry's.

H.M.Jr: Is this man a friend of yours?

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- Foley: Met him in Mexico City.
- White: We spent a hectic night together. If it is the same man, I guess it is. Yes, he is an acquaintance.
- Gaston: I wonder if - Land may have something on the situation.
- H.M.Jr: They say they definitely can repair ships; and from my trip around the New York Harbor, every repair yard, I think, in the United States is full.
- Gaston: I think that is quite likely.
- H.M.Jr: They also said they are building some small mine layers for England. I was thinking if we could spread the work a little bit, I don't know anything that would make better feeling in South America, and it would get them away from this whole thing.
- Under the Lend-Lease, we can order stuff in other countries.
- Gaston: Yes. Of course, the Secretary of the Navy can buy stuff there.
- H.M.Jr: Will you sort of work on that?
- Gaston: Yes. I called Land yesterday about this impression from the President that he had granted some money. Land said no money had been given to them to repair the Italian ships. I told him the President was under the very strong impression that he authorized the work to go ahead, that I thought they ought to make some inquiries, particularly that they ought to ask the Attorney General whether the road was clear and whether they



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could go ahead. They estimated that it would take about six million dollars to take care of the Italian ships.

Well, following that conversation, Land talked to Scoll of the Maritime Commission, the lawyer, and Scoll called up Ed and they finally arrived at the conclusion that if we would give them a letter asking them to make the repairs, that they would go ahead without any funds and make the repairs at their own cost; and so Ed has gotten up a letter for your signature and for the approval of the President to request them to make repairs.

H.M.Jr: My trip around the harbor did some good. I see the President got busy on the Danish ship legislation.

Now, this letter goes over to the President?

Foley: Yes.

H.M.Jr: Via Thompson?

Foley: Yes.

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

Gaston: Ed Flynn has called me twice on the subject of Daly and Magruder in Baltimore. He now makes the same suggestion after talking to the President, the same old suggestion that was made several months ago, that we try to find another job for Magruder. I am quite sure that we have nothing that Magruder would take, so I think I would suggest that I report that back to Flynn, that we haven't any comparable job.

H.M.Jr: Why did you mention it to Sumner Welles?

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He came to Magruder's rescue.

Gaston: I know he did; and if you say so, I will call up and tell him what is going on.

H.M.Jr: Right.

Gaston: They have selected Truman Cash, the State Chairman, for Daly's place, and he said they haven't reached a final decision on that and I am just waiting to hear from them; but I will let them know that it is up to them to find a job for Magruder.

H.M.Jr: And I spoke to Secretary Knox this morning. He acknowledged receipt of the fact that I have returned Stark's request for the seven ships and, "I will tell you what I think we had better do," he said. "We had better take your memorandum, and you and I had better go over and get the President to sign it."

Gaston: Yes.

H.M.Jr: So I am just going to sit and wait until he makes the next move.

Gaston: Until Knox makes the next move?

H.M.Jr: Well, he has the memorandum. I have signed it. He can send it over. I thought you would be amused.

Gaston: Yes.

H.M.Jr: And at my press conference, I off-the-record threw down the Admiral pretty hard.

Gaston: Oh, did you?

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H.M.Jr: If you care to read it.

Gaston: I will.

H.M.Jr: It was all I could do to keep from saying the Admiral could run the Navy but not the Treasury.

Gaston: Well, they will unless they are stopped.

H.M.Jr: Well, they were stopped. It doesn't please the President one bit.

Knox said to me very frankly, he says, "You know I am having a terrible time building up the prestige of the Office of the Secretary of the Navy after what it has been through in the last eight years." He says, "I have had a terrible time."

He says, "They just don't feel that the Secretary of the Navy is anything more than a figure head." So he has his troubles.

Gaston: Sure.

H.M.Jr: Is that all?

Gaston: Yes.

H.M.Jr: Ed?

Foley: You wanted a report on the position in Congress of the foreign ship requisition bill. They held hearings last Thursday, and this morning they are holding an executive session at which representatives of the State Department and the Maritime Commission are to attend. They claimed that the people that were sent down last Thursday were so subordinate that they couldn't express an opinion on policy, and



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before they took any action, they wanted to hear from State and the Maritime.

H.M.Jr: Good.

Foley: Don't you think we ought to be doing something about extending our Stabilization Fund powers? I just bring it up because it is getting along now, and they expire on the 30th of June.

Bell: Congressman Cochran called me last week on another matter, and he said, "By the way, don't wait until the last minute to extend your Stabilization Fund. Get it up here."

Foley: They are not busy now, but you may run into a jam around the end of the session.

H.M.Jr: Start with Weights and Coinage?

Foley: Yes.

White: We have got a draft statement all ready for you to work on.

H.M.Jr: Why don't you get hold of Somers?

Schwarz: The Federal has begun to talk about it, and people are asking whether we are going to drop the power to devalue the dollar.

Foley: Are you going to do both, or do you want to do just the Stabilization Fund?

H.M.Jr: Are they together?

Foley: They expire together.

H.M.Jr: Well, you had better do both.

Foley: They were taken up together the last two times. You won't have any trouble with the Stabilization Fund. I think you will probably have quite a fight on the devaluation.

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H.M.Jr: You had better ask for both.

Viner: Put in separate bills, I would say.

Foley: If you do that, one will pass and the other won't, Jake. I think if you want both, you ought to put them in the same bill.

H.M.Jr: Well, how are they now?

Foley: Well--

White: In the same.

Cochran: In the same bill?

Foley: We put them in the same bill the last time.

Bell: But they are in separate acts.

Gaston: Two separate sections of the same act.

H.M.Jr: I would do it the same way.

Foley: The same as we did the last time.

H.M.Jr: But go up on the Hill and speak to Sam Rayburn first and ask if it is all right to talk to Somers. Will you do that?

Foley: Yes.

H.M.Jr: Is that all right with you, Dan?

Bell: Yes.

H.M.Jr: Anything else?

Foley: Here is the reply to Leon in regard to those - that request for the tax returns. Now--

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H.M.Jr: "Of course we want to cooperate with your office to the greatest extent possible. However, it is not possible," and so forth, "at this time."

Foley: That is right, and Joe will talk to him about the procedure.

Here is a memorandum, if you would like to have it, on what has been done in the past on that. (Memorandum dated April 22.)

Your power is pretty broad, and if some other department of the Government has the matter officially before it and requests the returns and designates the returns and the name and address of the tax payer, you make them available.

H.M.Jr: How is my memory on TNEC?

Foley: I think your memory was right.

H.M.Jr: And O'Connell was wrong?

Foley: I think so. I didn't talk to Joe about that. He prepared this memorandum. In the last paragraph, he says when special committees of Congress have requested the right to inspect the returns, an Executive order has been necessary in each case.

H.M.Jr: But he didn't mention TNEC?

Foley: Not in this memorandum.

H.M.Jr: Just for my curiosity.

Foley: I think that means there was an Executive order for TNEC.

H.M.Jr: I would just like to check the old memory.



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Foley: Right.

These are corporate returns, you see. They are not individual returns, and the secrecy is not so important in so far as the corporate returns are concerned, and I think we ought to work out something for Leon.

H.M.Jr: Anything else?

Foley: No.

H.M.Jr: Did you read those minutes?

Foley: No, not yet. They weren't available last night, and I am going to do it after the meeting.

H.M.Jr: O.K.

Cochran: Pinsent telephoned last night that Sir Edward Peacock will be in town next Monday night and would like to see you on Tuesday or Wednesday if possible.

H.M.Jr: Wants to see me in--

Cochran: I say he has been in Florida.

H.M.Jr: It is a wonderful picture he had taken.

Cochran: Do you want to fix an hour?

H.M.Jr: He did himself a lot of good by going down to Florida and having himself taken with David Windsor and the Dutchess with her tongue hanging out, wondering when she is going to get her dividends. I had forgotten that you (White) were personal advisor to Windsor. When is he going to be here?

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Cochran: They will arrive Monday night.

H.M.Jr: This is all subject to 24 hours cancelation. I will give you three o'clock Tuesday.

Cochran: All right.

Phillips would like to come over on that matter you had up the other day. He turned in those figures which Harry mentioned yesterday.

H.M.Jr: Well, is there any reason why he can't wait until I get this tax thing out of my system?

Cochran: I don't think so.

White: No.

H.M.Jr: Will you bring it up - is there any reason?

White: I don't think so.

H.M.Jr: Will you bring it up again tomorrow? When I go into that English stuff, I want to concentrate on it.

Cochran: There is no--

White: There is no immediate problem.

H.M.Jr: Until I get the tax thing settled - you tell him I am working on a tax bill. As soon as the tax statement is jelled, I will take it up.

Cochran: I prepared him for that last night.

H.M.Jr: Anything else?

Cochran: That is all I have.

H.M.Jr: Dr. Viner?

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You (Kuhn) will be available at 10:15.

Kuhn: Ten fifteen.

H.M.Jr: Harry, 10:15?

White: Yes.

H.M.Jr: I refer you to this cartoon. Have you seen this?

Kuhn: In the Star?

H.M.Jr: Yes.

Kuhn: Yes, I sent it in to you yesterday.

H.M.Jr: I think it is timely.

George?

Haas: I have nothing this morning.

H.M.Jr: Yes, where the heck is that first hundred days? I gave you until noon, didn't I?

Haas: That is right. I think we will have it.

Schwarz: I have the stories that the minority gave out on the tax.

H.M.Jr: I don't want to see them.

Schwarz: You do?

H.M.Jr: No.

Schwarz: It is of interest that Frank Kent, who has been banging away, finally today has a rather favorable column on taxes. The Washington Post has a nice editorial. Miss Youngman



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did it when she came and talked to us on savings bonds. It is a comparison. You saw that White, up in New York, had authorized the state banks to act as agencies?

H.M.Jr: Is Harry operating up there too?

White: I have several agents all over the country, Mr. Secretary.

H.M.Jr: You are telling me. (Laughter)

Schwarz: Relatives?

White: It is kind of unfortunate in the light of what I am just going to say. (Laughter)

Mr. Pike got in touch with me last week and said that the - there were a group of insurance agents - insurance men, rather, I beg their pardon, who are interested in exploring the possibilities of taking over the British companies. They think they can be. They are going to be here at the end of this week, and he said that they would very much like to discuss the matter, if you wished to discuss it or are interested. I said I would ask you and find out.

H.M.Jr: No, let them see Sir Edward Peacock. I don't want to see them.

White: That is all.

H.M.Jr: What else?

White: Mr. Kamarck has just received his orders to report for duty at once somewhere down South. He is an officer in the artillery.

H.M.Jr: Gee!

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White: I don't know whether there is any regular form of taking that up. That is different than draft deferment.

H.M.Jr: Yes. I will take care of that.

White: Will you take care of it or shall I--

Thompson: Is he in the reserve officers pool? They have an arrangement in the War Department about men who are in the pool, about their deferment.

H.M.Jr: What I was thinking of doing was this. Let them call him up and put him in, and then I will ask Secretary Stimson to assign him to me. Let him go into the Army. Will you send for him and talk to him?

Viner: That would affect his salary.

Gaston: Just take away his pay is all.

White: It will mean a loss.

H.M.Jr: A loss in pay?

White: In pay, but I don't think that that consideration is decisive with him.

H.M.Jr: Do you know - what rank has he got?

White: It is either a second or first lieutenant. In either case, it would be a loss in pay.

H.M.Jr: In either case?

White: I think so.

H.M.Jr: Will you send for him? He is very useful to me. Of course, consult the man himself, you

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see. I will have him in right after this. I want to talk to him. I will have him in myself. I mean the man undoubtedly has personal preferences.

What else, Harry?

White: I have a couple of reports on defense. I don't know whether you want to look at them or whether I will just send them in at the regular--

H.M.Jr: Bring them in at 10:15.

White: All right.

H.M.Jr: Or bring them in at 10:10.

White: O.K., sir.

H.M.Jr: Bring them in at 10:10.

White: That is all.

Graves: We now have the script covering the broadcast for yourself and the President and the Postmaster General on April 30. Any time that you like we can--

H.M.Jr: Three fifteen?

Graves: Fine. That is all.

H.M.Jr: Dan?

Bell: This clipping you gave me is just the usual trouble we have. Whenever we designate the depositaries, some banks raise the question as to whether they have the authority and others go ahead and pledge it. It is entirely up to the banks.



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- H.M.Jr: But the New York Tribune financial column, that is the second criticism.
- Bell: This isn't so much criticism other than the fact that they say we should have looked into it. Well, we would have done the same thing if we had looked into all the banks.
- H.M.Jr: But you have got this whole staff working under Harold. They might get hold of the man who writes that column and sit down with him.
- Bell: We could call him in and say that there is nothing new in it, that it is entirely up to the banks. It is voluntary, if they want to do it.
- H.M.Jr: If Harold could have his group sit down with that fellow, you see. He seems to have it in for us.
- Bell: The Maryland Banking Commissioner called yesterday and raised a question. Edward talked to him and told him that the FDIC deposit was certainly a collateral for any bank, that we considered these bonds up to that amount as a deposit. Over that it was entirely up to the banking commissioners whether they had authority to place them.
- H.M.Jr: Anything else?
- Bell: That is all.
- H.M.Jr: Norman?
- Thompson: I have checked on the efficiency of Charles Dayton Clark, the Deputy Collector of Internal Revenue, whom we put on in New York at the suggestion of Mrs. Roosevelt. She is interested enough in him to want us to keep him on if his

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record justifies.

Klotz: That is the--

Thompson: His record is good. I think we might give him a permanent appointment.

H.M.Jr: Would you do that?

Thompson: Yes.

You probably will recall the Famous Brands case in Cleveland involving the Collector of Internal Revenue, a Secret Service agent, and Assistant Collector of Customs Pollock. Only one of the three involved, Mr. Pollock, has been paying back the profits they made. He has been paying in 45 dollars a month to the Cleveland Community Chest. It would take him about 20 years to pay in the whole 10 thousand he received as his profit. It is pretty much of a hardship on him, and Mr. Gaston and Mr. Johnson and I feel that there ought to be some abatement of the penalty in his case.

The most severe penalty, short of dismissal, usually given in a disciplinary case is six months without pay. We feel that if we apply that in this case, it will be adequate.

Gaston: He is the only one who has paid anything. The others got out. Another got a political job.

Thompson: He has paid about 18 hundred dollars, and six months' salary would amount to 26 hundred dollars.

H.M.Jr: O.K.

If you (Thompson) and Herbert will stay, I will see Kamarck.

## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE April 22, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

## STRICTLY CONFIDENTIAL

At 5 p.m. last night Mr. Pinsent, Financial Counselor of the British Embassy, telephoned me that Sir Edward Peacock planned to arrive in Washington next Monday, and would like to see the Secretary on Tuesday or Wednesday. He also wishes to talk with Messrs. White and Cochran. Pinsent added that Sir Frederick Phillips desires to see the Secretary at an early convenient date in regard to the memorandum with respect to the British cash and exchange position which had been the subject of a memorandum submitted by Phillips following his last conversation with the Secretary.

At the 9:30 Staff Meeting this morning I mentioned the above. The Secretary fixed provisionally 3 p.m. on Tuesday next for receiving Sir Edward Peacock. He asked me to explain to Sir Frederick Phillips that he is busy just now with his tax legislation, but will receive Sir Frederick as soon as that rush is over.

I telephoned Sir Frederick at 10:15 and gave him the above message with respect to the two appointments. He asked that I be sure that the Secretary himself may have seen Phillips' memorandum of April 18. Following this conversation I spoke with Mr. White, who had attended to the distribution of the memorandum, and was assured that the original would go to the Secretary.





## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

April 22, 1941.

TO Secretary Morgenthau  
FROM J. J. O'Connell, Jr.

For your information

The weekly meeting of the Price Administration Committee was held this morning in Leon Henderson's office. All the agencies represented on the Committee were present. The following discussion was had:

(1) A general discussion was had relative to the reaction of the steel industry to the recent price freezing order. Mr. Henderson reported that he felt the general reaction was as good as could have been expected and that a study of the effect of the existing price level on the profits of the industry, particularly the small units, is under way.

(2) In discussing the recent increase in coal prices, Mr. Henderson explained that since the coal prices fixed by the Bituminous Coal Commission are minimum prices, any increase in wage rates is almost bound to result in an equivalent increase in coal prices.

(3) Mr. Henderson advised that because of the recent wage increase granted by International Harvester Company he had felt it necessary to write to each of the manufacturers of farm machinery cautioning them against any increase in farm machinery prices. This action does not constitute a freezing order, but it may have the same effect.

(4) A general discussion was had of the price structure in the cotton textile field, and Mr. Henderson pointed out that price behavior in that field is far from satisfactory. However, he hopes that it will be possible to work the matter out without the necessity for any direct action on prices.

Secretary Morgenthau,

2.

(5) Mr. Henderson also read a letter he proposes to send to the Federal Loan Administrator on the subject of a stock pile of zinc concentrates. Apparently capacity in the industry has been permitted to run down in this country, and the producers have not been very cooperative. Zinc is not on the list of strategic and critical materials and Mr. Henderson proposes to suggest that it be included therein. This will be necessary before RFC may legally purchase zinc for a stock pile.

(6) Mr. Henderson also discussed the general subject of automobiles and their prices, but took no position as to whether he thinks there is any present necessity for doing anything about automobile prices. Reference was made to the recent voluntary reduction of 20 per cent in automobile production, and Dr. Lubin raised the question of whether the reduction will be obtained by shortening the work week, or by closing some plants now in operation, or whether they will continue full production until the total number to be produced have been produced. No one seemed to know the answer, although all seemed to agree the question is an important one.

(7) Several times during the discussion reference was made to the problem of ocean transportation. The representative of the Federal Loan Administrator was particularly concerned, pointing out that they were having great difficulty in getting delivery on such things as Australian wool. He also pointed out that there has been a substantial increase in freight rates which is, of course, reflected in increased cost of raw materials imported.

The rest of the discussion was quite general and the meeting adjourned at 12.45.

Joseph J. Connell Jr

APR 22 1941

Dear Leon:

This will acknowledge receipt of your letter of April 16, 1941 relating to the desire of your office to have access to certain corporate tax returns.

Of course, we want to cooperate with your office to the greatest extent possible. However, it is not possible for me to give you any blanket assurance at this time as to the availability of some forty thousand tax returns.

I have instructed Mr. O'Connell to arrange a meeting between representatives from your office and the Bureau of Internal Revenue with a view to working out a satisfactory solution.

Sincerely,

(Signed) Henry

Hon. Leon Henderson,  
Administrator,  
Office of Price Administration  
and Civilian Supply,  
Washington, D. C.

JJO'C, Jr./Lew  
4-21-41

File to Mr. Thompson

By Messenger 11<sup>30</sup>



COPY

Office of Price Administration and  
Civilian Supply  
Washington, D. C.

April 16, 1941.

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

My dear Mr. Secretary:

As you know, the Office of Price Administration and Civilian Supply is charged with functions relating to the maintenance of price stability and the prevention of price dislocations. In order to fulfill the objectives set forth by the President in Executive Order No. 8734, this Office should have current information relating to profits and to the financial condition of a large group of individual companies. Such information is of vital importance to the ascertainment of such matters as the reasonableness of existing prices, the necessity of price increases, and the effects of an industry's price structure upon individual companies within the industry. In this connection tax returns are of special importance.

Specifically, we are considering the feasibility of microfilming a few pages of certain returns containing the data most relevant to our purposes. If this is possible, we would limit the returns examined, to those of corporations exceeding a certain size (tentatively set at \$250,000 of total assets) and to certain industries. We estimate that microfilm copies would be needed of about 40,000 returns. We are, of course, ready to assume all expenses involved in microfilming and segregating the returns. If possible, we should like to microfilm certain corporate income and excess profits tax returns for the fiscal year 1940. In addition, we are desirous of obtaining photostatic copies of tax returns for earlier years from time to time as the need arises.

2.

It is our understanding that 1940 returns are not kept in Washington, but rather are shipped out for field audit. If the plan outlined here is possible, certainly it would seem most reasonable to obtain the desired data while the returns are in Washington. The confidential nature of the reproductions of the returns would, of course, be respected by this office.

I should be very grateful for your assistance in this matter.

Very truly yours,

(Signed) Leon Henderson

Leon Henderson  
Administrator.



## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau  
FROM E. H. Foley, Jr.

Treasury Decision 4929, approved by the President August 28, 1939, sets up rules and regulations governing the inspection of tax returns. It provides that where examination of a return is desired in connection with "some matter officially before him" inspection may, "in the discretion of the Secretary of the Treasury", be permitted upon the written application of the head of an executive department or any other government establishment.

The T. D. requires that the application state the purpose of the inspection, the name and address of the taxpayer and other relevant data.

Admittedly the request made by Leon Henderson does not comply with the T. D. However, it is my understanding that the letter was only intended to state the general situation and contemplates that specific requests for specific returns will be submitted in accordance with the requirements of the T. D.

If this be so the fact that it has been our uniform practice to grant such requests from other government agencies should, I believe, be called to your attention before you make a definite decision adverse to Mr. Henderson's request.

I am informed that requests from the SEC, the Commerce Department, the Federal Trade Commission, as well as others, have invariably been granted when requested in proper form. None has been called to my attention involving as many as 40,000 returns but at least one involving 2000 has been favorably entertained.

On the other hand, when special committees of Congress have requested the right to inspect returns, an Executive Order has been necessary in each case.

S. H. 76.



## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE April 22, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

## STRICTLY CONFIDENTIAL

At 11 o'clock this morning I told the Secretary that Mr. Walton W. Butterworth who had done special reporting for the Treasury from the American Embassy at London, had now arrived in Washington and assumed his duties in the Department of Commerce. Consequently I had spoken with Mr. Norman Thompson who is today advising the State Department that the allowance to Mr. Butterworth from the Treasury, the last check whereunder covered the period from January 1 to March 31, 1941, is discontinued.

I explained to the Secretary the arrangement reported by Butterworth in his cablegram No. 1128 dated March 22, 1941, whereby Mr. Walton Ferris would take over his reporting work temporarily, assisted by Mrs. Egerton, the economist who has helped Mr. Butterworth for several years. I told the Secretary that Mr. Ferris was an intelligent and agreeable officer who was capable, with the aid of Mrs. Egerton, to provide us with such factual information as we may currently require, particularly with respect to exchange regulations, the budget, etc. The Secretary agreed with me that since Sir Frederick Phillips has now been here with the Treasury Mission for several months, and that we take up all negotiations with the British Treasury through him, there is no need of having a special Treasury representative at London.

I let the Secretary know that Mr. Erhardt, the Personnel Officer in the State Department, had recommended Mr. Alan Steyne for the position, and that Mr. Steyne had come to see me, upon his recent arrival in this country, and prior to his departure on leave of absence. I added that Mr. Steyne would be returning to England in May. I expressed the opinion that Mr. Steyne was a very active and intelligent officer, with much interest in financial work. I remarked that he might likely be a little too forward in contact work, and that Mr. Butterworth had not seen fit to recommend him for his successor. In answer to the Secretary's question, I told him that we are not giving any allowance now for reporting work from London, but are continuing during the present fiscal year annual allotments of \$1200 to Mr. Matthews at Paris and Mr. Heath at Berlin.

*JMP*

April 22, 1941  
11:29 a.m.

H.M.Jr: Hello.  
Operator: Mr. Early is in with the President.  
H.M.Jr: Well, leave word I'd like to talk to him.

11:55 a.m.

Steve  
Early: Hello, Henry.  
H.M.Jr: Steve, I just wanted to make sure that you were going to help us on this broadcast we're arranging for the President and myself on the night of the 30th.  
E: Well, I've told the broadcasting companies that the President is participating in it and that it is your program, and that Schwarz would approach them on time.  
H.M.Jr: Well, we've got the time.  
E: Well, now, they tell me everything is all set.  
H.M.Jr: That's right. No, you misunderstood me. I meant we're sending over the script to you now.  
E: Oh, I get it.  
H.M.Jr: No, everything has been done.  
E: Oh, well, that's .....  
H.M.Jr: No, everything is swell. We've got 9:30, which is a perfect hour, and I wanted to let you know the script is on the way over.  
E: Oh, I see.

- 2 -

H.M.Jr: And knowing Mr. Roosevelt - hello?

E: Yeah.

H.M.Jr: ..... is likely to leave the thing until the last minute, I thought you might help out on that one.

E: Well, I tell you, just between you and me I think he is going to leave here tomorrow night for Warm Springs.

H.M.Jr: I see, and he'll not be back on the 30th?

E: And he may be back on the 28th or 29th. Yes, he'll be back here on the 30th all right.

H.M.Jr: Well, then he'd better take this thing with him.

E: Yeah. That's what will happen to it. That is undoubtedly what is going to happen to it.

H.M.Jr: Well, that was all. The time and all that has been taken care of.

E: Yeah. Well, O.K., the mechanics are all attended to.

H.M.Jr: Yes. Now it is a question of the script. It's on the way over.

E: Right, sir.

H.M.Jr: Thank you.

E: Thank you, Henry. Good-bye.



April 22, 1941  
12:20 p.m.

H.M.Jr: Hello.

Operator: Secretary Stimson.

Henry L. Stimson: Henry?

H.M.Jr: Yes.

S: I've just learned from John O'Brien that you are proposing some thing to the President in regard to the O.P.M.'s labor clause in their contract.

H.M.Jr: Right.

S: How did that come up?

H.M.Jr: How did it come up?

S: Yes. Why is it that I have to hear of it in this indirect way. Did you know that that was a matter that I have spent a good deal of time on with Hillman and with Frankfurter and with the Judiciary?

H.M.Jr: How should I know that?

S: Well, I have. That's a fact.

H.M.Jr: Well, I mean, I have no way of knowing that.

S: Well, I had no way of assuming that you had anything to do with these matters.

H.M.Jr: Well, I wrote a letter to the President and he referred it to Donald Nelson. I mean, I reserve the right to write to the President on any subject that I want to.

S: I don't question that, but I .....

H.M.Jr: I don't see why you should object if I write a letter to the President of the United States.

S: No, now you're off on a line. Did you know that that is a matter that relates to the

- 2 -

contracts of the War Department and something that I have something to do with.

H.M.Jr: Quite true, and .....

S: And it also relates to a practice which is under consideration in the O.P.M. of which I am a member, and it relates to a rather important and significant thing which I undertook in the interest of harmony to work out, and I had reached a solution which I was able to back and which I had assumed was still awaiting Mr. Hillman's views on it.

H.M.Jr: Well, all I can repeat is, I mean .....

S: Well, really, I do think - I seriously object to a system of administration which, without consulting the head of a department, comes in and butts into his matters which he has worked over at great length.

H.M.Jr: Well, I think that any objection that you have you should file it with the President.

S: Well, I know, but I don't think I ought to be put to that trouble by a friend. I rather expected the friend to come to me first.

H.M.Jr: Well, as I say, we've had this thing up before and I still say that if I feel in the public interest that there is something which I'd like to write to the President about, as long as I'm here as his appointee, I'm going to write him. Now what he does with my letter, whether it goes into the trash basket or whether it goes anywhere else, that's up to him.

S: Now, Henry, hold on. Now that's all right suppose we say as an <sup>thing,</sup> but don't you think that under the circumstances it would have been a little bit better if you had talked to me?

H.M.Jr: Well, it never occurred to me, any more than it would have to talk to Knox or talk to Knudsen or talk to Hillman. I mean, if I

- 3 -

had done that, I would have gone out - then I would have felt I certainly should have been criticized, and the President could say, why are you talking to them about something to do with labor which isn't any of your business. If you've got anything to say, talk to me about it.

S: Well, all right. You .....

H.M.Jr: I'm sorry that you've taken offense. No offense was meant because it never occurred to me. I mean, I can't apologize for something .....

S: No, I'm not asking you to apologize.

H.M.Jr: Well, I mean, if I had carefully weighed should I talk to the Secretary of War, should I talk to Mr. Knudsen, should I talk to Knox and the others - but it just never occurred to me. Now, I wrote it to the President - I didn't know what he'd do with it - he sent it to Nelson for reasons that I don't know.

S: I can't very well answer it because I haven't got a copy of it. I don't know what you sent except that I know the subject of it.

H.M.Jr: Yeah, and if I had carefully weighed who I should take it up with, I wouldn't have taken it up with anybody.

S: Well, it was a matter which related to the contracts of the War Department which primarily go to Patterson and secondarily go to me and this matter would have been deemed of sufficient importance that I should be consulted by Patterson and should take it up. I took it up and after it reached that stage the O.P.M. was formed where we had a chance to discuss it and where we'd worked it out and had several meetings on it, and I was the one there that was given the responsibility. I felt so clearly and heavily the responsibility that I went to a Justice of the Supreme Court to see if



- 4 -

there was a way of getting one phase of the evils cut out by shortening the time of appeals in certain labor matters, and he took it up with the Chief Justice. I cite these things only to show the amount of time and work that we've been doing on it in an attempt to reach a just conclusion, when suddenly I find that - I don't mean to make any offense in my language - but I find that by a method which hadn't even notified me of it, but by a, so to speak, a backstairs method the thing is being brought up to the President without giving me any opportunity to be heard.

H.M.Jr: Well, if you don't mind my saying it, I object to that because I don't consider a letter from me to the President of the United States as backstairs, and I don't see how it could be any more direct.

S: Well, I know it wouldn't - I wouldn't have any cause of grievance at all - I wouldn't have any grievance if you had let me know of the letter, or had sent it to me, or had sent me a copy, but as it is I know nothing about it except that something which I've labored long and hard over is likely to be foreclosed by the President unless I rush around and ask a meeting at the White House and get a chance to talk with him about it. Now that's what makes Government here hard.

H.M.Jr: Well, if I might make a statement, at the time I wrote the letter to the President he was being attacked on three different fronts with strike trouble: coal, iron and automobile. And I had this idea that if the Government could make a public statement backing up what he said in his message to Congress on contracts that it would be pleasing to labor, and I wrote him to that effect when he was being attacked on all three sides to be helpful to him. Now, what he would do with it, I didn't know, and when these things happen and I think I have an idea - sometimes it is no good, occasionally it is some good - I feel at liberty to write him .....

- 5 -

- S: I haven't the least intention of infringing upon that liberty and I think you must know it.
- H.M.Jr: That is all that motivated me and I didn't think of anybody else but the President of the United States and to be helpful to him. Now, if in that process I made things more difficult for you, it goes without saying that I'm sorry, but I'm only thinking of him and I'm only going to be here as long as I can be of use to him. When the time comes that I can't be, why I don't stay here a second.
- S: All right. I have no intention of infringing on that right.
- H.M.Jr: But that is all that motivates me and I wish you'd believe me.
- S: Well, it goes without saying that when you assert a thing I believe it.
- H.M.Jr: And as I say, I'm not trying to make things any more difficult for you or for anybody else.
- S: Well, I don't quite know how to act because I haven't yet been notified that any such thing - of what it is except by surmise, and that makes it a little hard for me to move. But I do know that the counsel for the O.P.M., John O'Brien, is very much worried over it and has appealed to me and I'm trying to find a way to - as I was before, I was brought into it as a peacemaker.
- H.M.Jr: Well, the whole thing was referred by the President to Donald Nelson. That's where he sent it.
- S: When? You mean lately, this last, late matter.
- H.M.Jr: Well, it must have - I think Nelson came over to see .....

- 6 -

S: What?

H.M.Jr: Nelson let me know .....

S: Here, I'm just trying to see, it was .....

H.M.Jr: Sometime last week.

S: Yes, I see.

H.M.Jr: But my letter must have been at least three weeks ago.

S: Well, I'll try to get hold of Nelson and see if I can find out from him.

H.M.Jr: But that's where it went.

S: It's a little bit like being hit in the dark.

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

S: All right. I'll see if I can find Nelson.

H.M.Jr: All right. Good-bye.

S: Good-bye.



April 22, 1941

This evening at ten minutes past seven Secretary Stimson called me on the telephone to say that he did not want to let the sun set without calling me up and saying that no matter what I did, he still loved me any way, and that he wanted me to forget about our troubles of this morning.

April 22, 1941

This evening at ten minutes past seven Secretary Stimson called me on the telephone to say that he did not want to let the sun set without calling me up and saying that no matter what I did, he still loved me any way, and that he wanted me to forget about our troubles of this morning.

April 22, 1941  
2:15 p.m.

H.M.Jr: Hello, Bob?

Robert  
Patterson: Hello, Henry.

H.M.Jr: How are you?

P: Fine.

H.M.Jr: Bob, so there can be no possible misunderstanding, I would like you to know - you may already know it - that George Haas, who is in charge of Statistics for the Treasury, is getting certain production figures from Colonel Ayres. Do you know about it?

P: No, but it is all right.

H.M.Jr: Well, I want you to know, and I want you to know I have two purposes. (1), I've got to make an estimate of how much is going to be spent for the fiscal year 1942 for my appearance before Ways and Means. That's No. 1. I've already used the figure \$19 billion and we're rechecking, you see.

P: Yeah.

H.M.Jr: And we've got to know how much is going to be produced. And the other thing, when I have them - I have had certain charts prepared and I have been giving them to the President of the United States. Hello?

P: Yeah.

H.M.Jr: ..... with the figures that I have been getting from Colonel Ayres.

P: Yes.

H.M.Jr: Now, if you've got any question at all, you or Mr. Stimson, I want you to know in advance.



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P: Oh, no. It's all right. Of course, the details are confidential.

H.M.Jr: Well, they only go from me to Mr. Roosevelt. Nobody else.

P: That's all. That's all right with me, certainly.

H.M.Jr: Well, I want you to be sure now.

P: I'm sure of it.

H.M.Jr: All right.

P: All right. Good-bye.

H.M.Jr: Thanks. Good-bye.

April 22, 1941  
2:45 p.m.

RE CANADA

Present: Mr. Clark  
Mr. Cochran  
Mr. Coyne

Clark: Well, you have worked it pretty rapidly and considerably ahead of the completion of the little statement that you asked for, and I am afraid it is still in pretty tentative shape. It is an indication rather than anything else. I imagine the details will have to involve consultations with the technical people of both countries.

(Mr. Clark handed a statement to Secretary.)

H.M.Jr: Who else besides myself will get copies of this?

Clark: I have been working with Mr. Purvis a good deal in connection with getting his advice, and he thought perhaps Mr. Hopkins ought to have a copy.

H.M.Jr: That is right.

Clark: I think he was going to arrange, if possible, to see Mr. Hopkins this afternoon.

H.M.Jr: Good.

- 2 -

Clark: I don't know whether that has been arranged or not.

H.M.Jr: But he is going to furnish Mr. Hopkins a copy?

Clark: Yes.

H.M.Jr: How about the Secretary of War and Navy and State?

Clark: Well, now, I don't know just enough about your machinery to know what is the appropriate way of doing that.

H.M.Jr: Well, if I could get three more copies, I would like to give one to the State Department, War and Navy.

Clark: I see.

H.M.Jr: If you haven't got the facilities, we could have this done.

Clark: Well, we could go back and--

H.M.Jr: We can have it done.

Cochran: I can have it photostated in less than an hour.

H.M.Jr: I think I would have it photostated and a letter prepared explaining what it is, Merle.

Cochran: All right.

H.M.Jr: A letter of transmittal to State, War, and Navy.

Cochran: The three colleagues on your committee.



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H.M.Jr: Yes, on the committee.

Clark: You wouldn't think that that would, with the Army and Navy people, that would be pressing them too much? You don't think so?

H.M.Jr: No, I think I would like to. You see, we are on this committee together, and I would like to furnish them copies. I think that that is - the President will get his copy through Mr. Hopkins, I take it.

Clark: Yes.

H.M.Jr: I think I would like to send the President one, Mr. Hull, Mr. Stimson, and Mr. Knox, each one.

Cochran: Four of them?

H.M.Jr: Yes. I think I would like to do that.

Cochran: And Mr. Purvis will give the copy directly to Mr. Hopkins.

H.M.Jr: But I will send one to the President, too, because he might say, "Well, why didn't I get one?"

Clark: Yes, I see.

H.M.Jr: The thing can be photostated and a letter of transmittal prepared. Then in that letter to the President I could ask him for instructions, you see.

Cochran: Yes.

H.M.Jr: Merle?

Cochran: Yes.

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H.M.Jr: How would he like us to proceed, you see.

Cochran: Yes, sir.

H.M.Jr: Well, it looks like a very complete list.

Clark: Well, it is very tentative. It is a provisional indication of what our possibilities up there are, and I think it would require a pretty careful working out between your technical people and our technical people. It is beyond my department in the supply problem. I don't know enough about it.

H.M.Jr: I think the thing to do is for me to get this into the hands of the President and these other three members of the Cabinet and ask the President, "Where do we go from here?"

Clark: Yes.

H.M.Jr: And then Purvis can carry the ball with Hopkins.

Clark: Yes.

We will have to presumably have an organization here to sit down with your people. We will have to develop a number of specialists in each of these lines to consult with your people. There will be a lot of working-up to be done.

H.M.Jr: I think you will have to strengthen the Canadian representation here with Mr. Purvis.

Clark: Yes, that is what we intended to recommend as soon as we go back. We will have to have probably one man in charge of this and then a number of specialists in various lines who may not be here all the time but would be here for the next few weeks at any rate

- 5 -

until we get started and then would be available from time to time after that.

H.M.Jr: Well, this is very prompt on your part. I will try to give it a good push here.

Clark: Well, that is very much appreciated.

I am just trying to see how it will work out in terms of our deficit situation. (Handing Secretary a paper.) Going back to that estimate of our deficit which we gave you in March, then as we told Mr. - Mr. Coyne, I think, reported to Mr. Bell or one of your men here, that this first maturity will be taken care of, which brings us down to 463 million. Now, while we give larger figures here, it is pretty hard to say when your technical people get down to the job whether - how far they can go and I put the figure of two hundred million there, which may be exceeded or we may not reach that.

H.M.Jr: Does it give the period here?

Clark: Well, it is on our fiscal year, 12 months ending March 31. Now, this is a very difficult thing to estimate, partly because of the indirect - largely because of the indirect purchases made by our private contractors down here. I don't know whether when the technical people get down to the job they will find it administratively practicable to lease-lend all that stuff, so I put a conservative figure in there of a hundred and twenty-five million. It may be larger than that. It may not be quite so large.

H.M.Jr: Now, are you going to be here the rest of the week?



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Clark: I had a call from my boss yesterday. We are going to have a budget down on Monday.

H.M.Jr: Well, then, this gives us a chance to study it, and I have got to go on the Hill on our tax statement, so after we get this thing, then you will be coming back again, I take it.

Clark: I can come back after we get this budget off our shoulders the first of next week. I can be back at any time subject to your call.

H.M.Jr: Thank you very much.

Dear Mr. President:

I have pleasure in enclosing a photostatic copy of a memorandum setting forth tentative estimates of Canada's available surplus capacity for the production of munitions and other supplies, which was prepared as a result of a meeting between you and the Prime Minister of Canada on April 30, and was handed to me today by Mr. W. G. Clark, Deputy Minister of Finance of Canada.

Will you kindly instruct me as to what our next step should be with reference to the subject of this memorandum.

Sincerely yours,

Secretary of the Treasury

Enclosure:  
Photostatic copy of  
memorandum

The President,  
The White House.

NSC:log-h/22/41

Washington, April 21st, 1941.

SECRET.

MEMORANDUM.

In connection with that part of the statement of policy formulated by the President and the Prime Minister on April 20th, 1941, which deals with the purchase of defence articles in Canada by the United States, there is attached a preliminary and tentative statement of Canada: capacity surplus to present orders. This first appraisal of possibilities was prepared for information in connection with the discussion of general policy by the two Governments and was not, of course, intended to be sufficient for the guidance of U. S. officials in determining what they may wish to buy in Canada as a result of the general policy which has been agreed upon.

It is assumed that representatives of the appropriate U. S. purchasing departments or agencies will wish to consider with appropriate officials of the Canadian Government and the British Supply Council, detailed information in regard to Canada's capacity for the production of ships, munitions, other ordnance stores, strategic materials, and other war supplies, and the orders (Canadian and British) already in process of execution in Canada. Such detailed examination should disclose the extent and precise nature of Canada's surplus capacity, and the best way in which it can be used with a view to the integration of the United States, Canadian and British programmes, so that the joint production may be obtained wherever it may be most readily, economically and quickly available.



SECRET.

TENTATIVE ESTIMATES  
OF  
CANADA'S AVAILABLE SURPLUS CAPACITY  
FOR  
THE PRODUCTION OF MUNITIONS AND OTHER SUPPLIES.

APRIL 21st, 1941.

Washington, April 21st, 1941.

**S U M M A R Y**  
of  
**AVAILABLE SURPLUS CAPACITY BY MAIN CATEGORIES.**

(Showing possible production values up  
to March 31, 1942, and up to June 30,  
1942, respectively.)

	Estimated Production Value up to	
	<u>March 31, 1942.</u>	<u>June 30, 1942.</u>
1. Naval and Merchant Vessels, Corvettes or Minesweepers, Merchant Ships, large - 9,300 tons small - 4,700 "	\$ 10,200,000. 47,700,000. 20,000,000.	\$ 23,200,000. 89,000,000. 25,000,000.
2. Guns and Ammunition	45,000,000.	75,000,000.
3. Armoured Fighting Vehicles, (Universal Carriers)	6,600,000.	14,000,000.
4. Explosives and Chemicals,	4,000,000.	5,600,000.
5. Secret Detection Devices,	9,600,000.	17,700,000.
6. Metals and Minerals,	66,700,000.	72,800,000.
7. Clothing and Textiles, Rubber and Leather Products, (including Web equipment)	65,000,000.	81,000,000.
8. Plywood and Veneers for Aircraft, Ships, etc.,	9,000,000.	12,000,000.
Estimated Total	<u>\$284,000,000.</u>	<u>\$415,000,000.</u>

Washington, April 22nd, 1942.

NAVAL AND MERCHANT VESSELS.ESTIMATE OF SURPLUS CAPACITY AVAILABLE.NAVAL CORVETTES OR MINESWEEPERS

In addition to orders now in hand, additional orders could be accepted for either or both of the above types of Naval vessel and the vessels completed in Great Lakes Shipyards as follows:

First Quarter 1942,	-	6	vessels
Second " 1942,	-	15	"
Third " 1942,	-	19	"
Fourth " 1942,	-	<u>18</u>	"
Total 1942,	-	<u>60</u>	vessels.

First Quarter 1943,	-	7	vessels
Second " 1943,	-	23	"
Third " 1943,	-	25	"
Fourth " 1943,	-	<u>21</u>	"
Total 1943,	-	<u>76</u>	vessels

Assuming orders for this surplus capacity were placed promptly, U. S. dollars would be made available to Canada as follows:

8 completed vessels at average cost of \$690,000.	-	\$ 5,200,000.
Progress payments up to March 31, 1942,		<u>5,000,000</u>
Total to March 31, 1942		\$10,200,000.
Additional payments in 2nd Quarter 1942, say		<u>13,000,000.</u>
Total to June 30, 1942		\$23,200,000.

N.B. Small cargo vessels capable of going through the St. Lawrence Canals could be built on the Great Lakes, but probably only at the expense of a proportionate reduction in the number of Corvettes or Minesweepers shown above.

MERCHANT VESSELS

In addition to orders now on hand, it would be possible for Canada to accept orders for cargo vessels of 9,300 tons, similar to type now being constructed in U.S. and Canada for the United Kingdom. It is now estimated that these could be completed as follows:

First Quarter 1942,	-	12	vessels
Second " 1942	-	22	"
Third " 1942	-	14	"
Fourth " 1942	-	<u>21</u>	"
Total completed in 1942,		<u>69</u>	"
First Quarter, 1943	-	17	"
Second " 1943,	-	17	"
Third " 1943,	-	14	"
Fourth " 1943,	-	<u>19</u>	"
Total completed in 1943,		<u>67</u>	"

Assuming orders for this surplus capacity were placed promptly, U.S. dollars would be made available to Canada as follows:

12 completed vessels at average cost of \$1,800,000.	-	\$21,600,000.
Progress payments on 22 vessels half completed,		19,800,000.
" " " 14 " " quarter "		<u>6,300,000.</u>
Total dollar receipts up to March 31, 1942,		\$47,700,000.
Additional payments in second quarter of 1942, say		<u>41,300,000.</u>
Total dollar receipts up to June 30, 1942		\$89,000,000.

N.B. In addition it would be possible to build a number of smaller cargo vessels (with tonnage say 4,700 tons); probable dollar value of output up to March 31, 1942 would be \$20,000,000. up to June 30, 1942 \$25,000,000.



Washington, April 21st, 1941.

AMMUNITION AND GUNS.AMMUNITION (Complete rounds - Shells, Cartridge Cases and Fuses).

Canada has surplus capacity for the following U.K. types of ammunition which are required under the Lease-Lend applications:

3.7" Anti Aircraft, High Explosive,  
4.5 B. L. " "  
5.5 Howitzer, " "

or in the alternative, the following U. S. types:

75 MM.  
105 MM.

A rough estimate of the production value of surplus capacity in Canada would be as follows:

Quarter ending Sept. 30th, 1941,	\$10,000,000.
" " Dec. 31st, 1941,	15,000,000.
" " March 31st, 1942,	<u>15,000,000.</u>
Total to March 31st, 1942,	\$40,000,000.
Quarter ending June 30th, 1942,	<u>27,000,000.</u>
Total to June 30th, 1942,	\$67,000,000.

SMALL ARMS:

BREM GUNS. Canada has one of the largest and most efficient Bren Gun plants in the world. Unless additional orders are received, this Bren Gun plant capacity will become free in the Spring of 1942; on this assumption there would be surplus capacity for 2,017 Bren Guns (including spares) in the second quarter of 1942; 10,500 in the third quarter of 1942, and quarterly thereafter. In addition there would be surplus capacity for Bren Barrel Assemblies to the extent of 2,000 in the fourth quarter of 1941, and 6,000 quarterly thereafter.

Alternatively, this capacity could be made available for the production of Boyes Anti-tank Rifles. With some extensions (involving the procurement of \$350,000, machine Tools from U.S.) a capacity of 5,000 rifles per month might be reached in the early summer of 1942, with approximately 30,000 rifles produced in that year.

Possible production value of this surplus capacity might be estimated at \$400,000, up to March 31, 1942 and at \$1,400,000, up to June 30, 1942.

GUNS:

40 MM. MORTAR GUN BARRELS - Canada has surplus capacity for production of these barrels and could produce 3,600 by March 31, 1942 and 4,800 by June 30, 1942. Total value of this output would be \$1,620,000. and \$2,160,000. respectively.

3.7" ANTI AIRCRAFT GUN BARRELS. Canada has surplus capacity for the production of 1,200 loose barrels by March 31, 1942, and 1,740 by June 30, 1942. Total value of this output would be \$3,000,000. and \$4,400,000. respectively.

ARMORED FIGHTING VEHICLES.TANKS AND UNIVERSAL CARRIERS:

With a capital expenditure of \$800,000., surplus capacity for Universal Carriers will become available as follows:

	<u>Units.</u>	<u>Value.</u>
Quarter ending, Dec. 1941.	400	\$1,647,000.
"    "    March, 1942	<u>1,200</u>	<u>4,941,000.</u>
Total to March, 1942	1,600	\$6,588,000.
Quarter ending June, 1942,	<u>1,800</u>	<u>7,412,000.</u>
Total to June, 1942.	3,400	\$14,000,000.

(Thereafter 1,800 Carriers per quarter)

Surplus Capacity in Tank production - Infantry (Valentine) and Cruiser - will develop in the 3rd and 4th quarters of 1942.

Washington, April 24th, 1942.

EXPLOSIVES AND CHEMICALS.SURPLUS CANADIAN CAPACITY AVAILABLE  
FOR EXPORT TO U.S. FROM MAY, 1941.

(Note: Conversions from physical quantities to dollars are based in some cases on estimated market values, in other cases on estimated manufacturing costs, exclusive of capital charges or amortization, and are given simply as a rough calculation of total values, f.o.b. plant).

From May 1941 to end of  
March 1942. June 1942.

(\$ 000 Canadian)

YELLOW PHOSPHOROUS

Ma. to August, 13,000 lbs monthly, from September up to 200,000 lbs. monthly, value 18¢ per lb. 261 369

RED PHOSPHOROUS

16,500 lbs. Monthly, value 40¢ per lb. (Greater production possible if Yellow Phosphorous not required) 73 82

POTASSIUM PERCHLORATE  
AND AMMONIUM PERCHLORATE

Together, 30,000 lbs. monthly from July, value 15¢ and 19¢ per lb. respectively, 46 61

GAS-MASK CARBON

25,000 lbs. Monthly, value 75¢ per lb. 206 262

PHTHALIC ANHYDRIDE

35,000 lbs. monthly from October, value 16¢ per lb. 38 57

AMMONIA

(As Anhydrous Ammonia, Ammonium Sulphate, or Ammonium Nitrate as desired): August 1,000 tons, from September 1,200 tons monthly, average cost \$42.00 per ton 395 546  
In addition, there will be further capacity of 4,500 tons per month from September (unless British Ammonia plants should be put out of action). Taking the same average cost the figures are, 1,323 1,890

DINITROTOLUOL

(Currently being shipped to U.S.A. for British Rifle powder contracts) 175 tons monthly, cost 13¢ per lb. 500 637

TETRA

10 tons monthly from September, cost 50¢ per lb. 70 100

NITROCELLULOSE RIFLE POWDER

40 tons monthly from August, cost 35¢ per lb. 224 308

HEXACHLOROETHANE

83 tons monthly from August, Cost \$160. per ton 104 146

GARBON

200 tons monthly from July, cost 2½¢ per lb. 90 180

Forward,

3,332 4,578



Washington, April 21st, 1941.

EXPLOSIVES AND CHEMICALS. - Page 2 -

	From May 1941 to end of	
	March 1942	June, 1942.
	(\$ 000 Canadian)	

	Forward	3,332	4,378
<u>NIGHTM</u>			
320 tons monthly from October, cost 18¢ per lb.		691	1,077
Total of above,		4,023	5,615

Canada could also undertake some shell-filling for the United States.

Additional Capacity could be quickly and economically provided in the following fields:

(1) CHLORINE:

Capacity for 600 tons monthly could be provided in 6 to 8 months by way of plant extension at a capital cost of \$500,000., and a new plant with capacity of 300 tons monthly could be completed in 8 months at a capital cost of \$800,000. At a value of \$35. per ton, there would be a combined annual output of \$378,000.

(2) PHENOL:

Capacity for 100 tons monthly could be provided in 6 months at a capital cost of \$250,000. At a value of 12¢ per lb. annual output would be \$288,000.

(3) CARBIDE:

Plant extension could provide additional capacity of 3,000 tons monthly in 6 to 8 months at a capital cost of \$500,000. At a manufacturing cost of 2½¢ per lb., annual output would be \$1,800,000.

(4) Methanol:

A plant to produce 250 tons monthly would probably cost \$1,000,000., and could be completed in 9 to 12 months.

(5) ACETONE:

A plant to produce 4,000 to 5,000 tons per annum would cost \$1,000,000.

(6) ETHYLENE GLYCOL:

A plant to produce 7,000 tons per annum would cost about \$2,000,000.

\*\*\*\*\*

In addition to the foregoing, extensions to Canadian explosive, chemical, and shell-filling plants now in operation could be carried out as rapidly as equipment could be obtained. The operating experience is available to bring such extensions into production as quickly as they can be constructed.

Washington, April 21st, 1941.

SECRET DETECTION DEVICES.SURPLUS CAPACITY AVAILABLE FOR EXPORT.Possible Total to end of  
March, 1942      June, 1942.

A.S.V.C.

RECEIVERS

4th Quarter, 1941 - 600 - \$1,500,000.

1st Quarter, 1942 - 600 - 1,500,000

Total	\$3,000,000.	\$ 4,500,000.
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These could be made available in succeeding Quarters at the rate of 600 per Quarter, or 2,400 per year, with annual value of \$12,000,000.

Unit Price is estimated at from \$2,000. to \$2,500.

G.L.C.

1st Quarter, 1942 - 120 available  
for export,

6,600,000.

13,200,000.

These could be made available thereafter at a rate of 120 per Quarter or 480 per year with an annual value of \$26,400,000.

Unit Price is estimated at from \$55,000. to \$60,000.

Combined Total	<u>\$9,600,000.</u>	<u>\$17,700,000.</u>
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Washington, April 21st, 1941

MINERALS AND MINERALSESTIMATE OF POSSIBLE ADDITIONAL EXPORTS TO U.S.A.  
(in Canadian Dollars)

	By the end of	
	March	June
	<u>1942</u>	<u>1942</u>

ALUMINUM  
At present, Canada has no surplus ingot capacity available for export to the United States. However, the Aluminum Company of Canada has submitted proposal to O.P.M. for extension of its present ingot plant which would produce an additional 40,000 metric tons a year. It is understood that during the negotiations, O.P.M. officials stated that the additional capacity required would be from 100,000 to 150,000 tons. The Canadian Company could expand its capacity by an additional 100,000 tons and proposed that the U. S. Government should enter into a contract to take the Company's additional output for 3 years, making a down payment of 50% of the contract price for the 3 year period. It is understood that O.P.M. officials objected to a 3 year contract and suggested a contract only for the duration of the war. The Company, it is believed, is now willing to include a 6 months' cancellation clause in a 3 year contract.

If such a contract were entered into immediately, it is understood that Company could deliver 15,000 to 20,000 metric tons of ingots before April 1942; that it could begin producing at the rate of 50,000 tons by April, 1942. A 50% down payment on a 3 year contract involving 50,000 tons a year would make available to Company during the fiscal year 1941-2, about

\$31,000,000.	\$31,000,000.
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A careful survey of Canada's fabricating capacity is now being made and it may be that some small capacity may be available for forgings and perhaps sheets.

ANTHRACITE

Stocks on hand, March 1, 1941, available for export, 1,000,000 lbs. at say 14¢ per lb.

140,000.	140,000.
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Monthly surplus available after providing for domestic requirements, 140,000 lbs.

215,000.	274,000.
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BITUMENS

Stocks on hand, Jan. 31, 1941, 1,350,000 lbs. at 3¢

47,000.	47,000.
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Monthly surplus available for export, 160,000 lbs.

62,000.	85,000.
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ASBESTOS

Annual tonnage of various grades available for export:

Crude - -	2,100 tons
Asbestos Mill Fibre - -	180,000 "
Shorts - -	175,000 "

A substantial part of this is now exported to the U.S. The above tonnages could be increased by about 20%, plus a further 24,000 tons of shorts. Total at current prices, \$

3,856,000.	4,909,000.
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Washington, April 21st, 1941.

METALS AND MINERALS. - page 2 -

	Up to end of	
	March 1942,	June, 1942.
<u>SOUTH</u> Stocks on hand Jan. 31, 1941, available for export 210,000 lbs at \$1.25 Residuals on hand could produce a further 300,000 lbs. by August,	\$ 263,000. 400,000.	\$ 263,000. 400,000.
<u>UPPER</u> 35,000 tons of metal contained in copper concentrates now being shipped to U.S. All Canadian refined copper in excess of domestic consumption goes to U.K. under contract	nil	nil
<u>COBALT</u> Stocks on hand as concentrates containing metal - 75,000 lbs at 87¢ Monthly production of same, 40,000 lbs available, During next few months and up to June, 1941 30 tons of refined metal per month from Deloro Smelting and Refining Co. is being diverted from U.K. contract to U.S. to meet shortage in U.S.	65,000. 383,000.	65,000. 487,000.
<u>ALUMINUM ALLOYS</u> Arrangements might be made to ship a limited quantity.	??	??
<u>LEAD</u> Stocks on hand March 31, 1941, available for export - 100,000 tons at \$130.  Monthly production above domestic requirements is 15,000 tons, of which 9,500 tons is under contract to U.K. but not being taken in fully contract is likely to be reduced. An estimated 6,500 tons monthly can be shipped to U.S.	13,000,000.  9,295,000.	13,000,000.  11,830,000.
<u>MAGNESIUM</u> Commencing October, there should be high grade Magnesia in the form of brucite granules available for export at the rate of 400 tons monthly, valued at \$50. per ton	120,000.	180,000.
<u>MERCURY</u> Stocks on hand March 1, 1941, available for export - 240 flasks at \$180. per flask  Monthly surplus 450 flasks  A further addition to the plant is being made, increasing surplus by 350 - 450 flasks monthly from August, say 400 monthly	43,000. 891,000. 576,000.	43,000. 1,134,000. 792,000.
<u>ZINC</u> Estimated annual surplus is \$500,000. already being bought by U.S.A.	nil	nil

Washington, April 21st, 1942

METALS AND MINERALS. - Page 1 -Up to end of  
March, 1942.      June, 1942.NICKEL

Estimated total production of refined Nickel from all sources, exclusive of Monel Metal, is 124,000 tons, of which 70% now goes to the U.S., in addition to virtually all of the Monel Metal. - In July a further 500 tons a month of refined nickel may be available for export. Total at 35¢ per lb.

\$ 3,150,000.      \$ 4,200,000.

(A small additional quantity will also be made available through curtailment of civilian consumption in Canada, but as total consumption is only 3,000 tons a year the saving will not be important.)

COPPER

Present exports to U.S. are around 275,000 tons yearly, which could be increased almost indefinitely.

500,000.      650,000.

Increase for 11 months, say

ZINC

Stocks on hand March 31, 1941, available for export, 300,000 lbs. at \$1.75  
Monthly surplus 17,000 lbs.

523,000.      571,000.  
327,000.      416,000.TUNGSTEN

Stocks on hand February 1, 1941, available for export, 93,000 lbs. @ \$1.75

163,000.      143,000.

Monthly production of 10,000 lbs is possible if there is a market

193,000.      255,000.

BRASS

There are considerable quantities of copper, brass and tinplate scrap available for export, say,

300,000.      400,000.

SULPHUR

Production of refined Sulphur is 100 tons per day. Surplus 25,000 tons per year, all going to U. S. now.

nil      nil

LEAD

Surplus in calendar year 1941 is 145,000 tons, all under contract to U.K. Arrangements are being made, however, to ship from 500 to 1,000 tons monthly to U.S. for several months, and there may also be 750 tons monthly available as a result of curtailment of civilian consumption; say, 750 tons per month at \$150. per ton

1,237,000.      1,575,000.

(Notes: In Q40 Canada shipped to the U.K. 52,390 tons of Prime Western which was obtained by debasing high grade. This is uneconomic and should not be continued. This tonnage in the form of high grade could be shipped to U.S. if U.S. will ship equivalent amount of Prime Western to U.K. Negotiations to this end are under way.)

MISCELLANEOUS

Exports of Gypsum, Barite, Feldspar, Talc and Nepheline, Syenite could be increased.

??	??
\$66,749,000.	\$72,835,000.

TOTAL OF THE ABOVE

Washington, April 21st., 1941.

CLOTHING and TEXTILES. LEATHER and RUBBER PRODUCTS

Surplus available capacity over and above present orders.

Possible export values  
up to  
March 31, 1942.      up to  
June 30th, 1942.Woolen Cloths and Clothing

(N.B. Wool raw material costs in Canada are substantially lower than in U. S.).

Woolen Cloth for uniforms -

2,000,000 yards quarterly commencing fourth quarter 1941 (1,000,000 yards in second quarter and 1,000,000 in third quarter)

Woolen uniforms or greatcoats -

500,000 quarterly, commencing in 3 months (100,000 in second quarter of 1941).

Woolen blankets -

500,000 quarterly, commencing July 1, 1941 (100,000 in second quarter of 1941)

\$16,575,000.      \$19,100,000.

Woolen underwear -

300,000 suits quarterly, commencing July 1, 1941, (100,000 in second quarter of 1941).

Woolen socks -

1,500,000 pairs quarterly, commencing July 1, 1941, (500,000 in second quarter of 1941).

Woolen gloves -

200,000 pairs quarterly, commencing July 1, 1941 (50,000 in second quarter in 1941).

\$ 5,500,000.      \$ 7,000,000.

\$ 4,860,000.      \$ 6,690,000.

Cloths for shell filling requirements -

(N.B. For several months our textile mills have experimented and are now producing satisfactory cloths for this purpose. They can handle substantial quantities).

\*\*Fuse cloth or box cloth 54" wide -25,000 yards in second quarter of 1941,  
75,000 yards in third quarter and  
100,000 yards quarterly thereafter

\*\* (For use in powder-filled time fuses and for washers in certain shell fillings).

Shalloon cloth (all worsted) -For use in breech-loading cartridge bags and in igniters for these -  
50,000 sq. yards in second quarter of 1941,  
100,000 sq. yards in third quarter,  
200,000 sq. yards in 4th quarter and  
500,000 sq. yards quarterly thereafter.Cloth, wool, thin, vulcanized - 4 1/2 ounces for usein exploder bags DFI or C.E. -  
50,000 sq. yards in second quarter of 1941;  
100,000 sq. yards in third quarter,  
200,000 sq. yards in fourth quarter and  
500,000 sq. yards quarterly thereafter.



Possible export values  
up to  
March 31, 1942.      up to  
June 30th, 1942.

Green Serge (all worsted) -  
for use as substitute for silk say-  
tridge bags -  
50,000 sq. yards in second quarter of 1941;  
100,000 sq. yards in third quarter and  
200,000 sq. yards quarterly thereafter

Cotton Duck -      \$ 6,740,000.      \$ 8,580,000.  
(N.B. Canada has substantial surplus in  
this line).

Numbered duck (Nos. 1 - 12), 22" to 120" wide  
for use in tarpaulines, transport covers  
etc. -  
3,000,000 lbs. quarterly commencing in  
one month.

Ounce duck - 6 to 15 ounces - 29" to 30" wide  
used for tents, awnings, stretcher covers,  
dunnage bags, knapsacks etc. -  
2,000,000 lbs. quarterly commencing in  
two months.

Mechanical hose and belting duck -  
300,000 lbs. quarterly, commencing at once.

Web Equipment -      \$11,000,000.      \$14,000,000.

Web equipment sets -  
(consisting of leggings, belt with cart-  
ridge carrier, pack, shoulder harness,  
pistol case, bayonet scabbard, compass  
carrier, waterbottle cover, spade cover,  
pickaxe holder and rifle slings).  
Canada has substantial equipment for making  
the components and sets economically -  
200,000 sets in second quarter of 1941,  
400,000 sets in third quarter, and quarterly  
thereafter -  
450,000 sets or an equivalent number of  
separate pieces, or separate webbing by the yard.

Heavy webbing yarn, 5 ply, 10's natural -  
500,000 lbs. in second quarter and  
1,000,000 lbs. quarterly thereafter

Silk -      \$ 550,000.      \$ 700,000.

Silk, as used in canopies for parachutes -  
1,000,000 yards in second quarter of 1941 and  
2,000,000 yards quarterly thereafter.

Silk cord for shroud lines in parachutes, -  
10,000 lbs. in second quarter of 1941 and  
35,000 lbs quarterly thereafter.

Leather Products -      \$ 5,500,000.      \$ 7,000,000.

Boots, army pattern, - 100,000 pairs in 2nd quarter  
of 1941 and 400,000 pairs quarterly thereafter

Govt Shoes, - 200,000 in 2nd quarter of 1941, 600,000  
in 3rd quarter and 1,000,000 quarterly thereafter.

Washington, April 21st., 1942.

CLOTHING and TEXTILES, - LEATHER and RUBBER PRODUCTS.

Possible export values  
up to March 31, 1942. up to June 30th, 1942.

Leather Products.

Upper leathers - No definite figures available but quantities are substantial.

Wachette cases -  
80,000 in second quarter of 1941, and 240,000 quarterly thereafter.

Scabbard cases -  
50,000 in second quarter of 1941 and 120,000 quarterly thereafter.

Harness -  
30,000 sides in second quarter of 1941 & 45,000 quarterly thereafter.

Anti - Gas Respirators

These are composed of 42 component parts and are assembled in two Government operated plants. By third quarter of 1941, a surplus of 100,000 complete sets per quarter could be made available. \$ 457,000. \$562,000.

This production could be increased ten-fold if desired.

Rubber Clothing and Footwear - \$13,750,000. \$17,500,000.

Rubber surface clothing -  
(suits, coats, capes, aprons, gloves, ground sheets, hats etc.)  
150,000 units in second quarter of 1941 and 350,000 units quarterly thereafter.

Rubber waterproof cloth -  
200,000 yards in second quarter of 1941 and 600,000 yards quarterly thereafter.

Rubber waterproof clothing -  
50,000 units in second quarter of 1941 and 150,000 units quarterly thereafter.

Rubber footwear -  
plain rubbers - 250,000 pairs in second quarter and 1,000,000 quarterly thereafter.  
Overshoes - 200,000 pairs in second quarter of 1941 and 600,000 quarterly thereafter.  
Boots, gum, lumberman's 6 eyelet - 200,000 pairs in second quarter of 1941 and 350,000 pairs quarterly thereafter.  
Boots, knee, rubber, high - 250,000 pairs in second quarter of 1941 and 1,000,000 pairs quarterly thereafter.

GRAND TOTAL - \$64,932,000. \$81,152,000.

Washington, April 21st, 1941.

LUMBER PRODUCTS.

PLYWOOD AND VENEERS:

Canada has substantial capacity for the production of Birch and Douglas Fir, Plywood and Veneers for use in aircraft, ships, etc. It would be possible to export these products to a total value of \$9,000,000. up to March 31, 1942, and \$12,000,000. up to June 30, 1942.

AEROPLANE SPINDLE:

It is understood that the U.S. has already contracted for Canada's total surplus capacity of aeroplane spindles up to June 30, 1942.



Washington, April 22nd, 1941.

CANADA'S EXCHANGE POSITION vis-vis THE UNITED STATES,

(Canadian Dollars)

1. Canada's deficit of U.S. dollars for year ending March 31st, 1942 (as estimated March 15th, 1941)	\$478,000,000.
2. <u>Less</u> U.S. dollars obtained as a result of renewing part of May 1st maturity	<u>15,000,000.</u>
	\$463,000,000.
3. <u>Less</u> assumed additional purchases by U.S. in Canada of ships and other war supplies, say	<u>200,000,000.</u>
	\$263,000,000.
4. <u>Less</u> assumed amount of U.S. components of British war orders in Canada which may be provided by U.K. under Lease-Lend Act, say	<u>125,000,000.*</u>
5. Shortage still to be met, say	\$138,000,000.**

\* It is difficult to forecast the precise magnitude of this item. While the estimate of Canada's exchange deficit with the United States during the present fiscal year shows that U. S. components of British orders in Canada account for \$244,000,000. out of the total of \$478,000,000. (and to this should be added \$16,000,000 representing U.S. components of war orders placed in Canada by other British Dominions) nevertheless, it may be found administratively difficult, if not impracticable, to lease-lend the whole of this amount, and particularly certain items such as oil, coal, etc., purchased by private Canadian contractors rather than by Government agencies.

\*\* This item may be either too low or too high, depending on whether items 3 and 4 have been overestimated or underestimated, and in any event will be increased if Canada's restrictions on pleasure travel in the United States are relaxed. A formula which would provide for meeting Canada's total dollar exchange deficit would be an agreement that the United Kingdom should pay to Canada an amount in U.S. dollars equivalent to whatever the magnitude of item 5 may prove to be. It should be noted, particularly because of the probable delays in starting the U.S. programme of war purchases in Canada and in getting substantial receipts therefrom, that Canada's shortage of U.S. dollars will be most important during the next six months.

THE BRITISH SUPPLY COUNCIL IN  
NORTH AMERICA

April 22, 1941

SECRET IMMEDIATE

Dear Mrs. Klotz:

About two weeks ago we sent Mr. Philip Young for the Secretary a statement covering the delivery positions of the two types of four-engine bombers, and Mr. Young stated at that time that the Secretary would like to have a similar statement of the position as of April 20th. You will find attached the April 20th statement which we hope will be useful to the Secretary. If, however, any further information is required please let us know.

Yours very truly,

(Signed) C. T. BALLANTYNE

ASSOCIATE SECRETARY

Mrs. Helen S. Klotz  
Room 280,  
United States Treasury,  
Washington.

enc.

Copy to Mr. Philip Young  
Rt. Hon. Arthur B. Purvis

BRITISH AIR COMMISSION

MOST SECRET

Consolidated B 24 Bombers

Arrived in U.K.	3
At Gander	1
Montreal	5
New York	2
Forecast for balance of April	4
Forecast for balance of May	<u>11</u>
	26

.....

## Boeing B 17

Arrived in U.K.	3
At Gander	1
Dayton	2
Ready at Seattle	9
In work at Seattle	<u>5</u>
	20

Washington, D.C.

April 20, 1941.

CWM



April 22, 1941

My dear Mr. Wilson:

Thank you for the information contained in your letter of April 17th and the inclosed statement.

Sincerely yours,

(Signed) H. Morgenthau, JFD

Mr. Morris Wilson,  
British Air Commission,  
1785 Massachusetts Avenue, N.W.,  
Washington, D.C.



## BRITISH AIR COMMISSION

OFFICE OF  
THE DIRECTOR GENERAL

WASHINGTON, D. C.

April 17th, 1941

Dear Mr. Secretary,

I understand that a telephonic enquiry has been made on your behalf as to the extent to which American aircraft supplied to England and the various theatres of war overseas have actually been taken into use; with an explanation of the difficulties, if individual types are not yet in the front line.

I am afraid that we are not in a position to give you full information on this subject which necessarily entails intimate knowledge of the day-to-day operations in England and the various overseas commands. I would suggest that a comprehensive survey of the position could best be made in London and that it might be convenient for you to ask Mr. Harriman if he would get in touch with the Ministry of Aircraft Production and the Air Ministry in London so that he might be given all the information you desire. If this course meets with your approval, I will gladly send an immediate telegram to London explaining the nature of your enquiry and asking that the necessary information shall be placed at Mr. Harriman's disposal.

In the meantime, I enclose a note giving the general position so far as we have knowledge of it; but the facts vary so much from week to week that I am afraid I cannot guarantee that the position has not changed appreciably during recent days. This general statement may, nevertheless, be of assistance to you in the immediate difficulty you have in mind.

Yours sincerely,

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

NOTE FOR MR. MORGENTHAU IN REGARD TO  
USE OF AMERICAN TYPES IN ENGLAND AND OVERSEAS COMMANDS

\* \* \* \* \*

1. Fighter types have been despatched from the United States in the following numbers, viz. 204 Curtiss Mohawk (P.36), 630 Curtiss Tomahawk (P.40), 85 Grumman Martlet (U.S. Navy Fighter F4F) and 106 Brewster Buffalo.

2. The Curtiss Mohawk has been employed both in England and the Middle East but is now obsolescent for use in the front line in England and it is mainly employed in the Middle East area, when opportunity offers, against the less efficient types of bomber aircraft used by the enemy. This type has been employed to the maximum extent practicable in the battle area and all possible use will be made of the aircraft still on charge.

3. Of the total deliveries of the Curtiss Tomahawk two thirds have been sent to England and one third to the Middle East. The first 150 aircraft sent to England were mainly to the old French specification and on arrival in England had to be converted to British specifications to bring them up to modern fighting requirements. These changes could not be made in the U.S.A. without seriously holding up the Curtiss production line and it was thought better to complete them in England. The first deliveries were shipped in October last year and some months have been necessarily occupied in assembling and modifying the machines. The balance of deliveries to England have been to British specification and the first supplies of these were shipped at the end of 1940. Since their receipt in England, the aircraft have been assembled and posted to operational units where full experience has been gained by the personnel who have to operate them in the battle line. This necessarily takes time but there have been concurrent difficulties with the Allison engine in service and it is hoped that these



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aircraft will very soon be in the front line.

4. The Curtiss Tomahawks for the Middle East are shipped to Takoradi where they are assembled. They are then flown through Central Africa to <sup>L</sup><sub>A</sub> Kartoum and thence to Alexandria. Reports show that these aircraft are about to come into service, but here again the Allison engine troubles have delayed their employment in actual combat. For example, we heard a few days back that 25 aircraft were grounded due to failure of the generator and vacuum pump drives of the "C" type engine.

5. Action is being taken to rectify the Allison engine troubles mentioned in paragraphs 3 and 4 but they are of such a character as to curtail the effective life of the engine between complete overhauls. These difficulties have not only delayed the employment of the Curtiss types on combat work, but limit their effective use where so employed. As the difficulties are overcome, however, these aircraft will play an increasing part in front line operations. It is hoped that these particular troubles will not arise in connection with the Allison "F" type engine which has been so designed as to eliminate them.

6. The Grumman fighter of the fixed wing type is now in use in England and, subject to limitations imposed by the fixed wing, is giving satisfactory service; 35 have been delivered. The aircraft had a tendency to swing and the gun installation was faulty, but these difficulties have now, for the most part, been overcome. Deliveries of the Grumman fighter with folding wings will commence shortly and these aircraft will be a valuable acquisition to the British Fleet Air Arm for use in aircraft carriers in the Mediterranean and elsewhere.

7. The Brewster Buffalo deliveries have been made to

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the Far East Command stationed at Singapore. All deliveries shipped to date should by now be in service and the aircraft should constitute a vital augmentation of the defences of Singapore. Further shipments are being made in the immediate future to the same destination.

8. So far as bombers are concerned, 212 Martin 167 type bombers have been shipped to Africa where they have been in service for some months. For example, photographs of the sinking of Italian ships during the attack on Taranto, November 11th, were made by one of the standard Martin 167 bombers actually in combat use in the Middle East Command. These aircraft are giving very satisfactory results despite the fact that they were designed to French specification and do not incorporate full up-to-date requirements. For this reason they had necessarily to be employed in the Middle East area. Modifications suggested by full war experience are being incorporated in the new Martin Baltimore type which is scheduled to start deliveries in the early future.

9. The Douglas DB-7 twin-engined bomber has been in use recently in England in the combat line. The first 138 of these aircraft taken off old French contracts have been converted in England for use as night fighters and have been furnished with special equipment for this work. It is a great satisfaction to know that they are playing an increasingly large part in the destruction of German night raiders as reported in the last few weeks. Here is a clear instance where deliveries from U.S.A. have been adapted to a new role in the defence of England within quite a short period of time.

10. Other supplies of the DB-7 are being sent to the Middle East Command to strengthen the force of twin-

engine bombers and to supplement the limited number of Martin 167 bombers which are available as mentioned above. These aircraft are being employed for many combat purposes despite the limitations imposed by their having been constructed to out-of-date French specifications. This type has been further developed to new British specifications and we shall in the coming months be securing large deliveries which will undoubtedly play a large part in the various theatres of war. These types were designed for use as Army support bombers and are not long range bombing aircraft. The short range and limited bomb load was deliberately accepted so as to get the benefit of high speed and manoeuvrability as required for Army support work.

11. The Lockheed Hudson General Reconnaissance twin-engine bombers have been delivered to England in large numbers. They have been in the front line continuously since the outbreak of war and it is true to say that the Hudsons delivered by air from America to England go into service within a matter of hours after their arrival. Everyone speaks most highly of this aircraft which is undoubtedly the life blood of the general reconnaissance patrols so essential to British shipping. Similarly some of the 32 PBV boats which have been delivered from America by air have already gone into combat after having some necessary adaptations made to them in variation of the U.S. Navy specification to which they had been built in order to meet British special requirements. It is only a matter of quite a short period of time before all flying boats so delivered go into actual use. This is especially so now that we are making deliveries of PBV boats actually built to British specifications. Just recently a boat was cleared



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through from San Diego into England within five days and was no doubt then quickly taken into use by the squadron concerned.

17. The Consolidated B.24 deliveries have necessarily been limited. The first five B.24's have been taken without full military equipment for use in ferrying trans-Atlantic pilots. Some other deliveries will be to U.S. specifications and will probably require some adaptations in England before they can go into service, but aircraft to the British specification, deliveries of which will commence shortly, will go straight into service. The first two Boeing B.17's have arrived in England and, although to U.S. specification, we were able through the full co-operation of the U.S. Department, to equip them with self-sealing tanks and other essential war equipment. They should go into combat use as soon as R.A.F. personnel have necessary squadron experience. The assistance put at our disposal by the U.S. Air Corps in lending qualified pilots, engineers and service technicians to accompany the B.17 will materially expedite the preparation of squadrons for action. This will increasingly be the case as further deliveries are made.

13. There remains the Harvard trainers which we have been obtaining for the last two years. These aircraft go into squadron use for advanced training immediately on receipt. They have been one continuous success and have proved the vital type of aircraft for all advanced training in R.A.F. squadrons both in England, Canada, South Africa, Rhodesia and other parts of the British Empire. Training has necessarily to be spread to the maximum extent so as to avoid a holding up of the vast training schemes as a result of enemy raids over England.

April 22, 1941  
10:15 a.m.

RE TAX STATEMENT

Present: Mr. Kuhn  
Mr. White  
Mr. Viner

Kuhn: I have something nice to show you this week,  
Mr. Secretary.

Colliers in this week's issue is coming out  
with the nicest item I have seen about our  
bonds, nicer than there has been in any paper.

H.M.Jr: Isn't that wonderful.

Kuhn: Now it comes with a letter from Tom Beck to  
Harford Powel.

(Discussion off the record.)

H.M.Jr: Now, if I can calm down a minute. I am glad  
you are here, Mr. Viner.

Viner: Thank you.

H.M.Jr: My purpose in inviting you was to assist me  
on this, which could be a fairly important  
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Mr. Kuhn is editor in chief, and you two  
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Kuhn: This is where it was left yesterday.

White: This is the rewritten --

Kuhn: This is what you have changed.

White: You haven't seen this yet, Ferdie.

Kuhn: You have put in the inserts, haven't you, Harry?

White: Yes. I have made some moderate changes in yours, but tried to keep it as near the original as possible.

Kuhn: Why don't we use Harry's draft?

White: I think this is the rewrite. The changes that we made in his stuff are moderate, and the inserts are there. I think that is the one you want to see.

H.M.Jr: What has Viner got?

White: He has got the one you have now. There are a couple of more pages that are coming in in a minute.

H.M.Jr: When was this done, Harry?

White: Apparently this morning.

H.M.Jr: I see. Well then, some of this is new to you, too, Kuhn.

Kuhn: Well, it was only - the filling in on these financial things is all.

H.M.Jr: But there are some other changes, Harry?

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White: Yes.

H.M.Jr: Is there anything on page one?

White: Yes.

Kuhn: This is good, Harry.

H.M.Jr: Well, let me read the first paragraph, Harry, and then you can tell me where the changes are. If there is anything in the first paragraph. Are there any changes in the first paragraph? It doesn't read the same.

White: No, there are no changes in the first paragraph. There are some changes since yesterday, but he made them.

H.M.Jr: Viner, do you want to get this soaked up first and then afterward make your suggestions, either as to - or additions or deletions? Is that the way you would like to work it? Soak it up first.

Viner: I would rather read it all. I first want to know what the job is.

H.M.Jr: That first sentence, "I have come before you today to discuss with you ways and means of producing three and a half billion dollars in additional revenue for the defense of our country."

Kuhn: That was in yesterday, but you wanted the first sentence yesterday omitted, which said that, "I hope that no member of the committee will be shocked." It is substantially the same as we had yesterday, with that change made.

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Viner: I may say that my first reaction was, I would want to take out that defensive note in the first two or three pages. The public is not going to be shocked, they are going to be pleased.

There may be hot fights about the form or distribution; but on the amount, I wouldn't even hint that you have to apologize for them or that they are going to resist that. I don't think it is in the air.

H.M.Jr: I agree with you.

"This, surely, is not unreasonable --" I would say, "This is surely reasonable."

Viner: Yes. In other words, don't be on the defensive before the Committee at all, except possibly on the terms or the arrangements.

H.M.Jr: I said the same thing yesterday.

Viner: Because you are going to find yourself in the strange position that everybody is going to praise you for asking for taxes and the public itself is sort of feeling - they want to feel that they are doing something, you know. They haven't got that sense, yet, that they are involved.

H.M.Jr: Well, I am glad to have you say it.

Viner: I am sure that is it.

H.M.Jr: "This surely is reasonable in time of industrial prosperity like the present."

Well, on top of page two, carrying out what Viner says, you might want to leave out,



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"Unless I mistake the temper of the American taxpayer." You might want to just say, "We are going to take this in our stride."

Viner: "The American taxpayer is prepared to take this in his stride."

H.M.Jr: Right.

Viner: It is not only you who is prepared. The people are prepared. That is the line to take.

H.M.Jr: That is the advantage of getting somebody to come in.

Now, gentlemen, what I would do just as a matter of precaution, there are four members of OPM, see. This part on two, where we talk about how much they are going to spend, I would send that over to them in advance and say, "I am proposing to say this."

White: That paragraph?

H.M.Jr: Yes. With a little letter and ask for an urgent reply. You see, Ferdie?

Kuhn: Yes.

White: It is safe.

H.M.Jr: Yes. I mean, the four members are Stimson, Knox, Knudsen and the labor man.

Kuhn: Hillman.

H.M.Jr: I wouldn't send this over, though. until Bell gets the thing from the Budget, you see.

Viner: At the top of page five --

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- H.M.Jr: I am not quite there yet.
- White: That figure of a thirty-five billion appropriation looks small to me. I thought it was forty billion.
- Kuhn: Forty-two.
- H.M.Jr: No, it was twenty-eight and seven.
- White: Well, I am pretty sure I have seen a figure of over forty, but I take it Bell will check up on it.
- H.M.Jr: I will tell you where you get that from. There are in the making, appropriations hanging fire in the Budget on the Hill, of another four or five; but actually passed is only thirty-five.
- Viner: That doesn't include recommendations?
- H.M.Jr: No. But Bell is working with it, and I think that in handling it - well, let it go from me to these people and ask for a hurry-up answer, but not until we get Bell's figures; and I think we ought to tell them when we get them. The letter should say, "I have these figures from the Budget, but before using them publicly, I would like to submit them to you; but I would appreciate a very prompt answer."
- I wonder if the easiest way wouldn't be possibly to ask "Senator" McReynolds, as Secretary of the OPM and as Secretary to the President, I wonder if that wouldn't be - ask Mac to clear it with the four. If it goes to Stimson, it will be lost.
- Ask Norman Thompson which he thinks is better. He could ask McReynolds. Should he address

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it personally to each of these four, or address it to McReynolds and ask him to get an answer?

- White: Right off hand, if you ask me, it would be better for it to be personal to these four. They would be more apt to answer it. Otherwise, they would regard it as an OPM thing, and they are busy.
- H.M.Jr: That is right. That is new. We are spending less than fifteen per cent of our national income.
- White: Yes. I may have to revise that figure upward to fifteen or seventeen or something, but after I get the Budget figures, we can do that.
- Kuhn: Is it twenty-four months, Harry? The war is only eighteen months old.
- H.M.Jr: September, '39.
- Kuhn: Yes, eighteen months.
- White: Twenty months. By the time June arrives, it will be twenty months. I will change it.
- H.M.Jr: Is that paragraph - did you add that, Harry?
- White: What is that?
- H.M.Jr: This paragraph after twenty four months? This one about fifteen per cent of our national income?
- White: Yes. That was in line with - merely strengthening that.



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- H.M.Jr: What I said about the lullaby of the Maginot Line, I got this impression so far. This thing isn't closely enough knitted, you see.
- White: No.
- H.M.Jr: It isn't knitted together closely enough.
- White: You think that is a good figure of speech? The lullaby of the Maginot Line is what they thought was adequate defense. The French soothed themselves to sleep on that theme of adequate defense.
- Viner: Is this the end, Harry, or is there more?
- White: No.
- H.M.Jr: It doesn't sound so good. The thing that I get, Ferdie, is this. I just wonder - I mean this whole paragraph, "There can be no greater disservice to America," it sort of sticks out like a sore thumb, you see.
- I mean, why do I say that in a tax bill, you see.
- White: I wondered about that page three and four. I would say that if you want to get that idea in one sentence would be enough, just to protect your record; but I don't think it is your business now. If it is, it isn't your business to do it before a tax committee.
- H.M.Jr: No, that is right.
- Viner: I am concerned that you feel that way. I had hoped that I would hear from you that things were really going very fast, but that is aside from the point. I was wondering why to this committee on this issue.

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- White: This is merely the answer. It is a peg to hang an important hat on, but this will be a public statement that will be the only expression of this character and that things are so bad that it is very desirable wherever possible to call attention to the state of affairs.
- Just as it is new to you, it will be new to millions of others.
- Viner: It isn't new to me, except that the outsider can't know whether it is true. People are expecting it all over the country.
- White: That is why, if the President lets him say it, that is the question. But if the President wants to say it, he won't let the Secretary say it.
- H.M.Jr: He won't say it. I tried to get him to say it.
- Kuhn: You are going to argue later in the statement for diverting from civilian consumption.
- H.M.Jr: I wouldn't destroy this thing, but it doesn't belong in this particular place.
- Viner: I see a way of bringing something like that in, but to a useful purpose in connection with your proposal.
- Kuhn: Well, suppose that we just try to fit that in somewhere else.
- Viner: I may say that I have read these pages through and I think as it goes it is all right, but I would like to work on the wording and so on.

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- H.M.Jr: Oh yes, I want you to.
- Viner: But I won't discuss details.
- White: Well, this is a very early draft.
- Viner: Oh yes. It is all right. I know how these things go.
- Kuhn: But you would accept the idea in that paragraph if you can bring it in somewhere?
- H.M.Jr: Yes. I think it plays - I want to say this for the benefit of Viner.
- After all, I am saying that we are only going to spend a total of nineteen billion dollars. How the hell do I get that way?
- Viner: Is that for the fiscal year 1942?
- H.M.Jr: Yes. As against an appropriation of thirty-five. I just want to explain it.
- "I wish I could say we were going to spend the thirty-five. We are going to spend only nineteen. In passing, I would like to point out I think it is very regretful," and so forth and so on.
- I think it is the time when I talk about the nineteen as against the thirty-five on the books.
- "I just want to point out, gentlemen, that



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this nineteen means that we are only going to spend a billion dollars a month for defense where we ought to be spending two."

Viner: I don't see how nineteen makes a billion and a quarter a month.

White: At the beginning?

H.M.Jr: No, total, Harry, including non-defense.

White: Oh yes. I forgot about that. It is much less than a billion and a quarter.

H.M.Jr: It is a billion a month.

The non-defense things roughly amount to about six million.

White: In the first place, it is only a trend upward so that the early part of the period you don't get going until the latter half; and then in the second place, this was for total expenditures.

H.M.Jr: If you have got a billion and a quarter, that is wrong.

Viner: That is a billion and a quarter over-all, I take it.

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H.M.Jr: Yes. Let me just do this thing. I am moderately sure of my figures. The total expenditure is nineteen billion, of which roughly six is non-defense, leaving thirteen for defense, which means a billion a month.

"Now, gentlemen, you could very well say to me, 'How do you get that way?' Well, these are the things, after careful study, and I want to point out that a billion a month is one-third of what the money is that is passed. We ought to be spending three billion a month. Instead of that we are spending one. I mean, if they spend it all in the fiscal year. Let's say it is good for two years. Then we ought to be spending a billion and a half a month and now - and I am simply - and in passing, I want to point out that we --"

Viner: Actually you should be spending more rather than less.

H.M.Jr: And which means that the whole program is that much slower. Do you see? And that is the thing to get in if we want to make a reference to the French and so forth. Isn't that right?

Viner: If that is what the situation is, I hope you do say it, but fit it in everywhere so it is clear why you are saying it.

H.M.Jr: Well, the time when I say it, how do I arrive at the nineteen billion. I arrive at it this way, which means a billion a month for national defense, which means that interpreted into guns and tanks and so forth, the whole program is going very much slower than the time that I think we have left to use to get ready, which means that we have got to do a lot of things entirely differently than we have, and so forth. And I have been feeding this stuff to the President, and I will tell a story here in the room. I fed this stuff to the President yesterday about tanks and planes

- 12 -

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- 13 -

and, to my amazement, he said, "Henry, I asked Bernie Baruch six weeks ago to get these figures for me from OPM, and he can't get them." So I said, "I will get them for you, Mr. President."

The figures I am talking about, I gave estimated production of tanks by month, actual production, shortage per month. I am getting them from Colonel Ayres who is in the War Department and who has them. Now, here is the President of the United States asking Bernie Baruch, and he can't get them.

Viner: Well, why should he ask Bernie Baruch? I don't understand it.

H.M.Jr: Because Bernie Baruch is unofficial adviser to him on OPM. He lunches with him every Tuesday and is advising him on OPM.

Viner: You know Stacy May. He must have those things.

White: Try and get them. You would be surprised.

Viner: Stacy May would be happy to get them, I am sure, because I know he has been feeling sick about the record.

H.M.Jr: Well, let's not - I am getting it accurately, correctly, promptly from Colonel Ayres, who is in the office of the Under-Secretary of the War Department who is in charge of contracts. I am getting them there. If the President can't get them from Stacy May, what chance have I got?

White: There really ought to be just the same as - same sort of approach that they have in a municipal charity drive. You can't hide these figures from the Germans. They find them out anyway in time. They are published anyhow, so that there is no

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'need of trying to hide them, and they ought to have publicly, total expenditure, leave the program in tanks - they don't have to specify bombers and so on, these are the planes that we should produce, so far up on the thermometer. These are the tanks, so far up. They ought to have that much publicity, and that would do more to put the heat on them.

- Viner: You have got to put the heat on the Washington end. The public is ready to put the heat on, but it gets chloroformed from Washington.
- White: It isn't Washington, it is part of Washington.
- Viner: The public can't distinguish.
- H.M.Jr: I made the statement the other day. I use the word, it is the administration. Here I as Secretary of the Treasury have to feed these things secretly to him. I don't get them secretly. I won't take the things secretly. I get them through General Marshall's office, right out in the open, but - don't let's spend too much time on it. Take my word for it. There is no use my going two places if I can get them satisfactorily in one place, out of the office of the Chief of Staff.
- Viner: Oh, yes.
- H.M.Jr: That is the best place to go, isn't it?
- Viner: Sure. As long as you get them.
- H.M.Jr: I mean, they are coming out of the office of the Chief of Staff of the Army. The same thing is true of the paragraph at the top of page four. It doesn't hang together, you see.
- White: It is not smooth through here, Mr. Secretary.

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H.M.Jr: No, very rough. Where is that thing yesterday, that stuff I liked so much?

White: Here.

H.M.Jr: I want to read that to Viner the way it was yesterday.

Viner: You had better let me have your first draft, too.

H.M.Jr: I don't like this. Let me just read this out loud the way it was yesterday.

Kuhn: Where is the beginning, Harry?

White: The beginning? Here it is.

Kuhn: Here are the first three pages.

H.M.Jr: As of yesterday?

Kuhn: As of yesterday, which we have already covered.

H.M.Jr: That Maginot Line stuff wasn't in yesterday.

Kuhn: No, that was put in.

H.M.Jr: This was the stuff which was completely dropped out.

Kuhn: No.

H.M.Jr: Now, wait a minute. You tell me where this is.

White: Which stuff?

Viner: You mean placed somewhere else?

H.M.Jr: I don't see this - "We simply cannot carry on business as usual, such as -" none of that has been dropped out. Where is it?



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White:           Toward the end.

H.M.Jr:           "The present emergency is not usual; it is, in fact, unprecedented in every sense. It would be a tragic error to assume that we can expand our defense production on a colossal scale and still go our usual ways, still manufacture our usual gadgets, and spend on the usual luxuries that divert money and materials from our defense effort.

"In the past twelve months we have completely revised our thinking on defense expenditures, as every member of this committee knows; we have caught up mentally with the urgent needs of these times. We now accept the need for expenditures on the scale required to make this country safe and strong. We have not, however, kept pace with the events in our thinking about non-defense spending. But we have remained curiously static in our conceptions of what to spend on these things not directly connected with defense."

Now, where is all this?

White:           We didn't need it, because that was going to be taken as is.

Kuhn:            We are keeping that.

H.M.Jr:           Oh. This is the part I like. I don't like what you gave me this morning at all.

Kuhn:            That follows along right after this.

H.M.Jr:           "Our minds and our visions have stood still. My plea to this committee and to the Congress - and it has a direct relationship to the tax program we are now considering - is that we develop the same clear vision regarding non-defense spending as we have already developed regarding the armed protection of our country. The whistle of the

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fire engine has sounded. Ordinary traffic must get to one side to let the engines get through. Planes and ships and guns now have the right-of-way; other traffic can be permitted only if it serves the national purpose.

"In framing the new tax program, this committee and the Treasury have had the usual friendly advice from newspapers and from public figures as to what the new taxes ought to be."

Viner: I wouldn't say that. That is the function of their statements. They are doing their duty.

Kuhn: But it is being developed further.

Viner: I wouldn't discuss the newspapers. It is just raising trouble for yourselves and preparing the way for a non-favorable press. They are doing their duty in discussing this, too.

H.M.Jr: Now, listen, gents. Without trying to - I will put it this way. I want this to be Kuhn's style, you see.

White: Well, he hasn't had a - you see, what we did was, we wrote three more pages plus what you have got of inserts with some slight changes, then he was going to weave them in and rewrite them. This was the first dictation which we did last night and this morning, and he hasn't had a chance to see it.

Viner: I think there is good stuff here.

White: And here are three more pages. Let's see if this is in line with anything that you want as an insert.

H.M.Jr: I will keep these things - here they are in three separate groups.



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White: He has a copy.

H.M.Jr: Let me just see.

"Spiraling prices destroy the balance of the economy. If prices rise the cost of living goes up. If the cost of living increases there is pressure for higher wages. If manufacturers' prices rise the cost of farm products is increased. If interest rates go up as the result of governmental borrowing, the cost of capital for business enterprise will also rise. Though these various price rises in different parts of the economy are interrelated, the result of a general inflation is to upset the balance among the various elements in the economy. Some prices lag behind the others. Under these conditions many of the increases are belated efforts to compensate for dislocations which have been started by the Government's fiscal program. This inflationary method is much less equitable than the method of taxation according to ability to pay; it makes the task of maintaining production at a maximum level much more difficult, and, finally, and not least important, it makes the problems of post-war adjustment much more dangerous."

White: Those are among the reasons why so much money should be raised through taxes as possible.

H.M.Jr: "A second equally important reason for meeting as much of the cost of defense as possible out of taxes now is that the more purchasing power that is diverted through taxes from individuals and corporations to the Government for defense purposes, the easier will industry find it to produce the goods the Government needs rather than the non-essential items that the people would buy. Higher taxes facilitates the diversion of resources to defense."



- 19 -

Now, I will tell you, Harry, it is too academic. I will tell you what you forgot to do. This first thing has got to have nice flow and nice so forth. Now, I have got to keep this thing moving. I am going to readjust my day, and I am going to be ready at two-fifteen. Now, you fellows have got from a quarter of eleven to two-fifteen to make some progress.

White: There is the material here to work on.

H.M.Jr: Or I can - if you want the other hour, I could give you three-fifteen --

Viner: I think that is better.

H.M.Jr: And then see - who worked on that --

Kuhn: There won't be much trouble with that script. It is a good script.

H.M.Jr: Are you in on that?

Kuhn: I have seen it. It was done with a professor, and it looks O.K.

H.M.Jr: I can see Graves anytime now, and I will see you gentlemen again at three-fifteen.

Kuhn: That is fine.

Viner: What is this other script?

Kuhn: That is a radio broadcast from the White House on the savings bond campaign on the 30th of April.

Viner: I would like to have a look at that.

H.M.Jr: Let's get this out first.

- 20 -

Kuhn: I have got a lot of that stuff I would like to show you.

H.M.Jr: But don't get the verdict.

Viner: I won't. I think I see a way.

H.M.Jr: Why not come back at three-fifteen and go to it now.

Viner: Even that seems to me too soon.

H.M.Jr: I have got to do it, Jake.

Viner: You see, there are ten pages here, and it is awfully hard to --

H.M.Jr: Let me get it again.

Viner: I would say two pages an hour on revisions.

H.M.Jr: Let's see where you are at three-fifteen.

Viner: Don't expect a finished job then.

H.M.Jr: No, but I may get a call any minute, you see.

Kuhn: Can I ask you before we start in, is there anything that you have heard today that is out as far as you are concerned because of the idea?

H.M.Jr: No.

Kuhn: Then it is just a matter of phrasing it and putting it in the right place, isn't it?

H.M.Jr: Yes.

Viner: I would like to raise one thing. I see you have expressed yourself on newspapers before. I would suggest that you don't get yourself tied too much to the idea of two-thirds taxes as a definite

- 21 -

norm. You should say we should aim at least at that, but say "aim at it." You can never tell beforehand how close you are going to hit, and therefore, if you don't quite hit it, you fail. You may want to go beyond it. I don't think you will, but you may want to go beyond it. Don't put yourself in a position where you so definitely set your goal.

- H.M.Jr: White said the same thing, but I am afraid it is too late.
- Viner: I can change it so the only persons not aware of the reason for the change wouldn't notice the change.
- H.M.Jr: You and White agree on that. Want to change your mind?
- Viner: It disturbs me a little, naturally.  
(Laughter.)  
But nevertheless we have agreed before.
- White: Every once in a while.
- H.M.Jr: Well --
- Viner: It hurts.
- H.M.Jr: I am going to see you at three-fifteen. I have got to put the heat on, and I will leave you (Kuhn) out on that radio script thing.
- Kuhn: I don't think it is going to give much trouble. I think with the President's part of it --
- White: You have only one more day on this.
- H.M.Jr: On what?



- 22 -

White: On this.

H.M.Jr: Yes.

White: So I think --

H.M.Jr: You have got --

White: You have only one more day, and that is tomorrow.

H.M.Jr: Yes.

White: So you can't lose any time.

H.M.Jr: No. I am going to be ready at three-fifteen again, and you give me what you can.

Class dismissed.

**SUGGESTED STATEMENT BY SECRETARY HODGENTRAU ON NEW TAXES**

I have come before you today to discuss with you ways and means of producing three and a half billion dollars in additional revenue for the defense of our country. Such an increase is probably without precedent in the experience of this Committee, but the situation confronting us today is also without its parallel. We are faced with a greater challenge and a greater potential danger than any in the history of the Republic. It calls for a still greater response. The American people are resolved to make such a response, and to make it willingly.

I am now proposing that we divert through taxes an additional four per cent of a swiftly rising income to the cause of national defense. This, surely, is not unreasonable in a time of industrial prosperity like the present. Other countries, as free and progressive as our own, have cheerfully assumed far heavier defense burdens in proportion to their size and population. We are big and rich and strong. We are better

- 2 -

able to carry this load than any other people in the world. Unless I mistake the temper of the American taxpayer, we are going to take this in our stride.

The American people would not take back one penny of the billions that have already been appropriated for national defense. If any complaint about these expenditures is justified, it is that we are not spending fast enough, that we are not translating appropriations into actual production and outlay as quickly as we should.

We now have on our books about \$75 billion in defense appropriations. Many people assume from this figure that we are going to spend that \$75 billion in the coming fiscal year. But our studies at the Treasury have shown that unless drastic changes and improvements are made in our program of armament production, no more than \$19 billion will be spent during the fiscal year ending June 30, 1942. That means that in the beginning of that fiscal year the rate of expenditure on armaments for defense of the United States and for shipments



- 3 -

to Great Britain and other victims of aggression, will not exceed the rate of \$1 1/4 billion a month.

After twenty-four months have passed with the world on fire, with danger to our peace and security steadily mounting, with the forces of aggression controlling all of Europe's factories, we find ourselves spending less than 15 per cent of our national income on vital defense. That is what I mean when I say we are not spending fast enough.

There can be no greater disservice to the American people at this time than to suggest that our defense production is moving fast enough, when in reality it is not. The French soothed themselves to sleep with the lullaby of the Maginot Line. I, for one, do not intend to lull our people into a false sense of security by pretending that our weapons of defense are about to roll off the assembly lines in an inexhaustible flood. It would be pleasant for me to be able to say that all is well with our production, but wishful thinking is always pleasant -- until the awakening comes.

- 4 -

The problem of building our defense is fundamentally a problem of production. We cannot build planes and tanks, ships and guns, merely by voting money. We build them with labor and management, with raw materials and machinery. If the resources now employed in the defense industries are insufficient to produce the requisite numbers of guns and tanks and ships and planes, we must hasten the reemployment of our idle resources. And if even this increase is insufficient we must divert resources now engaged in meeting our ordinary civilian needs.

The financial end of this program should be concerned with two objectives.

First, it should help mobilize for defense all our resources. It must help put idle men and equipment to defense work and it must help divert men and equipment from civilian to defense production.

And second, it should distribute in an equitable manner the real cost of the program among all the people.

- 5 -

To achieve both of these objectives it is vital that the defense program be financed as largely as possible through current taxes.

The people have the ability to pay these additional taxes. Defense expenditures are stimulating business and increasing income. The national income for the fiscal year ending 1942 will be over \$90 billion and it may be as high as \$95 billion. This increase in the national income makes it easier for the American public to pay increased taxes. Financing current expenditures from current receipts has very important general economic advantages in addition to the obvious fiscal advantages.

One of the serious threats to <sup>the successful</sup> execution of the defense program is the danger of sharply rising prices during the period when the Government is pouring billions into the market for materials and labor. If these billions are added to other billions which individuals are privately spending, they constitute that much more purchasing power operating to drive up the prices of needed materials, increase the cost



- 6 -

of living, and make more difficult the supply of materials for war needs. If, however, the Government takes away purchasing power from the people through taxation, --purchasing power that would otherwise be spent in competition with war needs -- then the total monetary demand for goods and services will to that extent not be increased. What the Government takes away from the individual and the corporation through taxes leaves that much less for that individual or corporation to spend on goods not essential for defense purposes. In a full war effort the less the public spends on non-essentials, the less the danger of price rises. Increased taxes, therefore, are an important instrument in the fight against inflation.

When the Government borrows, it is also true that it takes purchasing power away from the people but only if they are lending from their savings. At the present time a very large volume of governmental borrowing is of that character, but another portion is being supplied by banks and constitutes in effect additional purchasing power which is acting to increase

- 7 -

the total monetary demand for goods. This increase in monetary demand is desirable as long as we have a large volume of unemployed labor and idle plant and equipment. But as we move into full production, as the bottlenecks multiply, as labor becomes scarce, then additional purchasing power cannot increase production but has only the effect of causing prices to rise.

That is exactly what happened in 1918 and 1919 when prices rose almost 100 percent. Mr. Baruch estimated that in the last war price-increases cost the Government \$15 billion extra.

- 8 -

**Spiraling prices destroy the balance of the economy.**

**If prices rise the cost of living goes up. If the cost of living increases there is pressure for higher wages. If manufacturers' prices rise the cost of farm products is increased. If interest rates go up as the result of governmental borrowing, the cost of capital for business enterprise will also rise. Though these various price rises in different parts of the economy are interrelated, the result of a general inflation is to upset the balance among the various elements in the economy. Some prices lag behind the others. Under these conditions many of the increases are belated efforts to compensate for dislocations which have been started by the Government's fiscal program. This inflationary method is much less equitable than ~~by~~ the method of taxation according to ability to pay, it makes the task of maintaining production at a maximum level much more difficult and, finally, and not least important, it makes the problems of post-war adjustment much more dangerous.**



- 9 -

A second equally important reason for meeting as much of the cost of defense as possible out of taxes now is that the more purchasing power that is diverted through taxes from individuals and corporations to the Government for defense purposes, the easier will industry find it to produce the goods the Government needs rather than the non-essential items that the people would buy. Higher taxes facilitates the diversion of resources to defense. When Mr. John Citizen has to pay a thousand dollars more in taxes to his Government to help finance the war, it means that Mr. John Citizen has a thousand dollars less to spend on an automobile, a radio, or a lawn-mower. That means that labor materials and possibly plant used in making automobiles, radios, and lawn-mowers can be used instead to produce tanks, guns, and signal equipment.

Another reason why the defense effort should be financed as much as possible through taxes is to keep our public debt as low as possible. No one knows how long this emergency expenditure will be called for. No one knows the

- 10 -

conditions which we will experience during the post-war period. Common sense requires that we should keep the decks clear, that we should borrow as little as possible now so long as we can see light ahead.

I know nobody likes to pay higher taxes. But there is less need to worry about willingness to pay higher taxes now than at any other time. Everybody appreciates that we have to arm ourselves and that we have to raise the money for defense.

It is my considered opinion which I have expressed previously before committees of Congress that current taxes should finance two-thirds of Federal expenditures during this emergency defense period. Expenditures during the fiscal year 1942 are expected to be at least \$19 billion. Taxes now on the books with the expansion of business and the rise in income are expected to yield \$9,225,000, which would leave about \$3 1/2 billion to be supplied by new taxes if we are to attain our objective of raising two-thirds of current expenditures from revenue. It is this sum of \$2 1/2 billion which we are asking the Congress to supply.

HUNTON 4/22/41



Federal expenditures <sup>1/</sup> during the first 100 calendar days  
1937 to 1941

(In millions of dollars)

	1937	1938	1939	1940	1941
National defense					
War.....	114	119	139	207	1,509
Navy.....	171	169	187	259	639
Other.....	-	-	-	-	50
Total national defense.....	<u>285</u>	<u>288</u>	<u>326</u>	<u>466</u>	<u>2,198</u>
Relief and public works					
Relief <sup>2/</sup> .....	478	372	582	380	360
Civilian Conservation Corps.....	105	86	78	77	70
National Youth Administration...	22	35	24	35	49
Public Works <sup>3/</sup> .....	236	193	189	223	156
Total relief and public works...	<u>841</u>	<u>686</u>	<u>873</u>	<u>715</u>	<u>635</u>
Other operating expenditures					
Departmental.....	148	160	197	232	213
Agricultural Adjustment Program.	198	127	242	376	332
Social Security Board.....	55	81	96	134	123
Veterans' Administration.....	177	178	172	175	172
Railroad Retirement Account.....	2	49	20	40	40
Other.....	162	117	272	159	150
Total other operating expenditures.....	<u>742</u>	<u>712</u>	<u>999</u>	<u>1,116</u>	<u>1,030</u>
Interest on the public debt.....	<u>198</u>	<u>190</u>	<u>171</u>	<u>209</u>	<u>204</u>
Total expenditures	<u>2,066</u>	<u>1,876</u>	<u>2,369</u>	<u>2,506</u>	<u>4,067</u>

Treasury Department, Division of Research and Statistics.

April 22, 1941

Source: Bureau of Accounts - Division of Bookkeeping and Warrants.

- 1/ Excluding Public Debt Retirements.
- 2/ Includes Federal Emergency Relief Administration, Civil Works Administration, and Work Projects Administration.
- 3/ Includes public buildings, public highways, rivers and harbors, Tennessee Valley Authority, Rural Electrification and Reclamation projects and Public Works Administration.



Federal expenditures <sup>1/</sup>, July 1 to April 21  
for fiscal years 1937 to 1941

(In millions of dollars)

	1937	1938	1939	1940	1941
National defense					
War.....	307	344	390	520	2,535
Navy.....	446	479	539	684	1,562
Other.....	-	-	-	-	91
Total national defense.....	<u>753</u>	<u>823</u>	<u>929</u>	<u>1,204</u>	<u>4,188</u>
Relief and public works					
Relief <sup>2/</sup> .....	1,528	1,050	1,794	1,196	1,053
Civilian Conservation Corps.....	310	272	239	233	214
National Youth Administration....	51	56	59	72	101
Public works <sup>3/</sup> .....	784	644	825	828	641
Total relief and public works....	<u>2,673</u>	<u>2,022</u>	<u>2,917</u>	<u>2,329</u>	<u>2,009</u>
Other operating expenditures					
Departmental.....	649	588	651	660	666
Agricultural Adjustment Program..	424	232	581	882	878
Social Security Board.....	143	228	265	305	347
Veterans' Administration.....	478	481	461	460	457
Railroad Retirement Account.....	-	141	107	117	116
Other.....	463	383	385	579	263
Total other operating expenditures.....	<u>2,157</u>	<u>2,053</u>	<u>2,450</u>	<u>3,003</u>	<u>2,727</u>
Interest on the public debt.....	652	674	648	715	747
Total expenditures.....	<u>6,235</u>	<u>5,572</u>	<u>6,944</u>	<u>7,251</u>	<u>9,671</u>

Treasury Department, Division of Research and Statistics. April 23, 1941.

Source: Bureau of Accounts - Division of Bookkeeping and Warrants.

- <sup>1/</sup> Excluding Public Debt Retirements.  
<sup>2/</sup> Includes Federal Emergency Relief Administration, Civil Works Administration and Work Projects Administration.  
<sup>3/</sup> Includes public buildings, public highways, rivers and harbors, Tennessee Valley Authority, Rural Electrification and reclamation projects, and Public Works Administration.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE April 22, 1941

TO Secretary Morgenthau

FROM Mr. Cochran

## CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£31,000
Purchased from commercial concerns	£16,000

In the open market, sterling was first quoted at 4.03. It moved to 4.02-1/2, and closed at that level. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£3,000
Purchased from commercial concerns	£5,000

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

Canadian dollar	11-9/16% discount
Swiss franc	.2319
Swedish krona	.2384
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2350
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	4-1/8% discount

In Shanghai, the yuan declined to 5-5/32¢, the lowest rate since last June. Sterling was quoted at 3.90, off 1/2¢.

We purchased \$274,000 in gold from the earmarked account of the Central Bank of Chile.

The Federal Reserve Bank of New York reported that the Central Bank of Chile shipped \$547,000 in gold from Chile to the Federal, to be earmarked for its account.

The price fixed in London for both spot and forward silver was unchanged at 23-1/2d, equivalent to 42.67¢.

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

- 2 -

We made one purchase of silver amounting to 25,000 ounces under the Silver Purchase Act. This consisted of new production from foreign countries, for forward delivery.

The report of April 16 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 \$7,279,000, an increase of \$443,000 in the short position. Net changes were as follows:

<u>Country</u>	<u>Short Position</u> <u>April 9</u>	<u>Short Position</u> <u>April 16</u>	<u>Change in</u> <u>Short Position*</u>
England	\$ 477,000	\$ 761,000	+\$284,000
Europe	3,341,000	3,306,000	- 35,000
Canada	180,000 (Long)	1,000	+ 181,000
Latin America	358,000	378,000	+ 20,000
Japan	1,253,000	1,311,000	+ 58,000
Other Asia	1,570,000	1,591,000	+ 21,000
All others	17,000	69,000 (Long)	- 86,000
<b>Total</b>	<b>\$6,836,000</b>	<b>\$7,279,000</b>	<b>+\$443,000</b>

\*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**



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PLAIN

London

Dated April 22, 1941

Rec'd 1:38 p.m.

Secretary of State,  
Washington.

1589, twenty-second.

FOR TREASURY.

Saturday's treasury order announced yesterday vesting 164 United States securities makes no change in the procedure applied to the order of January 13, the prices being based on Saturday's closing prices and the payment date being fixed for June 3. The FINANCIAL NEWS regards this longest list as a mixed bag "showing quite clearly the extent to which the securities' barrel has already been scraped". The policy of timing vesting announcements and payments continues to give buoyancy to the gilt-edged market and savings figures, yesterday's announcement having helped to turn the slight downward trend in the prices of long dated government securities in the face of continued serious war news. The FINANCIAL TIMES index of government security prices (November 15, 1926 equals 100) which touched 113.4 on March 31 (the highest point since August 18, 1938) stood at 112.5 on Good Friday before Germany invaded Yugoslavia. This index dropped to 112 last week but moved to 112.1 yesterday.

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: April 22, 1941, 9 p.m.

NO. : 1590

The following telegram is personal and confidential for the President and Secretary Morgenthau:

Professor Keynes has been asked by the Prime Minister of England and the Chancellor of the Exchequer to go to Washington for the purpose of discussing financial problems connected with war aid with you.

It is my opinion that Professor Keynes is peculiarly qualified to undertake this work in view of the fact that he has the ability to look on the problems in much wider perspective than does the average official in the Treasury. May I express the hope that it will be possible for both of you to make arrangements to give Professor Keynes sufficient time for discussing the complete range of financial matters.

TO THE SECRETARY  
OF THE TREASURY  
WASHINGTON  
VINANT.

EA:LNW  
eh:copy  
4-23-41

APR 23 1941  
U.S. DEPARTMENT OF THE TREASURY  
RECEIVED



THE SECRETARY OF THE TREASURY  
WASHINGTON

April 22, 1941.

My dear Admiral Land:

You are hereby requested to make all repairs and to take all other action necessary to make the following vessels seaworthy:

German	PAULINE FRIEDERICH	Boston, Massachusetts
Italian	ALBERTA	New York, New York
"	ARSA	" " " "
"	AUSSA	" " " "
"	BRENNERO	" " " "
"	SAN LEONARDO	" " " "
"	BELVEDERE	Philadelphia, Pennsylvania
"	ANTIONIETTA	Gloucester, New Jersey
"	SANTA ROSA	" " "
"	MAR GLAUCO	" " "
"	PIETRO CAMPANELLA	Baltimore, Maryland
"	EURO	" " "
"	LACONIA	Newport News, Virginia
"	VITTORIN	" " "
"	GUIDONIA	Norfolk, Virginia
"	GIUAN	" " "
"	SAN GIUSEPPE	" " "
"	VILLARPEROSA	Wilmington, North Carolina
"	CLARA	Savannah, Georgia
"	IRCANIA	Jacksonville, Florida
"	CONFIDENZA	" " "
"	IDA Z O	Mobile, Alabama
"	ADA O	New Orleans, Louisiana
"	MONFIORE	" " "
"	MONGIOLA	Houston, Texas
"	COLORADO	San Juan, Puerto Rico
"	LEJE	Portland, Oregon

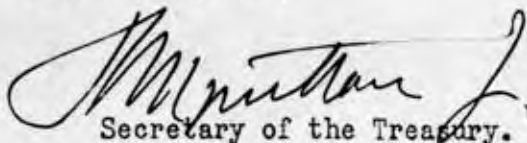
Those vessels are Italian and German flag and have been taken into full possession and control by the



- 2 -

Secretary of the Treasury, pursuant to section 1 of Title II of the Act of June 15, 1917, 40 Stat. 220 (U.S.C. title 50, sec. 191). The Department of the Treasury has no funds available to make the repairs and to take the action necessary to make the listed vessels seaworthy.


Very truly yours,



Secretary of the Treasury.

Admiral Emory S. Land,  
Chairman, United States Maritime Commission,  
Washington, D. C.

Approved:

  
The President.

C  
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YDepartment of State  
Washington

April 22, 1941

In reply refer to  
EA 865.51/1088

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses two copies of telegram no. 563 received by this Department on April 19, 1941 from the American Embassy at Rome, regarding the Italian financial situation.

Enclosure:

No. 563 from Rome.

Copy:alm 4-22-41

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GRAY

Rome

Undated

Rec'd 1:50 p.m.  
April 19, 1941

Secretary of State,  
Washington.

563.

In discussion of the Italian budget for 1941 and 1942 (see Embassy's telegram 21, January 8, 7 p.m. 1941) before the lower house of the Italian Parliament, Finance Minister Thaon di Revel forecast total expenditures under the national budget for the current year of 96,000,000,000 lire; revenues 31,000,000,000; resulting in a deficit of 65,000,000,000. According to a press summary of the discussion, the minister pointed out that this new deficit resulting from the war follows a series of deficits totalling over 82,000,000,000 lire in the past six years arising from the actions in Africa and Spain and from military preparation.

To meet the augmented expenditures for the current year, resort has been made to the issue of Treasury bonds (see Embassy's telegram 318, March 6, 5 p.m. 1941); current accounts with various institutions; and advances made by

the



-2-

the Bank of Italy. The latter have been restricted to "minimum incumbent proportions" since the circulation increase in the first nine months of the war has been about 5,000,000,000 and hence corresponds to 10% of the total effective requirements of cash for the named period (about 50,000,000,000).

Admitting that Italy's financial effort has been enormous, the Minister declared that it was not such as to cause concern and that the economic discipline "possible only in a Fascist regime" enables Italy to meet all of the requirements of the war. The minister cited the government's efforts to prevent inflation through price control and made the customary statements that "the lira can and must be defended".

In considering the foregoing statements by the Minister the enormous financial strain which the war places on Italy is indicated by comparing the envisaged deficit of 65,000,000,000 lire for this year with the deficit for last year (28,000,000,000) which in itself constituted a record. The deficits for the two years represents almost one half of the estimates of the public debt as of last June. It is obvious that the proceeds of the recent (February) issue of Treasury bonds (which provided 15,000,000,000 lire in new cash) fall far short of covering the current deficit so that presumably the bulk of the deficit has been met by borrowings on current account from such institutions as the postal savings system, the insurance institutes, the Bank of Italy et cetera, and through the discounting by Italian banks of orders of payment for war.

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DEPARTMENT OF STATE  
WASHINGTON

reply refer to  
854.51/385

April 22, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of a strictly confidential despatch dated March 25 from the American Legation at Bern, transmitting information regarding a transaction between the Bank of France and the Swiss National Bank.

Enclosure:

No. 1660, March 25,  
from Legation, Bern.

THE FOREIGN SERVICE  
OF THE  
UNITED STATES OF AMERICA

AMERICAN LEGATION

No. 1660

Bern, March 25, 1941

STRICTLY CONFIDENTIALThe Honorable  
The Secretary of State,  
Washington, D. C.

Sir:

I have the honor to refer to the Strictly Confidential section of the Legation's Fortnightly Financial Report of March 25, 1941, File No. 851, and to transmit to the Department the following information, which, as may be readily seen, must remain absolutely secret, at least until further notice.

About April 15 some 50 to 60 million Swiss francs of French gold will be sold by the Bank of France to the Swiss National Bank in complete liquidation of all unpaid capital and interest charges owed to Swiss creditors by public borrowing authorities (including the railways) in France. That country and Switzerland are now negotiating a payments accord to supersede the temporary one of October 23, 1940, which covers only the exchange of merchandise; the new accord will also include the transfer of capital and interest payments, which have thus far remained blocked in both countries.

The Swiss National Bank is paying its official price, i. e., Swiss francs 4,869.80 per kilogram lm/lm fine, for the gold, between 10,265 and 12,320 kilograms, which it is acquiring from the Bank of France.

The Legation's Swiss informant insisted that every precaution be taken to the end that information concerning the above-mentioned transaction not leak out, since the French authorities greatly fear that Germany, were it to learn of the arrangement, would seize the gold. To further secrecy only one copy of this despatch is being forwarded to the Department.

Respectfully yours,

LELAND HARRISON  
American MinisterFile No. 851,  
WMC/WMC  
Copy:bj:4-28-41



BRITISH EMBASSY,  
WASHINGTON, D.C.

PERSONAL  
AND SECRET

April 22nd, 1941

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

*Halifax*

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

TELEGRAM RECEIVED FROM LONDON  
DATED APRIL 20, 1941

NAVAL.

Reference report concerning Bismarck etc. for "early 18th" "read early 14th". No further information received since.

2. ROYAL AIR FORCE.

Claim hits on 5 enemy merchant ships on different occasions off the Dutch coast on April 19th.

3. MILITARY. LIBYA.

Strong patrols of our forces active at Sollum and Kappuzza areas. Enemy mechanical transport harrassed by mobile columns and by our artillery. On the morning of April 18th, Navy successfully shelled Menastir.

4. GREECE.

Heavy enemy attacks along the whole front repulsed with severe casualties. In spite of the weight of the attacks, our front nowhere penetrated. Many prisoners.

5. Our troops are continuing withdrawal South of River Pineios. Enemy bombing caused traffic congestion.

6. Greek Epirus army has withdrawn to line Leskovik and Delvine to the sea. Western Macedonian army moving towards Mestovo.

7. ROYAL AIR FORCE. Night of April 19th/20th.

Small force of bombers attacked enemy ships at Brest and laid mines.

8. Night of April 19th/20th. More than 13 tons of bombs dropped on Tripoli harbour - hits scored on the mole and among shipping.

9. GREECE.

12 Heinkel's bombed bridges and mechanical transport in Central Sector of the battle front.

10. ETHIOPIA.

Our aircraft bombed transport near Gondar and Dessie. At Dessie, three South African Air Force fighters machine gunned aerodrome and destroyed 6 fighters, one bomber and damaged one "Caproni" on the ground.

11. GERMAN AIR FORCE. Night of April 19th/20th.

Another heavy attack launched on London and the Eastern Home Counties. About 400 enemy aircraft over London area. Thought casualties will be much lighter than on the night of April 16/17th. Weather conditions hampered our night fighters. One enemy bomber crashed in Sussex and another damaged by fighter over London.



BRITISH EMBASSY,  
WASHINGTON, D.C.

April 22nd, 1941.

PERSONAL AND  
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Henry Morgenthau, Jr.,  
United States Treasury,  
Washington, D.C.

Telegram received from London  
dated April 21st, 1941.

Naval.

Greek Destroyer PSARA has been badly damaged with many casualties in air raid Piraeus.

2. Military.

10 a.m. April 17th, enemy attack on Tobruk with tanks and infantry repulsed. Twelve tanks penetrated perimeter of which four destroyed. Our forces carried out raid near Sollum inflicting heavy casualties on the enemy.

3. Greece.

Withdrawal of our forces southward towards new defensive line continues successfully but part of two battalions reported cut off in the Peninsula south east of Volos.

4. Royal Air Force.

Night of 20th/21st. Sixty-one bombers sent to Cologne, twenty-four Rotterdam, others visited Brest aerodromes in occupied France, some more mine-laying. Weather conditions over Cologne and Rotterdam unfavourable. Three heavy bombers missing.

5. Libya.

Night of 18th/19th. Heavy bombers successfully attacked Benghazi harbour, an enemy aerodrome and large concentration of mechanized transport. 19th, medium bombers and fighters repeatedly attacked mechanized transport concentrations causing much damage, inflicting heavy casualties and interfering with enemy movements. Two aerodromes attacked and number of aircraft destroyed or damaged. Three German aircraft attacking Tobruk were shot down. One Hurricane  
/missing.

missing.

6. Greece.

19th. Seven Hurricanes met fifty German dive bombers and fighters attacking an M.T. Column; they destroyed three bombers and a fighter, probably destroyed another bomber and damaged another fighter. Nine other Hurricanes destroyed six enemy aircraft, and probably destroyed three more. We sustained no losses.

7. Malta.

Our fighters shot down three Italian fighters on the 20th and probably destroyed another.

8. German Air Force.

During 20th and night of 20th/21st. Enemy activity slight.

9. London.

Casualties night of 16th/17th now reported 1,056 killed, 2,267 injured and night of 19th/20th 240 killed, 880 injured.



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MILITARY INTELLIGENCE DIVISION  
WAR DEPARTMENT  
Washington, April 22, 1941

TENTATIVE LESSONS AVIATION  
No. 16  
G-2/163-345

NOTICE

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

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction, see Letter TAG 350,05 (9-19-40) M-B-4.

BRITISH INSTRUCTION IN AVIATION MEDICINESOURCE

This bulletin contains information secured by an American official observer at a British physiological laboratory in February, 1941.

CONTENTS

1. INTRODUCTION
2. HIGH ALTITUDE FLYING
3. ALTITUDE SICKNESS
4. PRACTICAL ASPECTS OF USE OF OXYGEN
5. COMMON FALLACIES ABOUT OXYGEN
6. CONDITIONS AFFECTING ABILITY TO GO TO ALTITUDE
7. DECOMPRESSION SICKNESS OR BENDS
8. ACTION OF CENTRIFUGAL FORCE ON AIRCRAFT AND PILOTS
9. COLD AND FROSTBITE
10. PROTECTION OF EARS
11. VISION AND GOGGLES

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CONFIDENTIALBRITISH INSTRUCTION IN AVIATION MEDICINE1. INTRODUCTION

All air crew members of the R.A.F. are required to receive from time to time instruction in aviation medicine subjects which have bearing upon their efficiency in the air. Instruction is usually given by the squadron medical officer in the simplest form and language. This bulletin presents an outline of the subjects which are covered and notes upon them.

2. HIGH ALTITUDE FLYING

The following subjects are covered under this heading:

a. Physics

- (1) Composition of atmosphere
- (2) Pressure and partial pressure
- (3) Changes of pressure with altitude
- (4) Temperature

b. Physiology

- (1) Altitude sickness - Anoxia - due to lack of oxygen
- (2) Expansion of gas in abdomen ) Due to fall
- (3) Expansion of gas in ear ) in atmospheric
- (4) Bends or decompression sickness ) pressure
- (5) Loss of efficiency on account of frostbite resulting from cold and made worse by lack of oxygen
- (6) Limits to existence at high altitudes
- (7) Mechanism by which body uses oxygen and obtains its supply
- (8) Use of additional oxygen
- (9) Control of respiration
  - (a) Stimulation of respiration by carbon dioxide; only slight stimulation by oxygen.
  - (b) Acclimatization not possible in aeroplanes; frequent exposure lowers ceiling.

3. ALTITUDE SICKNESS

a. Effects of lack of oxygen are as follows:

- (1) The Brain (first body tissue affected)
  - (a) Psychological - Defective judgment; spurious

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self-confidence; lack of self-criticism; inaccuracy; lack of appreciation of time; sometimes pugnacity, hilarity, or sleepiness; early effects similar to those of alcohol and not unpleasant.

(b) Reasoning - Alertness dimmed; all mental processes slowed down; simple arithmetical problems become insuperable to the navigator, or he gets results which he is sure are correct when they are actually wrong; unconsciousness comes on later without the sufferer's being aware of anything abnormal.

(2) Vision

By day, light may appear dimmed and acuity of vision become reduced; by night, even a slight lack of oxygen considerably impairs ability to adapt one's eyes to dim lights and to discern objects dimly illuminated.

(3) Hearing

Hearing is slightly affected; small changes in engine rate may not be appreciated.

(4) Muscles and Nerves

The arms and legs feel weak; the gait is unsteady, and with severe oxygen lack, coordination of movement is impossible; writing becomes very difficult; uncontrollable tremors and twitching of the arms finally occur.

(5) Cold

Lack of oxygen makes the hands and feet feel cold; this situation is relieved when oxygen is taken, but extra oxygen will not prevent one's feeling cold if he is inadequately dressed.

(6) Air Sickness

Lack of oxygen predisposes to air sickness; sufferers will sometimes feel better if given extra oxygen even at low altitudes.

(7) Other Effects

(a) Respiration alternates between quicker and slower; this is not often appreciated by the sufferer, although it is obvious to others; the heart beats more rapidly, and usually there is some dizziness.

(b) Mental changes are usually not appreciated

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by the sufferer, but they are obvious to the observer with full oxygen supply; oxygen should be used according to the altimeter and not according to symptoms.

(c) Effects of prolonged exposure to slight lack of oxygen are too slight to be detected immediately; in time, impairment of efficiency and unnecessary discomfort and fatigue will result.

(d) "Passing out" is such an imperceptible process that the subject may recover consciousness without being aware he ever lost it; this often happens to the pilot flying solo, who, if he recovers in time, finds himself in an unexplained spin or deep dive.

b. Prevention of Altitude Sickness

(1) Addition of oxygen to air breathed should be made as follows:

- (a) All flights over 10,000 feet, for one hour;
- (b) All flights over 15,000 feet;
- (c) All flights, from ground up, when rate of climb is 2,000 feet per minute or more;
- (d) All night flights, from ground up.

(2) If altitude sickness has occurred, oxygen should be given cautiously, for it may cause nausea and vomiting. For example, sickness may be felt by an untrained person when he is at rest after several 100-yard sprints and his tissues are getting their full oxygen supply.

4. PRACTICAL ASPECTS OF USE OF OXYGEN

a. When one is suffering from a shortage of oxygen, deep, slow breathing is the best for keeping up the oxygen saturation of the blood.

b. A flyer may be quite comfortable while he keeps still, but the effort of moving about in flying clothes may be enough to make him faint if he has inadequate oxygen. It is important, therefore, that crew members moving about in the aircraft, fetching ammunition, or going to the latrine, take two or three deep breaths of oxygen before unplugging the tube, hold their breath while moving to new position, and then plug in at once.

c. If it is necessary for a man to leave the aircraft by parachute at above 20,000 feet, he must take great care not to lose consciousness from the increased exertion required. Oxygen must be used to the last moment, and as many deep breaths as possible should

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be taken before the supply is disconnected. The breath should be held as long as possible. Procedure is the same as when one dives into water.

Apart from the danger of unconsciousness before the man is free of the aeroplane there is the danger of his being too weak and mentally dulled to pull the rip cord. It is important for him to pull the rip cord as soon as he is clear, for he may become unconscious from lack of oxygen while falling slowly from 35,000 to 20,000 feet. He will recover before reaching earth.

d. When oxygen equipment is used at high pressure, it is important to turn on all cylinders at the outset. Pressure has become reduced by the time the objective is reached, and there is little danger of explosion if the cylinder is hit. Cylinders will not explode when 5/8 full.

5. COMMON FALLACIES ABOUT OXYGEN

- a. That oxygen is dangerous when taken in excess; there is no danger at atmospheric pressure or less for long periods.
- b. That extra oxygen at ground level acts as a tonic; this is not true for blood can take oxygen only to the saturation point.
- c. That it is a sign of toughness to do without oxygen; actually it is a sign of stupidity, and under war conditions is a foolish handicap to efficiency; it makes a man a danger to the rest of the crew and puts him at a real disadvantage.

6. CONDITIONS AFFECTING ABILITY TO GO TO ALTITUDE

- a. Speed of ascent - the faster the higher;
- b. Duration of flight - the longer the lower;
- c. Frequency of ascent - the oftener the lower;
- d. Fatigue, excessive drinking, excessive smoking - all lower the height;
- e. Any illness or recovery period after mild illness, such as influenza - lower the height;
- f. Carbon monoxide poisoning from exhaust gas or from machine guns - lower the height.

7. DECOMPRESSION SICKNESS OR BUBBSa. Physiology

At ground level, nitrogen in the blood plasma is in equilibrium with the nitrogen in the air. During ascent, the pressure of nitrogen in the air falls and nitrogen comes out of the blood. If ascent is slow, nitrogen has time to diffuse out through the lungs. If

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ascent is rapid to great heights, nitrogen comes out of the blood and forms bubbles in the vessels and tissues, causing blockage of the vessels and tearing of the tissues. This occurs at 20,000 feet or more under modern rates of ascent.

b. Symptoms

There is great individual variation in susceptibility and in symptoms experienced, although both remain fairly constant where the individual is in good general health. Less than 20 per cent of healthy young individuals show incapacitating symptoms when kept above 35,000 feet for 45 minutes. Young, slim individuals are least susceptible.

(1) Itching of the skin is common but rarely severe, and it usually passes off in ten minutes.

(2) Pain in the limbs, both in the muscles and in the joints, especially the shoulders and knees, may be mistaken for rheumatism. Such pains often pass off with rubbing, but sometimes they become worse and extend down the arms and legs. In a short time they may become intolerable, and the sufferer may collapse with sweating if descent is not made.

(3) Abdominal pain, which is difficult to differentiate from distension of gas, may be severe enough to cause shock and collapse.

(4) A feeling of ill-defined discomfort, associated with sweating and feeling of cold and dizziness, may go on to sudden collapse without pain anywhere.

(5) Various symptoms may occur, including coughing, pain behind the sternum, visual symptoms similar to migraine, and weakness of the arms.

(5) Recovery from all symptoms except the visual occurs rapidly on descending to 20,000 feet.

c. Prevention

There is no explanation of the great difference in susceptibility of individuals, and there is no known method of prevention. Only those with low susceptibility should be put on missions above 30,000 feet.

8. ACTION OF CENTRIFUGAL FORCE ON AIRCRAFT AND PILOTSa. Centrifugal Acceleration

An airplane flying along any curve of a circle, whether as a result of pulling out of a dive, a tight turn, a diving spiral, or any combination of fighter tactics or aerobatics, has acting upon it from the center of the circle, a centrifugal acceleration which

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varies directly as the square of the linear velocity and inversely as the radius of the circle.

Weight, a force, is expressed as the product of the mass and the acceleration due to gravity, or  $G$ . Hence, when a pilot has acting upon him an acceleration of several times that of gravity, his weight increases in the same proportion and at a centrifugal acceleration of 7 times  $G$ , or  $7G$ ; for example, a pilot normally weighing 180 pounds would weigh 1260 pounds.

b. Effect on Blood Pressure

Every tissue in the body takes part in this increase in weight; at  $6.9G$  the blood becomes as heavy as molten iron. Consequently, the weight of the hydrostatic columns of blood, which have to remain unaltered in order to maintain circulation through the brain on the arterial side and the inflow into the heart on the venous side, increases to an extent which cannot be met by the venous mechanism and returns blood to the heart from the abdomen and legs. Hence there is a pooling of blood below heart level and, as a consequence, there is a fall in the blood pressure in the large vessels supplying the brain and eyes. When this reaches a given value for the individual pilot, failure of vision, or the "black-out," occurs.

c. Time Factor

The time factor is most important. A pilot might not black-out when pulling out of a dive if  $6G$  be applied for one second, but he would black-out in a tight turn which produced  $6G$  and maintained it for five seconds.

d. Threshold

A minimum value of centrifugal force acting for a minimum period of time produces a black-out. For most pilots, sitting upright, this threshold value is approximately  $5.5G$  acting for four seconds.

e. Consciousness and Unconsciousness

The black-out comes before any impairment of consciousness occurs, but if the former is prolonged, the latter occurs. The black-out may warn the pilot that circulation in his head is falling.

Unconsciousness is more readily induced by tight and inefficient abdominal belts, by compression of the veins of the neck, by severe degrees of anoxia, and by the after-effects of illness or alcoholic and tobacco excesses. Consciousness returns when the centrifugal force,  $G$ , is removed, but the pilot may still have



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visual loss for one or two seconds thereafter, and still be markedly confused with some loss of orientation in space.

f. Protection against Black-Out

A pilot can obtain protection against black-out simply and practically by adopting the crouching position, thus lowering the hydrostatic levels between the head and the heart and decreasing the venous level between the legs and the heart. Use of auxiliary rudder pedals in raising the feet six inches affords an easy method of adopting this position, which, if assumed before the onset of G, will raise the pilot's threshold by 2G or more. In crouching, the pilot tenses the abdominal muscles and helps prevent pooling of blood in the abdominal organs.

g. Necessity for High G

In air tactics, ability to withstand high values of centrifugal force without impairment of vision or consciousness is an additional safeguard to the pilot and it increases his fighting efficiency. The threshold of any individual varies only within limits of 0.5G if the time factor be fairly constant. All fighter pilots should be tested for their threshold. The pilots thus tested know that if they reach a centrifugal acceleration of, say, 5.5G, they will black-out in a matter of four seconds. They know they will not black-out at 4.5G. They know that by crouching, however, they can reach a maximum of 7 to 8G.

h. Fatigue

A succession of black-outs without loss of consciousness will be followed by a feeling of undue lethargy, lassitude, and impairment of mental concentration.

i. Education

A knowledge of how to estimate the centrifugal force is essential for the well-being of the pilot, as well as for that of the machine. It is physiologically impossible for a pilot to distinguish between differing values of high G, and some form of visual control is essential. A simple type of spring balance accelerometer may be used.

9. COLD AND FROSTBITE

a. Cold

(1) Effects

Besides causing discomfort, cold causes marked

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loss of efficiency as well as physical and mental numbing. In case of severe cold, there may be an uncontrollable desire to sleep. Intense local cold causes frostbite.

(2) Protective Measures

- (a) Heating aircraft.
- (b) Suitable clothing.

(3) Personal Precautions

(a) Loose Fitting Clothing. Tightness anywhere impairs the blood flow and predisposes to frostbite. All clothing, and especially socks and gloves, should fit loosely.

(b) Dry Clothing. The importance of dry clothing cannot be overstated. Moist clothing not only conducts the heat away from the skin, but it freezes and becomes hard and painful. Since the body is constantly giving out moisture, it is important to wear flying clothes only when flying and to arrange for their drying, even if they are wet only from perspiration.

(c) The Skin. It is important that the skin be dry before flying clothes are put on. The use of ointments to protect against frostbite is not recommended, for while they do lessen the heat loss, they spoil the clothes by preventing them from absorbing perspiration.

(d) Use of Oxygen. Since one of the early symptoms of lack of oxygen is a feeling of cold hands and feet, oxygen should always be used above 10,000 feet.

(e) Food and Drink. A hot meal before a long flight, and hot drinks during flight help to ward off the effects of cold. Small amounts of sugary foods and drink taken frequently help to maintain the maximum efficiency.

b. Frostbite

(1) Distribution

Fingers, toes, nose, and ears are most usually affected.

(2) Symptoms

The part first feels cold, then painful; finally it loses sensation and the pain disappears. It is important that steps be taken at once to treat any part which has lost sensation.

(3) Prevention

All precautions for the prevention of cold are



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applicable in the case of frostbite. At least two pairs of gloves should be worn, the inner pair being of silk. Lack of oxygen has been shown to be a factor in the production of most cases of frostbite in aircraft.

(4) Treatment

Circulation should be restored by gentle rubbing, not by use of water. Even at ground temperatures extra oxygen will help. In severe cases, the frostbitten part should be rested at such a level that venous congestion is avoided, and it should be bandaged loosely with plenty of cotton. Oxygen is very useful because it raises the oxygen tension in the blood and causes the tissues with damaged circulation to receive a greater amount of oxygen. All forms of vigorous treatment by massage and rubbing are dangerous.

10. PROTECTION OF EARS

a. During descent, the pilot should swallow repeatedly and use chewing gum. If this does not ease pain, he should hold the nose and blow.

b. If these measures do not provide relief, the pilot should ascend again and come down slowly.

c. After a rapid descent, some temporary deafness and earache are common because of stretching of drum. Symptoms usually clear up in an hour or two.

d. Colds cause swelling of eustachian tube, which is easily blocked. The pilot should never fly when suffering from a cold.

e. A burst ear drum will not cause permanent deafness, but there will be some impairment.

f. Repeated practice in clearing the ears rapidly improves the rate of descent which can be borne without discomfort.

g. A rapid descent from 30,000 to 20,000 feet will often cause no discomfort, while a similar descent from 15,000 to 5,000 feet will cause great pain because the pressure change is greater. Special care is necessary when diving at lower altitudes.

h. The use of a benzedrine inhaler on the ground before a flight will help to relieve the pain.

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CONFIDENTIAL11. VISION AND GOGGLESa. Visual Acuity

Good vision is necessary for efficiency and safety in flying. It is important that all whose acuity is below normal - 6/6 - wear corrective flying goggles and spectacles.

b. Muscle Balance

The ability to make good landings depends in part upon correct balance among the six small muscles controlling each eye. Fatigue, illness, alcohol and excessive smoking effect this balance and cause landing trouble even with experienced pilots. Suitable eye exercises can cure these disabilities.

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RESTRICTED

G-2/2657-220; No. 372 M.I.D., W.D. 12:00 M., April 22, 1941

SITUATION REPORT

I. Western Theater of War.

Air: German. Principal activity last night was a short but heavy attack on Plymouth.

British. No important operations.

II. Greek Theater of War.

Ground: East of the Pindus Mountains German armored units have occupied Lamia. Another German column has taken Volos, a port to the southeast of Larissa. West of the Pindus Mountains a German force, after traversing the Metsovon pass, has captured Yanina. Italian forces have crossed the Grecian-Albanian frontier at many points. The situation of all Greek forces west of the Pindus is considered critical. A German force is said to have occupied the island of Samothrace in the Aegean Sea.

Air: Axis. Strong close support of ground troops plus much bombing of shipping, the latter apparently with a view to hampering a British evacuation of Greece. The suburbs of Athens were heavily attacked evidently to affect public morale.

Allies. Sharp air fighting occurred incident to the Axis attacks around Athens.

III. Mediterranean and African Theaters of War.

There are indications that Axis troops in the Sollum area are beginning to push forward eastward.

British heavy and light naval forces, with effective air cooperation, bombarded Tripoli for forty-five minutes at dawn April 21.

RESTRICTED

**SECRET**

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

Date 23 Apr 41 (      )  
Initials

**Memorandum of Code Collection  
Received at the War Department  
on 6:00, April 23, 1941.**

~~355~~  
361

Cairo, Dated April 21, 1941.

1. Small detachments of Yugoslav Army have arrived in Cairo.
2. Four small Axis vessels entered the port of Suez April 20.
3. At the moment the British propose to withdraw to positions Matruh-Tarhaya and to maintain resistance there to the extent practicable.

**PLANS**

**Distribution:**

Secretary of War  
State Department  
Secretary of Treasury  
Under Secretary of War  
Assistant Chief of Staff, G-2  
War Plans Division  
Office of Naval Intelligence  
Assistant Chief of Staff, G-3

**SECRET**



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891  
369

**Summary of Code Collection  
Received at the War Department  
at 9:00, April 22, 1941**

**Sofia, filed April 22, 1941.**

The Germans are moving their headquarters to the south from Tcherkvia, according to newspaper reports here. The Bulgarian capital is being made a hospital center for the use of German wounded. Grahski, Bulgarian Minister of Interior has established at Ustuh (Shoplje) a headquarters of the Macedonian occupation. According to rumor, Turkey has authorized the British to land forces on Turkish soil if it becomes necessary to do so.

**JANIN**

**Distributions:**

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

**CONFIDENTIAL**

~~SECRET~~ 370 ✓

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

Date APR 23 1941 (BPH)

Initials

Paraphrase of Code Radiogram  
Received at the War Department  
at 19:02, April 22, 1941.

London, filed 12:40, April 22, 1941.

The following is a summary of British Military Intelligence  
information to 7:00, April 22:

1. Greece:

a. Unconfirmed reports have been received that the Germans  
have attempted the occupation of Lemnos. No specific information is  
available.

b. The principal British forces have occupied positions  
in the Thermopylae sector. Information is lacking as to the situation  
of the Greek troops west of the British Army. However, reports have  
been received that the Commander of the Greek Army in Albania has  
asked to discuss armistice terms with the Germans on account of the  
collapse of his forces.

2. Libya:

German troops formerly in barracks and other structures  
at Sallim have withdrawn to positions on the escarpment northwest of  
that town. In the vicinity of Tobruk, Axis forces are preparing  
defensive lines to the west and the southwest.

END

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  
G-3

SECRET

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Paraphrase of Code Cablegram  
Received at the War Department  
at 11:17, April 22, 1941

388 ✓  
371

London, filed 15:40, April 22.

1. British Air Activity over the Continent.

a. Daylight April 21.

Pursuit elements performed three missions in the area between  
Oris Nua and Le Havre.

b. Night of April 20-21.

Offensive air operations were over Rotterdam and Cologne  
(24 planes over the former and 61 over the latter) with raids by lone  
planes against airfields in Germany and Holland and against Dunkirk and  
Ostend. One Havoc fighter performed missions over occupied France.  
Airfields in southern France and the two German battleships in Brest  
harbor were the target of Coastal Command raids.

2. German Air Activity over Britain.

a. Night of April 21-22.

Relatively small raids took place over the Thames Estuary  
and Plymouth. Dorset, Devon, Wiltshire, and Cornwall were visited by  
single aircraft. A small group of planes performed mining missions over  
Milford Haven.

b. Daylight April 21.

German plane operations were of minor nature with no reports  
of raids and much reduced activity over the sea.

c. Night of April 19-22.

Four hundred sixty planes took part in the heavy raids over  
London.

3. Air Losses, British Theater.

a. British.

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(1) Night of April 20-21. Three planes were shot down in raids over Rotterdam and Cologne.

b. Germany

(1) Daylight April 21. Two German planes were shot down and two damaged in the course of British fighter missions over the French coast.

(2) Night April 22-23. Night fighters shot down one plane and a second crashed in raids over London.

4. British Air Activity in the Middle East Theater.

a. Libya.

(1) Daylight April 21. Motor transport in the vicinity of Tobruk and El Adem was attacked by British planes as were also Gasala, Bengasi, and Derna. Nine tons of bombs were dropped on the port of Tripoli by planes based on Malta.

5. German Air Activity, Middle East Theater.

a. Greece.

(1) Daylight April 21. British feet and transport columns were heavily bombed by low-flying aircraft during the withdrawal of the Allied forces. Attacks were concentrated on all airfields remaining in Greek and British hands.

b. Malta.

The island was again bombed without damage.

6. Air Losses, Middle Eastern Theater.

a. Daylight April 21.

(1) Germany. In the course of repeated attacks on British ground troops, 18 German planes were shot down with an additional three probably.

(2) Three German planes were destroyed in the course of

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~~395~~

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the British raids on Axis airfields.

(D) Summary

7. Casualties during the heavy raids on London on the night of April 18-19 were 246 killed; 889 seriously injured, and on the night of 24-27 (latest report) 1,036 killed, 2,367 seriously injured.

LEE

**Distributions**

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

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896

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**Paragraph of Code Radiogram  
Received at the War Department  
at 13:35, April 22, 1941.**

**Budapest, filed April 22, 1941.**

**Hungary is stated to be demobilizing. So far no definite indications. Rumored concentrations against Rumania desired by Foreign Office. Large part of four army corps working on eastern frontier defenses under German direction.**

**A mother ship, six small river boats, and motor vehicles of the German Navy reached Budapest yesterday. Rail and road movement of German troops via Budapest and Kassa continues. On April 21st some staff sections of the German Army were seen moving north. A redistribution of the Armies may be expected.**

**PARRIDGE**

**Distribution:**

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

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**SECRET**

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

Date 24 Apr. 41 ( JS )  
Initials

Paraphrase of Code Cablegram  
Received at the War Department  
at 22:03, April 23, 1941.

~~357~~  
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Ankara, filed 20:40, April 23, 1941.

1. Under the German flag, two Greek ships which had recently been captured came through the Dardanelles from the Black Sea on the 17th of April. They unloaded at a port somewhere in eastern Greece and then took on German troops to capture of the Island of Samothrace on the 19th of April. The fact that the Turks failed to tell them about it has annoyed the British. The German attack on Lemnos was made in motorboats on the 21st of April. Whether the Germans now possess the island or not is still uncertain. Turkish machine guns near Adrianople (Edirne) shot down some German Junkers from a height of 3000 feet. The planes actually crashed, however, on the Greek side of the line.

2. The Turks are just beginning now to withdraw part of their troops from Thrace, though the decision was made about the 15th of April. It may be estimated that fewer than half of the previous strength will stay on the European side of the Dardanelles. Where those withdrawn will be stationed is uncertain. Lines of communication and other facilities are definitely limited and the withdrawal will therefore have to be gradual. It is likely that the new locations on the Asiatic side will be somewhere in the Black Sea area between the Desperus and Samsun.

3. British troops in Egypt will be taken over by General

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Gernswall, who has been called back for this purpose. There is no information who will replace him, when, as, and if a military force is sent into Turkey.

**KLUS**

**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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~~885~~

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

Date 28 Apr 41 (MAM)  
Initials

Transmission of Code Cables  
Received at the War Department  
at 10:02, April 22, 1941.

London, filed 12:40, April 22.

In reference to your request of April 19 in regard to interception of German weather reports from Greenland (which was not received by us until late April 19), the following information is submitted:

1. The British are maintaining close observation with R.D.F. nets in Greenland and Iceland. A third German detachment is believed to be somewhere in that area but no Axis weather reports have been recently intercepted.

2. There is no information in regard to Iceland.

LHE

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Assistant Chief of Staff, G-2  
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