

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE July 15, 1941

TO Secretary Morgenthau
FROM John C. Wiley

Three Japanese naval officers attached to the "Japanese Naval Inspector's Office", New York City, shipped their household effects to Japan on the TOSAN MARU last Sunday. (From Commissioner Johnson.)

Mr. Shamhart quoted the following message from Shanghai:

"Well informed sources state that Japanese banks have sold over four million U. S. dollars in the past few days and during the next ten days would sell a further six million dollars."

Also, \$2,000,000 were transferred on the books of the Chase National Bank from the account of the Yokohama Specie Bank, New York, for credit to the Bank of Brazil. (Mr. Merle Cochran.)

I discussed these items with Commander McCollum of ONI who expressed the opinion that it certainly looks as if the Japs were up to something in the very near future.



COUNCIL OF NATIONAL DEFENSE
COORDINATOR OF COMMERCIAL AND CULTURAL RELATIONS
BETWEEN THE AMERICAN REPUBLICS

COMMERCE DEPARTMENT BUILDING
WASHINGTON, D. C.

July 15, 1941

Dear Mr. Morgenthau:

Thank you very much for your thoughtful letter of July eighth. I am delighted to know of your interest in Madame Tabouis' proposed trip to South America. This will be helpful to us in working out the project which we have under discussion with her. She is coming in again this Wednesday, and I hope that we will be able to let you know definitely of the arrangements in the near future.

Personal regards and best wishes,

Sincerely,



Nelson A. Rockefeller
Coordinator

The Honorable
The Secretary of the Treasury
Washington, D. C.

RECEIVED JUL 16 1941

U. S. DEPARTMENT OF COMMERCE

OFFICE OF THE COORDINATOR

July 15, 1941

Piles

Mr. Coderman

Yesterday I had an opportunity to check with Mr. Kautlinger of the Department of State whom he called at my office, and I learned that, insofar as he was aware, the State Department had not been in touch with the National City Bank of New York concerning the subject of the attached memorandum, namely, that of making payments to Cuban officials abroad.

At 10:45 this morning I spoke by telephone with Mr. Shaw, Vice President of the National City Bank handling foreign business, and summarized to him the State Department memorandum. Mr. Shaw thought that the difficulties possibly confronting Cuba had been somewhat exaggerated to the Cuban ambassador. Mr. Shaw stressed the importance of the business which the National City has in Cuba and of their natural desire to do everything possible to be of service to the Cuban government. It was the opinion of Mr. Shaw that the Havana branch of the National City, which ordinarily handles the business under reference, may have thought some days ago that somewhat desirable difficulties would be experienced in obtaining Swiss francs, for example, against dollars. Mr. Shaw reminded me that the Swiss had not been disposed to take dollars for new business since the recent extension of our freezing orders. There has been a little relaxing of the Swiss rules the past few days. As to activities of the National City Bank in foreign countries, Mr. Shaw said that, as we are aware, the National City was circulating its business in Paris, as well as Gineza, but that there was no decision definitely to withdraw from these other areas where the National City is still represented. He thought that the Havana branch could still maintain its business through various currencies to meet most of the requirements of the Cuban government with respect to its officials abroad. He volunteered to send a wire to Havana over the National City direct wire and give me a report on the situation.

* * * *

At 3:30 this afternoon Mr. Shaw called me back. He had received a wire from the Havana branch of the National City to the effect that at the end of June the Minister of Finance of Cuba had asked the National City to make payments to the Cuban government's personnel in several countries, totaling around \$5,000. At that time the First National Bank would not accept dollars, so payments to Switzerland were made through the only acceptable currency, namely, Argentine pesos. Otherwise, all of the same payments to European countries were made through Swiss francs. Mr. Shaw is not sure as to whether the Cuban Ministry of Finance will desire that July payments abroad be made in the same manner as at the end of June. If the Cubans desire that the payments be made in dollars and payment arrangements to this end from the Havana branch of the National City, the Havana branch will get in touch with the National City in New York which, in turn, would approach the Treasury for the necessary licenses.

EMC:lsp-7/15/41

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Since dictating the above I have received from Mr. Fahle's office an interchange of cablegrams between the Federal Reserve Bank of New York and the Central Bank of Argentina concerning an arrangement whereby the Federal Reserve Bank would assist in effecting payments to Argentine officials in Europe. This precedent might be of interest to the Cubans.



DEPARTMENT OF STATE

in reply refer to
2A

July 3, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits a copy of a memorandum of a conversation between the Cuban Ambassador and officers of the Department of State on July 2, 1941, regarding payments to Cuban officials abroad through the National City Bank, together with a translation of a list of payments needed to be made monthly.

Enclosures:

1. Memorandum of conversation,
July 2, 1941.
2. Translation of list of payments.

copy/ma

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DEPARTMENT OF TREASURY

MEMORANDUM OF CONVERSATION

DATE: July 2, 1941

SUBJECT: Payment of Cuban Officials Abroad Through the National City Bank.

PARTICIPANTS: Dr. Aurelio F. Gomboso, Cuban Ambassador
Mr. Duggan
Mr. Scherer

COPIES TO:

During a visit to the Department on other matters, Dr. Gomboso stated that he had received instructions from the Cuban Foreign Office to inquire into the possibility of receiving assistance from the Department with a view to continuing the system at present in effect of paying Cuban diplomatic, consular, and other representatives abroad through the offices of the National City Bank or their representatives. It appears that the Cuban Government deposits with the branch in Habana cash month a sum to defray expenses of this nature abroad and cash funds are transmitted to the appropriate branches or agents in the field.

It appears from the Cuban request that they believe that the National City Bank may be giving some thought to the discontinuance of the operations in many of the European countries. In addition, in Germany, where the National City Bank operated through the American Express Company, some new procedure would have to be ascertained in

- 2 -

any event. Would it be possible for RA to investigate this matter and arrange for such assistance as may be practicable. It would appear that this is a matter for the head office of the National City Bank of New York City. A list of payments needed under this plan was left by Dr. Ganshese and is attached. It will be noted that in several instances payments are designated for consuls of other countries who represent the interests of Cuba in their designated countries.

RA:Schaver:JD

copy:lmn
7/15/42

Translation of text left at the Department of State
by the Cuban Ambassador, July 2, 1941.

LIST OF PAYMENT ORDERS THAT ARE DUE TO PAY THE MONTHLY
ALLOWANCES OF THE DIPLOMATIC AND CONSULAR CORPS IN THE
FOLLOWING COUNTRIES

<u>ON:</u>	<u>IN FAVOR OF:</u>		<u>AMOUNT</u>
Calcutta	Fernando Huesaco	Consul of Brazil	\$ 100.00
Tokyo	Shigeji Shibata	Legation of Cuba	100.00
Sarragosa	Hannul O. Jaine	Consulate of Cuba	146.67
Madrid	Ramon Estelrella	Embassy of Cuba	1,004.87
Madrid	José Carballeda	Consulate of Cuba	299.87
Santander	Alberto Almagro	Consulate of Cuba	221.50
Bilbao	Domingo Grecia Hortalas	Consulate of Cuba	195.75
Alicante	Santiago Soler	Consul of Bolivia	67.50
Vigo	Marcelina Martinez	Consul of Bolivia	217.50
Solis	Antonio Serrano	Vice Consul of the Dominican Republic	67.50
Valencia	Rene Roy	Consulate of Cuba	172.75
Orjon	Marie Martinez	Consulate of Cuba	195.75
Lisbon	Juan A. Fumariaga	Legation of Cuba	172.75
Lisbon	Francisco de Arce	Legation of Cuba	312.15
Lisbon	Marie de Arce	Legation of Cuba	175.50
Lisbon	Eduino de Nova	Consulate of Cuba	195.75
Geneva	Vitalio de la Torre	Consulate of Cuba	195.00
Bern	Enilio Dussan	Legation of Cuba	105.25
Bern	José de la Luz Leon	Legation of Cuba	412.35
Geneva	Miguel Figueroa	Consulate of Cuba	496.12
Geneva	Marie Labaudette	Consulate of Cuba	250.05
		Geneva	

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<u>CHI</u>	<u>IN FAVOR OF:</u>	<u>AMOUNT</u>	
GENOVA	Florencia Guerra	Consulate of Cuba	\$ 722.10
GENOVA	Isaac Metefano	Consulate of Cuba	125.25
GENOVA	José A. Lora	Consulate of Cuba	280.12
GENOVA	Luis Fernandez Vallin	Consulate of Cuba	464.25
GENOVA	Francisco Garcia Gimenez	Consulate of Cuba	153.50
GENOVA	Pedro P. Cartaya	Consulate of Cuba	125.25
GENOVA	José Dunnis	Consulate of Cuba	75.17
GENOVA	Juan Durand	Consulate of Cuba	241.65
GENOVA	Armando Montoro	Consulate of Cuba	765.63
GENOVA	Niguel Angel Espinosa	Consulate of Cuba	225.25
GENOVA	Antonio Recoll	Consulate of Cuba	113.25
GENOVA	Netehan Niguel Garcia	Consulate of Cuba	323.25
GENOVA	Gustavo Schumann	Consulate of Cuba	159.15
GENOVA	Rafael Nulet	Consulate of Cuba	134.67
GENOVA	Luis Valdes Reig	Consulate of Cuba	285.25

Havana, June 30, 1941

LUIS R. MIRANDA

Under Secretary of State

Copy: one

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P
YDEPARTMENT OF STATE
WASHINGTONIn reply refer to
EA

July 15, 1941

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and transmits herewith copies of the paraphrase of telegram no. 630, dated July 9, 1941, from the American Embassy at Madrid concerning diversion of Spanish vessels from trade with the United States in view of difficulties in obtaining licenses for the transfer of Spanish funds.

Enclosure:

Paraphrase of no. 630,
from Madrid,
July 9, 1941.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Madrid

DATE: July 9, 1941, 6 p.m.

NO. : 630.

Orders have been issued by the Spanish Government for a Spanish vessel to proceed from Gibraltar and discharge its cargo of 18,000 tons of pyrites at a Spanish port. This cargo was consigned to the United States. This ship, and others, loaded with cargo or about to be loaded, are to be used for other purposes. The demurrage charges resulting from the delays in obtaining licenses to permit the transfer of Spanish funds arising from exports from Spain or from gold reserves (such as the case of the steamship Cundado, now being held at a port in Cuba, which is loaded with sugar valued at 110,100) have been so heavy that it has not seemed possible to avoid this action.

On Saturday the Marquis de Comillas was permitted to proceed on its way to Cuba and the United States. It is hoped that before its arrival at United States ports the present difficulties will be overcome.

The same officials of Spain have stated that they fear that political considerations in the United States rather than administrative difficulties have caused these delays.

WEDDELL

RR

EA:VCL

Copy:bj:7-15-41

BRITISH EMBASSY,
WASHINGTON, D. C.

PERSONAL
AND
SECRET.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Harold Butler

For the Ambassador.

The Honourable

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

Telegram from London dated July 15th.

1. Naval. O.B.V. Lady Somers torpedoed early a.m. 15th east of the Azores. H.M.A.M.C. "Aurania" damaged in collision with an iceberg in thick fog is returning to harbour.
2. Suez Canal raided by aircraft night of July 13th/14th. Sections remain closed. At Suez transport Georgio 27,759 tons hit beached and burnt out.
3. American naval forces arrived in Iceland (C) a week ago.
4. During week ending July 9th 779 ships convoyed including 117 allied and 9 neutral. Imports into Great Britain in convoy during week ending July 5th totalled 652,597 tons.
5. Our shipping losses during last week much lighter than in any week since April, 1940.
6. Our merchant losses during June about 170,000 tons less than in May although total for June may yet increase. Tonnage sunk by German aircraft has progressively decreased since February. Losses in May and June approximately half those of February and March.
7. Military. Syria. Convention for cessation of hostilities signed 17.00 July 14th.
8. Russia. Main German drives towards Leningrad, Moscow, (via Smolensk) Kiev all making progress. Russian air force giving considerable trouble to advancing German formations.
9. Royal Air Force. Night of July 14th/15th 200 aircraft despatched Bremen Hanover (main station) Hanover (rubber factory) Rotterdam. 7 aircraft missing 4 high explosives of 4,000 pounds each dropped on Hanover main station/

-2-

station.

10. Night of July 12th/July 13th 15 Wellingtons successfully bombed three aerodromes Rhodes.

11. During daylight July 14th 29 Blenheims, two missing attacked shipping Le Havre, Cherbourg, Hazebrouck railway centre and shipping off Texel. Two merchant ships totalling 9,000 tons and an escort vessel 1,500 tons in convoy off Ymuiden claimed total losses. Also hits made on two ships totalling 8,000 tons and on port installations at Le Havre and Cherbourg. Our fighters provided escort over France destroyed 7 M.E. 109's damaged 4. Four spitfires lost. Blenheims destroyed 1 M.E. 109.

BRITISH EMBASSY,
WASHINGTON.

PERSONAL AND
SECRET

July 15th, 1941

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

(For the Ambassador)

Novik Butkin

The Honourable,

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

NAVAL.

In the Bay of Biscay July 7th, 8th and 9th British submarines sank by gunfire two Tunny fishing vessels, one steam trawler. Crews transferred to other ships.

2. British 5,000 ton ship hit by two bombs north of Cromer night of July 12th, July 13th in convoy, but arrived safely in harbour.

3. ROYAL AIR FORCE. July 13th.

Blenheims from Malta attacked convoy outside Tripoli (L); One ship believed tanker 7,000 tons and 1,500 ton merchant vessel set on fire and a three masted schooner blew up.

4. Night of July 13th/14th. 69 aircraft attacked Bremen Vegesack shipyards. One aircraft missing.

5. Early July 14th twelve Blenheims with fighter escort despatched to attack Havre and Cherbourg.

6. Military. Egypt. July 12th, Tobruk; our patrols inflicted casualties and took some Italian prisoners.

7. Syria. News of final signature of Armistice terms still awaited.

8. Russia. Baltic States. Germans appear to be making main effort north east from Pskov.

Ukraine. Enemy armoured troops have made progress towards Kiev.

Bessarabia. Russians withdrawing slowly.

RESTRICTED

G-2/2657-230 No. 441 M.I.D., W.D. 12:00 M., July 15, 1941.

SITUATION REPORTI. GERMAN-RUSSIAN FIGHT.

Ground: German mechanized units reached on July 13th the line: Luga-Ilmen Lake, some sixty miles southwest of Leningrad. The Finnish army, reinforced by the 163rd German Division, the whole force under Field Marshal Mannerheim, launched, on July 14th, a large-scale attack on both sides of Lake Ladoga. A German column advancing northward through Estonia from Tartu has reached the Gulf of Finland to the west of Narva. In consequence a considerable Russian force is isolated in the vicinity of Tallin. Narva may still be in Russian hands.

German columns are advancing from Vitebsk and Orsha on Smolensk. Behind the front line, to the southwest of Vitebsk, a considerable Russian force has been encircled as a result of these German advances. Rogachev, on the Dnieper to the south of Orsha, is held by the Russians, having been retaken by counterattack on July 14.

South of the Marshes, German troops are close to Kiev, but in this area the Russians have launched a series of counterattacks.

A German-Roumanian combat group has captured Gara-Bucovat in Bessarabia, some twenty miles west of Chisinau.

Air: German strategic bombing of the Leningrad-Moscow railway continues.

II. BRITISH-GERMAN FIGHT.

Air: German. Light activity.

British. Normal day and night operations. Night attacks were heavier than usual and centered on Hanover and Bremen.

III. MEDITERRANEAN FIGHT.

Ground: No change.

Air: Axis raid on Tobruk.
British raid on Messina, Sicily.

RESTRICTED

SECRET²⁵¹

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

Date JUL 17 1941 Initials (J/K)

Enclosure of Code Sublogram
Received at the War Department
at 0400, July 13, 1941.

Cairo, filed 2100, July 13, 1941.

The main objections to the Tumbain as far are that:

(1) Thirty and fifty caliber incendiary and armor piercing bullets are felt to be necessary. Modifications to some of the Tumbain are being made so that British .303 guns can be installed and available British ammunition of this type may be used.

(2) A method for turning on the oxygen supply from the cockpit is desirable. In a few cases the mechanics have failed to turn it on and the results have been disastrous. Because of the chance of any cloud layer in this climate, oxygen is required on nearly every mission.

(3) The British sight obscures some instruments and interferes with vision. The housing is dangerous in case of a wheels up landing or nose over. It is suggested that a modification or different location be made to incorporate the better points of the U.S. Sight.

(4) Some method has to be adopted to prevent glare from the propellers when the sun is at the pilot's back. The glare is due to the paint on the back of the propeller blades being worn off by sand. Also the exhaust glare should be eliminated if night operations are to be successful with this plane.

(5) If the guns were entirely in the wings, sand difficulties would be reduced. Crane canvas covers are used but they are not particularly effective as they must be removed before the engine is started.

SECRET

INFORMATION COPY

SECRET

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(6) One Mustang was reported on fire during combat due to the fuel and oil lines on the bottom of the fuselage being vulnerable.

(7) During low flying operations the noise of the engines and propellers are a detriment to the element of surprise.

(8) It is believed by fighter pilots that it is essential that there be some form of manifold pressure or automatic boost control which can be cut out.

Martins being used by South African Squadrons are liked very much. They are claimed to be as fast as the Mustang at sea level. The main objection is that the bomb loads are often hung due to wind causing the bomb release solenoids to stick. It is expected that the high ring wear is the result of excessive manifold pressures being used. The landing gear is operating successfully now that on each preflight inspection the lock pin is cut straight and flush. Pilots' rear view mirrors have been installed in all Martins and are very helpful in avoiding rear attacks. Pilots have used fifty-five inches of manifold pressure for short periods. A change to one hundred octane gasoline is to be made this week although ninety octane is now in use.

FINISH

Distributions:

Secretary of War
State Department
Assistant Chief of Staff, G-2
War Plans Division
Office of Naval Intelligence
C. E. C.
Chief of the Army Air Forces
Under Secretary of War
Secretary of Treasury
Air Corps

SECRET

CONFIDENTIAL

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Summary of Code Sublogon
Received at the War Department
on 18:04, July 13, 1941.

London, filed 17:00, July 13, 1941.

1. British Air Activity over the Continent.

a. Night of July 12-13. The previously reported number of bombers dispatched to Bremen dropped 23 tons of high explosive bombs and 21 incendiary bombs. Because of unfavorable weather, most of these aircraft attacked secondary objectives.

b. Day of July 13. Heinkel bombers were dispatched as follows: 6 against shipping at Le Havre, 6 against the Cherbourg docks, 11 against shipping off Toul, and 6 against the railway center at Brestrock. In the Toul raid three ships totalling 13,000 tons were sunk. The bad condition of the weather prevented definite information regarding the results of the other operations. A total of 608 fighters were sent out as follows: 268 on offensive patrols, 209 in defense of shipping, 73 on special patrols, and 144 on interception patrols.

c. Night of July 13-14. Stirling bombers were dispatched as follows: 8 to Rotterdam, 6 to Hannover, 3 on sea mining in the Elbe, and 3 on sea mining off the Frisian Islands. 97 bombers were sent to Bremen and 65 to attack the rubber factory and main railway station at Hannover. The majority of these bombers were compelled to attack secondary targets because of bad weather in all areas.

2. German Air Activity over Britain.

a. Day of July 13. 15 reconnaissance aircraft and 16 long range bombers were used against England. 100 fighters maintained defensive patrols.

CONFIDENTIAL

INFORMATION ONLY

July 16, 1941
9:30 a.m.

GROUP MEETING

Present: Mr. Cochran
Mr. Sullivan
Mr. Blough
Mr. Viner
Mr. Gaston
Mr. Kuhn
Mr. Schwarz
Mr. Thompson
Mr. Graves
Mr. Bell
Mr. Foley
Mr. Haas

H.M.Jr: I thought we could do this thing on the phone.
Do you know him?

Gaston: Yes.

H.M.Jr: That is why I sent it to you. Just say you
have got this and it will be all right to send
it over.

Gaston: All right, I will do that.

H.M.Jr: I thought you knew him.

Gaston: I do.

H.M.Jr: I wouldn't do it if it is commercial.

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Gaston: No, of course not.

H.M.Jr: You can - as long as it is the University of Cornell, I don't hesitate to ask for it, but you might point that out.

Gaston: Yes.

H.M.Jr: Norman?

Thompson: I have had a number of inquiries in recent months about the Gallatin statue. We have had the base up for a year. I have been pressing the sculptor on it, and I have had his advice that he will notify us very soon of the date for the final inspection.

H.M.Jr: I will let you worry about that.

Gaston: You don't object if I get Ned Bruce to make a statue of Gallatin about a foot high and put it up on top of that pedestal, do you?

H.M.Jr: I don't care. We will make that Thompson's exclusive worry.

Thompson: He has been very tempermental and stubborn about getting it out.

H.M.Jr: What else have you got that is important?

Bell: Some people are in favor of putting back the fountain.

(Secretary handed glass bank to Viner.)

Viner: Who says it doesn't pay to work for the Treasury?

Haas: You have more trouble than I do.

H.M.Jr: What else?

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Thompson: I have nothing else.

H.M.Jr: Daniel?

Bell: A little over a billion dollar's worth of obligations were incurred under Lend-Lease in the last two weeks of June, making two and a half billion.

H.M.Jr: How much has gone out?

Bell: About twenty-six million in cash up to that time. About ten million on our daily statement has gone out since June 30.

H.M.Jr: I saw that there is some delay in the Lend-Lease going up, and I also see that Hopkins left.

Bell: I say that too.

H.M.Jr: I imagine he is on the same ship that Coe is. Coe left yesterday?

Bell: Yes.

H.M.Jr: Anything else? Are you coming along nicely with your savings certificates stuff?

Bell: Yes, we are. We will be ready next week.

H.M.Jr: Good.

Bell: We have had a conference with the representatives of the Federal Reserve Board and Henderson's office on that control of consumer credit. I don't know whether you would like to have us tell you about it sometime today or tomorrow.

H.M.Jr: When are you ready?

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Bell: We are ready now. We don't know just how you want to do it, whether you want to have a conference with Eccles and Henderson or--

H.M.Jr: Let's run around the room and we will see where we are at. Shall we?

Bell: O.K. It will take a little time.

H.M.Jr: Pardon?

Bell: It will take a little time for us to tell you about it.

H.M.Jr: Will it?

Bell: Yes. Ten or fifteen minutes, I would say, wouldn't you?

Viner: I think the only real issue is how the Treasury feels as to the location of the policy power and the administration.

H.M.Jr: I am available at three-fifteen.

Bell: All right.

Viner: I don't think on the question of whether they should have it or not there is any real question.

H.M.Jr: I am available at three-fifteen.

Bell: I don't know whether Harry is.

Viner: Harry isn't well. I just heard he was sick.

Bell: If Harry isn't here, then, we ought to call the British thing off, I should think. I don't know what he has done with it. He said something yesterday about having a conference with the British at three.

- 5 -

Viner: Maybe he passed them down until later.

Bell: This is at three-fifteen. We will call the other off. I don't know. Three-fifteen is all right for this.

H.M.Jr: All right?

Bell: That is all.

H.M.Jr: Chick?

Schwarz: The Army has sent you a very nice looking book on plants, defense plants, and their own camps. I think you would like to look through it. Mr. Stimson might mention it.

H.M.Jr: All right.

How are you getting along with getting the President to broadcast?

Schwarz: Steve says that he has taken it up with the President, and he will let us know as soon as there is a decision.

H.M.Jr: I see. When are we going to announce this Tuesday broadcast, Kuhn?

Kuhn: I think it should go out today.

H.M.Jr: Yes. Can I see it in advance?

Kuhn: The release?

H.M.Jr: Yes.

Kuhn: Yes, sir.

H.M.Jr: Before it is mimeographed.

Kuhn: I sent it over last night and assumed it

- 6 -

would go out last night, but it didn't seem to go. I will find out about it.

H.M.Jr: Will you?

Kuhn: Yes.

H.M.Jr: Graves is arranging for a meeting of the staff at ten-thirty. You could tell me about it then.

Kuhn: Good.

H.M.Jr: Anything else, Chick?

Schwarz: That is all.

H.M.Jr: George?

Haas: I have some of these reports. I do recall that you asked for that sometime ago. I am sorry to have to show you a carbon. Here is the E Bond, total of banks and post offices. They are up thirty-seven percent, July over June.

H.M.Jr: Say it out loud so everybody can hear it.

Haas: The E Bond sales from July 1 to July 14 are up seventeen percent as compared to the comparable period in June. The F Series are down thirty-three percent, and the G Series down twenty-nine and six-tenths percent.

H.M.Jr: And the net?

Haas: The net of the three series, they are down eleven and four-tenths percent. The banks are doing relatively better.

H.M.Jr: The banks are up on the E forty-two percent

- 7 -

and the post offices on the E are up twenty-nine, is that right?

Haas: Yes, sir.

H.M.Jr: So we sold sixty-five million as against forty-seven?

Haas: That is right.

H.M.Jr: Look up, George, whether that was the first few days when the people took it out of the savings banks after July 1. Do you see what I mean? They might have done it in the first couple of days.

Haas: Here it is.

H.M.Jr: Where is the E? It is keeping up.

Haas: You get irregularities, but it is keeping up. Here is the last. It was seventy-seven.

H.M.Jr: I think it is very good, don't you?

Bell: Yes.

H.M.Jr: That is the one we want to sell, isn't it?

Haas: That is right, that is the important one.

H.M.Jr: And the banks are doing - do you get this every day?

Haas: We have a - one every day, yes, sir. Do you want to see it each day?

H.M.Jr: Yes. And then you make a summary--

Haas: We make a summary like that so you can get the comparison.

- 8 -

H.M. Jr: Each day?

Haas: Yes.

H.M. Jr: Well, when you see me, until further notice, I would like to see it.

Haas: I will be glad to.

H.M. Jr: And then I will give it back to you. I would like to see that.

Anything else?

Haas: That is all on that.

H.M. Jr: Viner?

I don't know whether I had a chance to thank you for the extra splendid work on Monday and Tuesday. I don't know whether it will bear any fruit. If Mr. Roosevelt won't use it, I will later on. Those of you - I don't know if I have told some. We went over there and Mr. Doughton was very, very much upset, who was running it, me or the President, and he took it very badly, so then the President - he asked the President what he wanted to do or was the President going to tell him what to do, and the President said, "No," he wouldn't tell him anything, so he left it up in the air, and then Doughton tried to get me to tell him what to do, and I said I wouldn't, so we left it that he was to report to his committee as a whole, the conversation between the President and himself, but the conversation was solely on excess profits. The President never used the word "inflation" or "prices" once during the conference.

Gaston: He used that material about inflation in his press conference.

- 8 -

- H.M.Jr: I guess so.
- Schwarz: Yes, he did.
- H.M.Jr: Well, you see Henderson followed me and Henderson said he got what he wanted.
- Bell: Apparently.
- (Mr. Graves entered the conference.)
- H.M.Jr: I just thought I would tell you. I thought the President was going to send a message. Instead of that, I don't think he is going to do anything. But from my standpoint, those two days were well worth doing, because it certainly cleared my thinking, and I have got a magnificent document that I can use any time I want to.
- Kuhn: Mr. Secretary, I have more copies of that document. What should be done with them, destroy them or send them over to you?
- H.M.Jr: Send half a dozen in to Miss Chauncey and destroy the rest.
- Kuhn: Right.
- H.M.Jr: Unless somebody like Dr. Viner wants a copy.
- Kuhn: I wonder about the people who worked on it.
- H.M.Jr: Give a copy to each person who worked on it.
- Kuhn: Including Henderson?
- H.M.Jr: They all went out.
- Sullivan: Did you send one to Wallace?
- H.M.Jr: Yes. I sent one to the Vice President.

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Roy?

Blough: William Green of the American Federation of Labor is reported to have recommended a compulsory savings plan for defense workers to be returned after the war, after the defense period. So far as I know, that is the first time any prominent labor leader has indicated a willingness to have any type of compulsory saving. It is purely a matter of interest for now, but it might turn into something later.

H.M.Jr: Did you want to say something, Jake?

Viner: No.

Kuhn: I have nothing except that I spoke to Olin Downes yesterday in accordance with your suggestion to see whether he would be an adviser in case of need on musical things. He would be delighted. Any time we want to ask what numbers ought to be played on a particular program, he will be available to make suggestions.

H.M.Jr: Well, what is he doing?

Kuhn: Doing for us?

H.M.Jr: What is he doing now?

Kuhn: He is music critic up at the Times, but he is always available to sit down with one of our people and look over projected programs and say, "Well, this is no good. I think you ought to have a different song."

H.M.Jr: Will he please look at Sunday's program?

Kuhn: Next Sunday?

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H.M.Jr: This coming Sunday. Will he do that?

Kuhn: Yes.

H.M.Jr: Herbert, you were grand on the radio Sunday. I meant to tell you. Your voice came over beautifully.

Gaston: Thank you.

H.M.Jr: There were only two things on the program I thought were any good, and that was you and this English actor who took off Churchill.

Gaston: Yes, Claude Rains. It was too heavy talk.

H.M.Jr: It was terrific. You came over beautifully. I never had heard you on the radio before.

Gaston: Hadn't you?

H.M.Jr: No. It was beautiful. I had a couple of fellows in the room there trying to sell me some apple boxes. They got so excited - they thought it was Churchill. They thought he was wonderful.

Gaston: Through one key word you could tell it wasn't Churchill. Rains says "Nat-zi" and Churchill says "Nazi".

H.M.Jr: It was very good.

Will you let him take a look at that program.

Kuhn: Yes. I was thinking particularly of coming orchestral ones with NBC.

H.M.Jr: Yes, but let him look at this. And if you could tell him how to use the Federal Reserve wire, he could call you any time.

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Kuhn: Yes.

Bell: Is the program down at the glass house broadcast?

Kuhn: No.

Bell: It is not?

Kuhn: No.

Bell: There is a pretty good program down there tonight.

Graves: The program from there last night was broadcast. I heard it.

Kuhn: Tonight it is in competition with the other broadcast.

H.M.Jr: Anything else?

Kuhn: No.

H.M.Jr: I didn't know that you had decided that we were going to go ahead with Olin Downes, or did you?

Kuhn: It is very informal. We don't have to use him, or we can use him a lot.

H.M.Jr: I am delighted.

Do you think you could get him to listen to tonight's program or even maybe go or maybe listen and have his criticism on tonight's? Why don't you phone him and ask him to give us his criticisms from the music standpoint on tonight's program?

Kuhn: He said to me yesterday that he is not much good on folk songs. He doesn't know a great number of them, but he thinks that he can be helpful to us on instrumental stuff of all kinds.

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H.M.Jr: Let's get his criticism of tonight's program.

Kuhn: All right, sir.

H.M.Jr: I got your stuff, and don't give me an examination in it, please.

Cochran: All right.
Coyne was in yesterday--

H.M.Jr: Stay a minute behind, will you? I have got all of your stuff here. You can tell me.

Cochran: I can tell you in one minute.

H.M.Jr: Will you? It is right here. Please. You gave me too much home work.

Cochran: All right.

Sullivan: Capital stock returns are due on July 31 and nobody is going to know how to make a return until after they know what is going to happen to excess profits, and the Commissioner and I have discussed it. Everybody seems to feel that we will have to give everybody a sixty-day extension. That is not on excess profits, that is on capital stock taxes.

H.M.Jr: All right.

Bell: That is quite heavy, isn't it?

Sullivan: I beg pardon.

Bell: That is quite a sizeable sum of money.

Sullivan: Yes, it is.

Bell: That is a nice job on our monthly estimates.

H.M.Jr: Well, I hate to do it. Do you think you have got to do it?

Sullivan: Yes, sir, I do. It is going to be impossible for anybody to estimate.

H.M.Jr: All right.

Sullivan: Apparently the Speaker is doing quite a bit of lobbying against compulsory joint returns.

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- H.M.Jr: It is out in the paper. It was on the ticker yesterday.
- Sullivan: I didn't see it.
- H.M.Jr: He and Wendell Willkie. Oh, Willkie, last week he was violent on it. He came down here about seeing England and then out of a perfectly clear sky he let off a broadside on joint returns.
- Sullivan: Did you want me to do some --
- H.M.Jr: The next day Arthur Krock gave him a nice line. Have you seen Arthur Krock on joint returns?
- Kuhn: Yes.
- H.M.Jr: He practically names his salary and his wife's and he said it gets down to a question, is it worth being married.
- Foley: I talked to him about it yesterday.
- H.M.Jr: Did you see his stuff?
- Kuhn: I saw it last week and I laughed about it.
- H.M.Jr: But the week before was even funnier.
- Schwarz: The Washington Post had the best answer to him in their editorials.
- Kuhn: I think Bishop Manning was pretty funny yesterday, talking about America always having been enlightened on - America always having been enlightened on the subject of marriage and now we are going back into barbarism. England, which Bishop Manning adores, has had joint returns for years

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and it hasn't upset the sanctity of the English home.

- Foley: Monsignor Ready said he didn't know much about it but from the character of the attacks on it, he was inclined to be in favor of it.
- Sullivan: It is all on expensive stationery.
- H.M.Jr: Maybe he would like to answer Bishop Manning.
- Gaston: He is getting me wavering.
- Sullivan: Do you want me to go to work on the suggestion you made yesterday so we can be ready if it looks like a compromise?
- H.M.Jr: Yes. You might tell the crowd and give them twenty-four hours notice.
- Foley: That Bishop in Delaware wasn't a Catholic Bishop at all.
- Sullivan: No, Episcopal. I called up to find out.
- Foley: He told me you called to find out if that was a Catholic Bishop.
- Sullivan: No, I didn't know.
- H.M.Jr: All right, Episcopal, O.K. (Laughter)
- Foley: The DuPont Bishop.
- Gaston: There are Methodist Bishops, too, you know.
- H.M.Jr: Give the crowd twenty-four hours notice on this suggestion.
- Sullivan: The suggestion is that on joint returns that shall relate only to unearned income,

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and that earned income shall be exempt from the joint feature and shall be taxable on individual rates, as though the person earning that salary had no mate.

- Gaston: With the regular limitations, income tax limitations on earned income, anything up to three thousand and not more than fourteen?
- Sullivan: That is right.
- H.M.Jr: Whatever the regular rates would be, they would apply to earned income.
- Sullivan: What Herb is talking about now is how large a salary will be deemed to be earned income.
- Gaston: Under the present law, anything up to three thousand dollars is assumed to be earned and - but you can't take credit for more than fourteen thousand dollars of earned income. If your salary is beyond fourteen thousand, only fourteen thousand is assumed to be earned.
- H.M.Jr: I didn't know that.
- Sullivan: That is one of many angles we want to work out.
- H.M.Jr: When it is above fourteen?
- Sullivan: The Government says nobody is worth more than fourteen thousand dollars a year.
- H.M.Jr: What happens when you are over fourteen?
- Gaston: The balance is unearned income for tax treatment.

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- H.M.Jr: It would be a nifty. Congress would like that. Go to work on it and let the boys come back at you. I will tell you, why don't you present it tomorrow at the nine-thirty group?
- Sullivan: I would be very, very happy to.
- H.M.Jr: I didn't know about the three to fourteen. What happens - I mean, to the thousand dollars salary?
- Sullivan: The Government says you are only worth fourteen.
- H.M.Jr: What happens to my fifteenth thousand?
- Sullivan: You don't get any credit.
- Gaston: You get earned income credit on fourteen thousand, but not the extra thousand.
- Blough: You are allowed to deduct from your income ten per cent of fourteen thousand dollars or one thousand four hundred dollars.
- H.M.Jr: I see. Well, I didn't know that.
- Sullivan: Well, there are a lot of different angles.
- H.M.Jr: Well, go to work on it. I think that would be very interesting. You would like that, wouldn't you, Ed?
- Foley: It would take care of me all right.
(Laughter)
- H.M.Jr: George, would you still foam at the mouth or do you think the sanctity of the home would be a little safer under that revision?
- Haas: No, that takes care of the social aspect.
(Laughter)

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- H.M.Jr: Do you think that would be a little bit better?
I think we have got something there.
- Gaston: It is a lot better than the straight --
- Sullivan: I think it would be well to sit very tight
on it and see what happens. It might be
a solution of a problem when things get really
tough.
- H.M.Jr: I think we have got something and I am in
the pretty position that I haven't expressed
myself. I didn't know about the three to
fourteen. I like that. That takes care
of some of the people I read about who get
from three hundred to five hundred thousand.
- Gaston: Well, it also takes care of the poor widow
and so on who is getting - maybe getting
two pensions or earnings from a small capital.
- H.M.Jr: How is a widow in a joint return? (Laughter)
- Gaston: I have talked about --
- H.M.Jr: She and God?
- Gaston: Yes. They always use the widow when they talk
about the small income on bonds and so on.
(Laughter)
- H.M.Jr: You know, this thing really - everybody gets
excited about it, even Herbert. All right,
Herbert, I think we have got something on
that.
- Sullivan: I do too.
- H.M.Jr: I think Herbert's thing about the three to
fourteen which I didn't know about makes
it a natural.

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Gaston: Yes.

H.M.Jr: I think we can get that through and that would take care of these property - what do you call them, estates? It would be awfully hard to argue against the plan we are talking about now.

Sullivan: Yes.

H.M.Jr: It would be awfully hard.

Sullivan: True.

H.M.Jr: I like that. What other good ideas have you got?

Sullivan: Do you think I dreamed that one?

H.M.Jr: No. I take credit for that. Ed?

Foley: We have got a --

H.M.Jr: Oh, what Foley did to Mr. Shea of Justice yesterday was something. I knew something was wrong. It really was funny. At this meeting up at the Vice President's yesterday, they had Welles and Acheson and Wickard and the two barons from Houston, Texas, "Baron" Jones and "Baron" Clayton. (Laughter) And whenever Jesse doesn't get what he wants, the two corners of his mouth go down absolutely like this. I didn't know what was the matter with the suggestion, but there was something wrong because Jesse's was way down. You have seen him when he gets that way. All we did was, I got this fellow (Foley) out of bed at seven-thirty and at nine o'clock in the morning our draft for an executive order was on Wallace's desk, and that was the one to the Budget. The only person who had a good time was me. I had a wonderful time. I paid my respects to the Budget and everybody else. As a result of the thing, we

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kicked the Army and Navy off, I did. Ed kicked Justice off. The only reason we stayed on was because we were there. They are coming back Thursday with a report. It really was funny. My recommendation was, Wallace is to be Chairman and let's get started.

Gaston: You are going to have a Board of --

H.M.Jr: About four.

Foley: Five.

H.M.Jr: State, Treasury, Jones, Agriculture.

Foley: And Wallace, five. He is Chairman.

H.M.Jr: That is right.

Gaston: You are to decide policies --

H.M.Jr: They didn't want --

Foley: I think we will have to put Justice back on.

H.M.Jr: Do you?

Foley: Yes.

H.M.Jr: Have you heard about it?

Foley: Dean spoke to me in the office last night. He asked me how you felt about it. I said both of us thought that they probably were supposed to be on.

H.M.Jr: I think Justice should be on, definitely. I never carry my feuds beyond sticking a knife in a fellow.

Foley: Well, you fellows got kidding me so there wasn't anything I could say.

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H.M.Jr: I said, "Let's get started and then they can worry about General Maxwell and the other business later."

Gaston: And leave Army and Navy off?

H.M.Jr: Yes. All right, Herbert?

Gaston: Oh, yes.

H.M.Jr: Coast Guard is represented.

Gaston: Yes.

H.M.Jr: Foley?

Foley: I have here the proposed proclamation for the President to sign pursuant to which a list of Latin American firms will be considered as blocked nationals under the freezing control order and also for purposes of export control it will be necessary for any export to any one of the firms listed to be licensed. The order says the Secretary of State, acting in conjunction with the Secretary of Treasury, the Attorney General, the Secretary of Commerce, Administrator of Export Control, and the Coordinator of Commercial and Cultural Relations between the American Republics shall from time to time cause the list to be published. The President signs the proclamation and this is the initialed copy. Everybody has initialed it. It will be sent over by Justice today to the White House.

H.M.Jr: Who gets out the release, the President?

Foley: It will probably be the State Department. This is the thing that Welles was going to state to the Inter-American Financial and Economic Committee. It is a statement.

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I am sending back the original proposals that we got from Wallace yesterday. We were working on the order last night. I had photostats made and sent them around to Welles and Jones and Wickard. Here is a proposed tax convention between ourselves and Great Britain to take care of the taxing of British property by the States.

H.M.Jr: All right with you?

Sullivan: Sure.

Foley: Everybody has initialed it. I want you to sign a letter to the State Department.

H.M.Jr: They can't sue me while I am Secretary of the Treasury, but God knows what they will do to me once I am a civilian back on the farm.

Foley: Well, this will save the British ten to thirty million dollars, this convention, if the State Department will go through with it.

Sullivan: And by the same token, under some circumstances it might save us something.

H.M.Jr: Give me a little memorandum for my meeting with the British Treasury Friday on that.

Foley: Yes. Here, you can have this.

H.M.Jr: No, I won't remember it. Have it when the British come Friday.

Bell: Haven't the British discussed that with the State Department?

Foley: They never asked for it, Dan. They took it up with Halifax a couple of times and Halifax thought that he was asking too much of this Government, and for him to ask for tax immunity was going a little bit too far,

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but they would - it is something they would like very much and we are raising it now because we are interested in preserving their dollars and there isn't any reason at all why they should have to pay a tax on personal property that they buy that is moved from one State to another. They buy an engine in New York and pay a tax there and send it out to Lockheed to have it assembled and they have to pay a tax on the ad valorem value to the State of California. It isn't right. Every time they have to move the thing around they have to pay another tax.

Bell: They question as to whether they want to bring suit out in California for some of those taxes. They had it in one of our meetings. I told them we didn't want to pass on that, that was a question for them to pass on, but I thought they ought to think of the public psychology of suing for taxes when we were giving them so much under Lend-Lease.

Foley: Up at Cabinet last Friday it was decided, as I understand it, that we wouldn't participate in the suit, but we suggested in lieu of that this tax convention which will take care of it and it will be binding on the States. It is a very simple thing to draft. We can do it in an hour if the State Department approves, and I don't think we have to have Senate approval on it because I think you have to have Executive agreement.

H.M.Jr: Who told you it came up Friday in Cabinet?

Foley: Over in Justice they told me.

H.M.Jr: Good. I forgot to tell you about it. Everything O.K.?

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Foley: O.K.

H.M.Jr: You will be ready Thursday?

Foley: Thursday.

Gaston: You may have noticed on the ticker this morning the story about the protest by the Japanese for delaying certain ships. Two ships we delayed because the War Department, Military Intelligence, had a report that there were some explosives attached to them or in them, and they were to go through the Panama Canal. We searched them inside and out and had divers examine the hulls and delayed them a day. The State Department knows about it.

H.M.Jr: O.K.

Gaston: We had another meeting over in Justice yesterday on this question of suppression of the German films that are in this country now. We told State - Mr. Fiedler attended the meeting and on my advice he told State that we didn't want to use the fund freezing device to suppress films, but Townsend supported this by saying that he didn't think it could be used for that purpose, so I think State was a good deal vexed, but - Savage was, but they planned to ask the President what to do about it. Townsend's advice was that it would require legislation.

H.M.Jr: Oh, no.

Gaston: To suppress them. There is a bunch of phonograph records down here, German propaganda phonograph records, addressed to the German Consulate. Of course, they can't be delivered but it is possible you might be interested in listening to them. They are rather funny.

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H.M.Jr: No, thank you.

Gaston: Right.

H.M.Jr: How about that memo I gave you?

Gaston: The memo that you - on the --

H.M.Jr: On J. Edgar.

Gaston: The one you gave me wasn't on J. Edgar.
Perhaps you gave me the wrong one. This is
about a --

H.M.Jr: I am sorry.

Gaston: . . . organizing a group of economists.

H.M.Jr: I gave you the wrong one.

Gaston: No, not yet. I found that the original story
of what happened wasn't quite correct, and I
have asked the man to give me a memorandum
of it - exactly what did happen, and I haven't
got that yet.

H.M.Jr: All right. All right, Herbert?

Gaston: That is all.

H.M.Jr: Thank you.

TO:

7-16 '41

Miss Chumney 280

This is copy of the document which the Secretary initialed at 9³⁰ Meeting today. according to instructions, the initialed copy was sent via messenger immediately after 9³⁰ Meeting & as soon as I could have copies made

McGuire
~~Wood~~

MR. FOLEY

for need more copies

**AUTHORIZING A PROCLAIMED LIST OF CERTAIN BLOCKED
NATIONALS AND CONTROLLING CERTAIN EXPORTS**

*Sent to Dean Echesse
by messenger 7/16/41
at 10:20 am. No
letter of
transmittal*

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

I, FRANKLIN D. ROOSEVELT, President of the United States of America, acting under and by virtue of the authority vested in me by Section 5(b) of the Act of October 6, 1917 (40 Stat. 415) as amended and Section 6 of the Act of July 2, 1940 (54 Stat. 714) as amended and by virtue of all other authority vested in me, and by virtue of the existence of a period of unlimited national emergency and finding that this Proclamation is necessary in the interest of national defense, do hereby order and proclaim the following:

Section 1. The Secretary of State, acting in conjunction with the Secretary of the Treasury, the Attorney General, the Secretary of Commerce, the Administrator of Export Control, and the Coordinator of Commercial and Cultural Relations Between the American Republics, shall from time to time cause to be prepared an appropriate list of

(a) certain persons deemed to be, or to have been acting or purporting to act, directly or indirectly, for the benefit of, or under the direction of, or under the jurisdiction of, or

on behalf of, or in collaboration with Germany or Italy or a national thereof; and

(b) certain persons to whom, or on whose behalf, or for whose account, the exportation directly or indirectly of any article or material exported from the United States, is deemed to be detrimental to the interest of national defense.

In similar manner and in the interest of national defense, additions to and deletions from such list shall be made from time to time. Such list and any additions thereto or deletions therefrom shall be filed pursuant to the provisions of the Federal Register Act and such list shall be known as "The Proclaimed List of Certain Blocked Nationals".

Section 2. Any person, so long as his name appears in such list, shall, for the purpose of Section 5(b) of the Act of October 6, 1917, as amended, and for the purpose of this Proclamation, be deemed to be a national of a foreign country, and shall be treated for all purposes under Executive Order No. 8389, as amended, as though he were a national of Germany or Italy. All the terms and provisions of Executive Order No. 8389, as amended, shall be applicable to any such person so long as his name appears in such list, and to any property in which any such person has or has had an interest, to the same extent that such terms and provisions are applicable to

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nationals of Germany or Italy, and to property in which nationals of Germany or Italy have or have had an interest.

Section 3. The exportation from the United States directly or indirectly to, or on behalf of, or for the account of any person so long as his name appears on such list of any article or material the exportation of which is prohibited or curtailed by any proclamation heretofore or hereafter issued under the authority of Section 6 of the Act of July 2, 1940, as amended, or of any other military equipment or munitions, or component parts thereof, or machinery, tools, or material, or supplies necessary for the manufacture, servicing, or operation thereof, is hereby prohibited under Section 6 of the Act of July 2, 1940, as amended, except (1) when authorized in each case by a license as provided for in Proclamation No. 2413 of July 2, 1940, or in Proclamation No. 2455 of March 4, 1941, as the case may be, and (2) when the Administrator of Export Control under my direction has determined that such prohibition of exportation would work an unusual hardship on American interests.

Section 4. The term "person" as used herein means an individual, partnership, association, corporation or other organization.

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The term "United States" as used herein means the United States and any place subject to the jurisdiction thereof, including the Philippine Islands, the Canal Zone, and the District of Columbia and any other territory, dependency or possession of the United States.

Section 5. Nothing herein contained shall be deemed in any manner to limit or restrict the provisions of the said Executive Order No. 8389, as amended, or the authority vested thereby in the Secretary of the Treasury and the Attorney General. So far as the said Executive Order No. 8389, as amended, is concerned, "The Proclaimed List of Certain Blocked Nationals", authorized by this Proclamation, is merely a list of certain persons with respect to whom and with respect to whose property interests the public is specifically put on notice that the provisions of such Executive Order are applicable; and the fact that any person is not named in such list shall in no wise be deemed to mean that such person is not a national of a foreign country designated in such order, within the meaning thereof, or to affect in any manner the application of such order to such person or to the property interests of such person.

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

JUNE at the city of Washington this day
of July, in the
year of our Lord
nineteen hundred
and forty-one,
and of the
Independence
of the United
States of America
the one hundred and
sixty-sixth.

By the President:

Secretary of State

M.H.

BK
DH
LS
A-A:AF:MFA

Ja

7-14-41

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E. 14 74.*

*Conduct is off
A.S.D.
lead*

July 16, 1941
10:25 a.m.

Sumner
Welles: Good morning, Henry.

HMJr: Hello, Sumner, how are you?

W: Fine. I hope you are.

HMJr: I'm very well. Sumner, I just saw on the U.P. Ticker that the Japanese Cabinet resigned en bloc.

W: Oh, really.

HMJr: And I wondered if you could interpret that for me. I - I don't know what it means.

W: Well, I'd like to be able to interpret it, Henry. It means one of two things.

HMJr: Yeah.

W: Either that they're moving immediately to occupy Indo-China.....

HMJr: Yeah.

W:and subsequently Siberia.

HMJr: Yeah.

W: Or else the element in the Cabinet that's been favoring that has been defeated, and a more reasonable Cabinet from our standpoint will be installed.

HMJr: I see.

W: I can't yet tell.

HMJr: If.....

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W: We've been anticipating for two or three weeks that something of this kind would happen.

HMJr: Well, if you get a glimmer on it, would you call me so that.....

W: I'll call you immediately.

HMJr: And we continue to get advices of the Japanese getting out of dollars wherever they can.

W: Yes.

HMJr: And so - for whatever that's worth. But if you get something on this, I would appreciate a call.

W: I'll be very glad to do it, Henry. I'll let you know.

HMJr: Now while I've got you, I don't know what Jesse Jones has in mind, but it seems that for some reason he very much wants an administrator in this thing. We were up at Wallace's yesterday.

W: Yeah.

HMJr: I don't know what it is, but.....

W: But I fully - I don't know how you feel, but I fully agree with every indication that is contained in the President's letter.

HMJr: Yeah.

W: I think an administrator would be altogether wrong.

HMJr: Yeah.

W: I think that all of our Departments are

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directly interested, and I think that we ought to have an opportunity of serving as an advisory body to the President in these matters with such administrative powers as may be necessary.

HMJr: Then get started.

W: That's right.

HMJr: Is that right?

W: I think it's already been delayed at least three months too long.

HMJr: Yeah. Well, you and I seem to look eye to eye on it. I think that Justice ought to be in on it, though.

W: I fully agree.

HMJr: Okay.

W: That was left in the air yesterday; but if it comes up again on Thursday, I shall say that from our standpoint, we feel the Attorney General must be included.

HMJr: Right. Well, thank you.

W: Thank you very much, Henry.

HMJr: Good-bye.

W: Good-bye.

July 16, 1941
10:30 a.m.

RE DEFENSE SAVINGS BONDS

Present: Mr. Duffus
Mrs. Kuhn
Mr. Mahan
Mr. Sparks
Mr. Buckley
Mr. Sloan
Mr. Graves
Mr. Powel
Mr. Masters
Mr. Paige
Mr. Gilchrist
Mr. Peters

Graves: Would you like to have me attend to the items that you have asked me about?

H.M.Jr: Would you, first, please?

Graves: You sent word to me yesterday that you wanted the daily statement of sales, beginning July 1. That is through the fourteenth.

H.M.Jr: Well now, you and I and George - you see, George didn't give it to me either.

Graves: No, they all come to me and I am not giving them to anybody, for the reasons that I told you, that there is a change --

H.M.Jr: Would you and George Haas get together and see that I get something tomorrow that you agree on?

Graves: We agree on that.

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H.M.Jr: Then he has an analysis on percentages.

Graves: I haven't seen that.

H.M.Jr: How much you are running over or under on each one.

Graves: I will continue that, but you may keep this.

H.M.Jr: July over June, on totals we were eleven per cent behind.

Graves: Yes.

H.M.Jr: And then the banks on the E's were running way ahead of the post offices.

Graves: They always have.

H.M.Jr: They were running a forty-five per cent increase.

Graves: That is because of the shift of balances from savings accounts, we think.

H.M.Jr: It doesn't show up because July 14 is better than July 1.

Graves: You see, their interest on the bonds here begins to run at the first of the month, even though they bought later. People didn't necessarily make those shifts on the first day of July.

H.M.Jr: But look at the way the E's are holding up. You may be right. O.K.

Graves: You asked for figures of sales at Treasury House, daily figures.

H.M.Jr: That is grand.

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- Graves: Also, here is a daily report on the requests for our song. I think those are the three items you asked me about yesterday. Getting back to your report on --
- H.M.Jr: Three hundred twenty-eight cards? Wonderful.
- Graves: Yes, you will notice, as I told you, you are getting a good many requests for large numbers.
- H.M.Jr: Where is our direct mail man?
- Buckley: Right here, Mr. Secretary.
- H.M.Jr: How much longer - don't you think by next Monday we could decide whether this postal card was a success or not?
- Buckley: Yes, I should think so. We will have eighty per cent of the results in by then, I should think.
- H.M.Jr: How many days do you figure from the day you go out - I mean, how soon do you get eighty per cent?
- Buckley: Ordinarily, within two to three weeks.
- H.M.Jr: Harold, one minute while I have this Treasury House thing. Will somebody tell me what Esso is going to do about having it in other places?
- Graves: I think Mr. Duffus can tell us.
- Duffus: Esso is set to go on having permanent displays in Philadelphia, Boston, and New York.
- H.M.Jr: Philadelphia, Boston, and --
- Duffus: Boston and New York, which are all in their

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territory. We are going to contact people in Chicago and on the west coast in an attempt to put permanent displays in Chicago and San Francisco and Seattle, if possible.

H.M.Jr:

Now, what are the Army and Navy going to do about giving you the stuff?

Duffus:

We are preparing a letter for them of exactly what we need for both permanent displays and also mobile units so we can work towns around New York at the same time we have a permanent display in New York. They are very much for the idea. The Air Corps is also working to supply us with a flying squadron that can go, for instance, into the New York State Fair and places of that kind to carry hostesses in to sell the stamps and speakers to speak about them over P.A. systems which we will carry with us. All of the services are very much with us.

H.M.Jr:

Are you sure that the services are going to give you enough material? I mean, I don't know how many - as somebody said - well, I don't know how many planes they can spare, for instance.

Duffus:

That is what they are working on now. That is, their public relations departments are working on that.

H.M.Jr:

Do the Army and Navy like this show?

Duffus:

Very much. We have contacted every one of them and they are all very pleased with it.

H.M.Jr:

The sales are good. Is Esso pleased?

Duffus:

Yes.

H.M.Jr:

Would you call up Mr. Dietz and tell him I got his letter?

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Duffus: Yes.

H.M.Jr: I am free tomorrow night, if he would care to come down and have supper with me.

Duffus: All right, I will certainly do that.

H.M.Jr: Could you --

Duffus: I will, and then I will let you know.

H.M.Jr: I am right, you are under Dietz?

Duffus: Yes.

H.M.Jr: Would you?

Duffus: I certainly will.

H.M.Jr: And tell him the invitation always holds good for his Mrs. if she cares to come.

Duffus: Thank you.

H.M.Jr: Tell him I am alone. I read his thing last -- Have you read it, Ferdie?

Kuhn: I have read it, yes, sir.

Graves: While we have Mr. Duffus, I think he can tell you something, too, about the other distribution of "Any Bonds Today".

Duffus: Yes. We have had one interesting thing happen, Mr. Secretary. Since the cards were sent out asking if they wanted any copies of the song, we have had sheet music publishers around the country write in asking for limited quantities of the song to give their regular customers as souvenir copies from the Treasury. We are supplying those in limited quantities only.

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- H.M.Jr: I would go easy with that.
- Duffus: We are. We are asking them to have their people write if possible.
- H.M.Jr: If this postal card thing works, I think it is the way to do it.
- Duffus: Also on --
- H.M.Jr: When are you going to have my copy, my regular sheet music with a nice cover?
- Duffus: As I understand, that is in the process of being made now in full color.
- Graves: Do you know about that, Harford?
- Powel: Yes. The design has just been made and approved and that will be out in a few days.
- Duffus: Also, Mr. Secretary, on "America Preferred" the long version of the film, we have had prints made in sixteen millimeter sound which we are distributing through the Agriculture Department. They have seventy-five operators and projection machines around the country. They will use them in meetings in farming areas and we are sending two prints to each State Administrator to use in his meetings.
- H.M.Jr: Well, the best job that has ever been done, as far as the Treasury goes, on that, with no organization, no training, was done by a man under Chief Wilson on "Know your money." And talk to him because the distribution that they got on that film was simply amazing. High schools and - I mean, the fellow is down there and he really ought to be taken out and put in your division because the man has got imagination and - he is a

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Secret Service operator, but he had the thing made and he got it into all the high schools and chambers of commerce and did a perfectly amazing job on that. I don't know how many millions of matches, for instance, have been printed and distributed with "Know your money". We have got this counterfeiting thing licked so it is down to zero through publicity. You ought to find out who that fellow is and you might pick him up and bring him up into your group, because he is an amazing person.

Duffus: We will follow through on that.

H.M.Jr: He really is an amazing person. You know him.

Graves: I don't know who it is.

H.M.Jr: He just has an imagination. We might pick him up because the number of places that they showed that film, where they got it and everything else, really was quite amazing.

Graves: You set Mr. John A. Stevenson down for ten-thirty Tuesday. Would it make any difference to you if we could give him a later hour than that? I spent some time with him yesterday. He is a very busy person. It would press him a little hard to get down here for ten-thirty.

H.M.Jr: Will you tell Stephens at three o'clock?

Graves: Yes. Three o'clock Tuesday?

H.M.Jr: Yes.

When am I going to see the script for Tuesday night?

Graves: Mr. Kuhn wants to talk to you about that.

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Kuhn: I would like to set aside some time tomorrow to go over that script. Mr. Gilchrist says it will be ready tomorrow morning, and also the script for your little N.B.C. introduction on Tuesday night is ready now.

H.M.Jr: Would you have it tonight, Ferdie?

Kuhn: The Round Table script, will that be ready tonight?

Gilchrist: It isn't completed yet. It is being done in New York.

H.M.Jr: Ten o'clock tomorrow morning?

Kuhn: I think that would be better.

H.M.Jr: O.K.

Graves: Have you any other things, Ferdie?

Kuhn: No, I have nothing.

H.M.Jr: Excuse me. And the publicity on that?

Kuhn: Oh, yes, the publicity on the Round Table.

Gilchrist: The story has been written and approved and is being written now for release.

Kuhn: Can the Secretary see it before it goes out?

Gilchrist: Certainly.

H.M.Jr: Can somebody step out and get it now?

Gilchrist: Surely.

Graves: Now, I think unless you have some other thing you would like to bring up specially, we will ask Mr. Powel to tell us --

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- H.M.Jr: I got a thrill out of that poster this morning. You haven't got a bigger copy than that?
- Powel: Sure. That is the one, you know, that you judged when we had that dinner party one night.
- H.M.Jr: This? Oh, I like this but I meant the one in today's New York Times.
- Powel: No. Jock Whitney gave those prizes yesterday.
- H.M.Jr: Is that who paid for them?
- Powel: At a big party at the Museum.
- H.M.Jr: Were you there?
- Powel: No. I went down to judge them but I didn't think I had to go and see him hand out his prizes.
- H.M.Jr: I have seen those in the paper.
- Powel: You have seen both of these?
- H.M.Jr: I think they are wonderful.
- Powel: This one, I don't know whether you noticed the lipstick on the face of the soldier. It is a startling thing in the design, and that really is a knockout, though. They couldn't give it first prize. They have given it all kinds of honorable mention. There are about fifty more in the back room that aren't being shown. They are showing thirty or so because that is all the room they have in that main entrance where you go out on the patio. They are in there on the street floor. Admission is free and the crowd yesterday was considerable.

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H.M.Jr: Now, what are you going to do? Are we going to put this one to use?

Powel: Oh, you bet.

H.M.Jr: When?

Powel: Absolutely. We are either going to put it out ourselves or get somebody to sponsor it as Wrigley and the First National Bank, and so forth have sponsored other things.

H.M.Jr: I think we had better do it ourselves.

Powel: I do too.

H.M.Jr: Leon Henderson says that white cuff on that poster is terrible. He says there ought to be no cuff, or at least a workman's cuff.

Powel: All right, I will tell Henry Billings.

H.M.Jr: I notice, for instance, the workman there has no cuff.

Powel: Yes.

H.M.Jr: I think if it isn't too late --

Powel: Oh, no, you can do anything to it. Ten thousand of those have been run off, so we may see one now and then.

H.M.Jr: There is no blue in there, is there?

Powel: No blue.

H.M.Jr: Could it be brown?

Powel: Brown or that kind of gray that the map is.

H.M.Jr: If it is not too difficult.

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Powel: Not a bit. No charge.

H.M.Jr: I like that one in the paper.

Powel: Oh, it is marvelous. The color is the best part of it. Now, that gives us a winner, a second prize, five minor awards, thirty that they think good enough to show, and then in the back room some I like better, but then, I am not as esthetic as some of the curators so that we could shop around and for fifteen or twenty-five dollars we could buy any of those, and I am going to lug them down here.

H.M.Jr: Put them up downstairs.

Powel: Sure I will. I am going to lug them down here in the next week or so and we will have a little show.

H.M.Jr: Is that all?

Powel: That is all, sir.

H.M.Jr: Nothing else?

Powel: Industrial poster series. We have got thirty-five thousand. That is the one where the Packard automobile is giving us posters.

H.M.Jr: Any finished?

Powel: They are just going through now. They have been very slow in printing them.

H.M.Jr: Thirty-five thousand?

Powel: Thirty-five, giving you a total circulation of more than two million, and the company salesmen will go to a hardware store or railroad station or whatever, and pin them up.

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H.M. Jr: Good.

Graves: Is that all, Harford:

Powel: I think so, yes, sir.

Graves: Now, Mr. Mahan can bring us up to date, if you like, on the retail outlet situation.

Mahan: Mr. Secretary, there are between ten and fifteen thousand retailers selling stamps in Michigan. I am indefinite about it because the independent retailers are being checked now, and we have no way of determining until probably Monday. That number should be doubled. We are sending additional material, have worked out a system with the Post Office whereby we drop a delivery of a certain number of posters as we have worked them out by formula for that territory to fill in chinks. The ones who are not furnished material on the first distribution. We should have by Monday a very complete picture of what has happened in Michigan. In the meantime, on Friday the Chain Drug Association offered to go along and are sending material to their several hundred members. Some of those have already received material but a great many of them have not. There is - it hasn't been announced yet, but there is a "Retailers for Defense" week set for September 15, and all the associations that we are dealing with will work together to put that week over and it should really be the very peak of the effort. We should by that time, using this Post Office system, which will also be worked out for all other States, because our big problem is to get the material distributed - that should - we should be able to deliver on September 15 material to every one of the States whether there is a State organization there or not.

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- H.M. Jr: By when?
- Mahan: By September 15, so they would be up on September 15.
- H.M. Jr: You are inching in on me. I thought we were going to have it by Labor Day.
- Mahan: Well, the retailers - the associations themselves have set their date. They can't be ready before that. However, that doesn't mean - that is merely the peak of it. By September first material will be distributed in most --
- H.M. Jr: Fifty thousand?
- Mahan: Oh, yes, easily.
- Graves: I think that your fifty thousand figure is --
- Mahan: The fifty thousand was to be a commitment by the 31st of July from the stores themselves.
- H.M. Jr: Yes, and the stores selling by the first of September.
- Mahan: That is right, and we already have a commitment from the Institute of Distribution alone, from twenty-one members, for over eight thousand stores, and those are the big stores like Woolworth and Kresge and so forth.
- H.M. Jr: But you won't have the stores selling by the first of September?
- Mahan: A great many of those will be, Mr. Secretary. I am sure that many of these stores that are indicating their intention to go along now will be selling by the first of August.
- H.M. Jr: Good. If you get ten thousand in Michigan alone, I mean, that would be enormous.
- Mahan: Well, it will go way over that, I am sure.

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We now have six thousand selling right now, and the others are estimated on independent retailers.

H.M.Jr: Anything else, Harold?

Graves: You remember that you asked to read our letters that we were addressing to these various associations through the legal department.

H.M.Jr: Yes.

Graves: They are there.

H.M.Jr: Where?

Graves: In the legal department.

H.M.Jr: Are they still there?

Graves: Yes, sir. I have talked with Miss McGuire about it.

Mahan: It is very important we get those out while the bloom is on this thing.

H.M.Jr: How long have they been there?

Graves: Just a couple of days. I wouldn't bother. I will take care of it.

H.M.Jr: I will tell them to give you twenty-four hour service.

(Unrecorded telephone conversation with Mr. Foley)

H.M.Jr: They are signed now. They are through. They are out.

Mahan: We have about twenty-five --

H.M.Jr: I mean everybody was tied up with me solid for two days, as Mr. Kuhn can testify.

Graves: Can you think of anything further, Sid.

Mahan: No. I will have a report on Monday or Tuesday

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on the whole Michigan situation.

Graves: Where do we stand with the Post Office Department on our joint program with them? Are we any further along?

Mahan: They are about ready to release. We have had one more meeting with them covering some things that - decisions that had to be made, and they are releasing the material to us probably the latter part of this week. We are waiting for them on material.

Graves: Mr. Buckley, have you anything new in the mail order business to tell the Secretary about.

Buckley: Well, to bring you completely up to date, we have received about fifteen thousand dollars in since I reported last week, which gives us practically ninety thousand dollars so far from the first test, and of course they are still coming in. We have another test of almost ten thousand each going out this Saturday. Until they have been out a little longer, all of them, we still won't be able to arrive at any definite conclusion.

H.M.Jr: Have they been out long enough for you to pick one or two?

Buckley: Well, it is more a matter of picking groups than it is one or two, because the same letter went to three different groups, one featuring E Bonds, one G, and one E, F, and G; so I am leaning more toward the elimination of F Bonds, for instance, and deciding whether we can feature E to the exclusion of G or work E and G together. That is probably what is going to happen next. The next thing I would like to test would be how far down in the income bracket we can go and still

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sell profitably. We are planning a test to sixty-four thousand people around the first of August to incomes of less than twenty-five hundred entirely.

- H.M.Jr: Does anybody know whether they have begun to cut those stencils?
- Graves: Mr. Sloan can tell you.
- Sloan: On the Internal Revenue list? No, sir, we had a long meeting with Ed Kilby about it, and they are putting it up to Mr. Bell, I understand, today.
- H.M.Jr: When are you going to be on that? When did we meet on it?
- Buckley: I think it was Monday or Tuesday.
- H.M.Jr: It was Thursday, wasn't it?
- Sloan: It was when we were in on the tax notes, Friday morning.
- H.M.Jr: When is it going to be put up?
- Sloan: Put up to Dan Bell today. Ed said that he would have the memorandum all ready. We sat in on the meeting with them and gave them our comments. He was preparing it for Bell to bring to your attention today.
- H.M.Jr: All right.
- He is coming in at three to see me, so if you would drop by and - he is down for three-fifteen. I will give him a yes or no then, if he will bring it in to me at three-fifteen.
- Graves: Mr. Sparks can bring us up to date on the field situation.

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- Sparks: Since Mr. Johnston reported last week, Mr. Secretary, two additional states have launched their organizations, their meetings. Two additional governors have accepted your appointment as honorary chairmen. The State of New York, as you know, you appointed Colonel Patterson, and the staff - field staff is working very closely with Colonel Patterson on seeing that he gets all of the material and assistance that he wishes.
- H.M.Jr: Mr. Graves told me that Tuesday's newspapers would carry an announcement of Mrs. Hull in charge of women, but I didn't see it.
- Graves: Today. That was postponed one day.
- H.M.Jr: I didn't see it in today's papers.
- Graves: I saw it in the Herald Tribune. Did you see it in the Times, Ferdie?
- Kuhn: No, I didn't look very carefully.
- Powel: I think I can find it for you. Yes, right here, sir.
- H.M.Jr: It didn't get as much play as I expected. O.K.
- Sparks: In addition to the work in the field, we are reorganizing some of our internal structure across the street. We are reorganizing the problem of handling the mail with a view to making it more effective, and with much more dispatch. We are drawing up an organization chart which will give a bird's eye picture of the entire field organization. We are concentrating on the problem of obtaining several additional field representatives with the bigger and more important states coming in, New York and Pennsylvania and Illinois and Ohio, particularly.

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We anticipate the need of - being shorthanded on our field representatives. We are going through the growing pains now of analyzing all applications and interviewing possibilities for those positions so that we will have them in time to be of the greatest service.

We are also reorganizing our filing system so that we will have a minimum of file correspondence in the field office and a maximum in the central files; and, finally, we received a rather complete report from the National Association of Mutual Savings Banks bringing us up to date to July 10. The most of that report showed that eighty-eight per cent of all the mutual savings banks in the country have qualified and that represents ninety-seven per cent of the deposit liability in those banks. There was one big bank in Boston that had not come in, and if we could get that in we would have ninety-nine per cent.

This morning I got a telephone call from Boston that that bank had decided to come in as a qualified agent.

H.M.Jr: The mutual savings banks are as good as Ivory Soap. (Laughter)

Sparks: That is the sum of it, Mr. Secretary.

Graves: I think, Mr. Sparks, you might tell the Secretary of the division of labor that we have made between yourself and Mr. Gail Johnston, the Field Director.

Sparks: Oh, yes. Mr. Johnston is going to spend practically all of his time in the field. He is now traveling through New Jersey, New York, Connecticut, and Massachusetts. He has also planned a trip down into Florida where there has been some slight concern, nothing alarming,

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about confusion between the Defense Council and the Defense Savings Staff. He also is planning to go to the - to Oregon to their organization meeting.

I, under the direction of Mr. Graves, am spending all of my time in the Washington office with a view to handling the field organization from headquarters.

H.M.Jr:

O.K.

Graves:

Do you mind signing these letters now? Mr. Odegard is not here, but the others have all seen them.

H.M.Jr:

O.K.

Graves:

Mr. Peters is one of Mr. Houghteling's men and has been working with trade associations, enlisting their support and cooperation and getting them into this. If you care, he could explain just what he is doing.

Peters:

Mr. Secretary, the most important recent development in the trade association field is a gratifying response that we are receiving to your letter to trade associations dated June 26. You probably recall that that letter was mailed to some fifteen hundred national and regional trade associations. The list was obtained from the Department of Commerce and I am told it is the best and most recent and up-to-date list there is. In that letter, as you recall, we asked the trade associations to help us convey information about Defense Savings Bonds and Stamps and also to warn their members and business concerns to use the payroll allotment plan in a democratic way and not exert coercion on their employees. We have had about four hundred replies to your letter, all of which have been very

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favorable and all have offered their cooperation and facilities for distributing literature and other information.

In that connection, there was the possibility of a distribution problem, because the trade associations don't have an awful lot of money for mailing purposes, and if we sent them a stack of a thousand bulletins, they would have a difficult time getting them out to their members in good shape, so we have developed a little pamphlet which is entitled "Six Ways for American Business to Cooperate in the Sale of Defense Savings Bonds and Stamps", and it mentions six suggested ways, which are the usual suggestions. Attached to that pamphlet is a return order form addressed to Mr. Sloan so that business firms may order the number of leaflets they want, the number of posters they will need, the stamp material that Mr. Mahan has been working up, and also a sample payroll allotment plan that I believe Mr. Touchstone has developed. The businessman can get all these things by filling out a return order for them and sending it back to us. We have had about fifty requests so far for that folder. Those were replies to your letters. They are coming in every day, and I think we will have a larger response as soon as some of these organizations have their board of directors meeting and can take it up as a unit.

Trade association executives don't like to act without the authority of their board, and that is the situation of the trade associations at present.

Notes:

You see, what we are doing in Mr. Houghteling's group is during this period when we have either no state organization or an imperfect state organization, we are trying to function

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through these national trade association groups and get down to the individual members. Mr. Peters has that. Do you have any idea, Mr. Peters, how many individual concerns are being reached in that way?

Peterson: Well, several trade associations have asked for up to four thousand copies of this little bulletin to be sent to their members.

Graves: Each?

Peters: Yes.

H.M.Jr: What would be your estimate of the total number.

Peters: We are ordering a hundred thousand copies of this folder.

Graves: It will give you some idea of how wide distribution we are getting in that way. I think ultimately we will get - we can depend upon our state organizations to do this kind of thing for us, but since we still don't have all state organizations, we are doing it through the trade associations.

Peters: This little post card reply may come in awfully handy because when it gets back to Mr. Sloan's office it will be kept in a card file and the state administrator or local organization will be notified right away that that concern wants to cooperate.

Graves: Mrs. Kuhn is Mr. Orville Poland's right hand man. He is in California at this time trying to make a start for us on the state organization there. She is handling his work, if you would like to have her say a word.

H.M.Jr: If she would.

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Mrs. Kuhn: Mr. Secretary, we tried to cover the national organizations in four fields, education, professional - like bar associations - patriotic - like American Legion - and then the women's.

In the field of education, Mr. Poland has prepared a kit for the public schools, outlined a kit which Mr. Milton has now got in hand and which Dr. Studebaker is preparing the distribution of. Last Saturday we sent out a letter to eight hundred university summer schools; and on the first day which we could get a reply, which was yesterday, we had requests for more than fifty thousand pamphlets, so we are completely snowed under.

H.M.Jr: Wonderful.

Mrs. Kuhn: Mr. Poland goes around talking at national conventions and building up contacts that way, and then we feed them literature; and with the women's clubs and associations, we are trying to find out how we can work in with their study groups and programs next September.

H.M.Jr: Now, which one of you people are doing the work with the labor unions?

Peters: Mr. Houghteling is.

Graves: Mr. Houghteling is personally handling that. He is away for one week. He left last Thursday and will be back the latter part of this week.

H.M.Jr: He does that?

Graves: He does that himself. He is in the process of employing an assistant for that, a Mr. Hyatt. He is a former officer of the A.F. of L., as I understand.

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- Kuhn: He was head of the Union of Postal Clerks, I believe, and is a good man.
- H.M.Jr: Mrs. Kuhn, what are you doing with the women, particularly?
- Mrs. Kuhn: The women's organizations?
- Well, we are trying to find out first of all what their setup is so that we can supply the right literature to work in with the different kinds of organizations, so we sent them out a questionnaire so that we can get information that will enable us to produce the right stuff. Then, of course, there is the question of getting the stuff across, and they are very, very helpful and cooperative. They have asked for specific pamphlets which they will distribute.
- For instance, the University Women, American Association of University Women, wants to get seventy thousand pamphlets to send out in September to each one of their members, and they are also sending out study material of ours to each one of their nine hundred local clubs. That is the way we are going at it.
- H.M.Jr: If you don't give the women something to do soon, they will be going nuts on nutrition. Everything is vitamins. You have got to give them something.
- Mrs. Kuhn: We are trying to keep them out of the bucket brigades.
- H.M.Jr: Aren't they all anxious to do something?
- Mrs. Kuhn: With one or two exceptions, they are wonderful. Some of them are a little bit sticky, but most of them are wonderful.

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- H.M.Jr: Anything else?
- Mrs. Kuhn: We brought Mr. Paige along. Mr. Paige is the boy who does your weekly news item.
- H.M.Jr: It is coming along very much better. Don't get it too big now.
- Paige: It is our--
- H.M.Jr: It is getting to be quite a volume.
- Graves: It will get bigger rather than smaller as we bring more states in.
- Paige: Our last issue did run twenty pages. That is rather large. I might say that it is rather obvious - our effort is to report in the newsletter the developments of interest to the field organizations, developments in Washington. I get the reports from the Information Division, the ones that Mr. Powel sends to Mr. Johnston, and I get, of course, reports on the daily radio programs and other reports from Mr. Houghteling and Mr. Peters and try to keep our field organization up to date on what is being done here, and then I get reports from the state administrators and clippings that they send in and clippings from the Division of Press Intelligence and from other sources, attempt to report the definite activities that are taking place in the field, the selling stunts and--
- H.M.Jr: It is a big improvement. The appearance of it is so much better.
- Paige: Yes, sir.
- Graves: Did you get the list that you asked for?
- H.M.Jr: Yes.

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Anything else?

- Paige: You might be interested in the distribution. At the present time we are - we mimeograph four thousand copies. About two thousand of them are distributed immediately. All state administrators receive at least fifty. Individual county chairmen in many of the states and in an increasing number of the states are being put on our mailing list. We added two hundred Texas county chairmen this week and about fifty Mississippi county chairmen this week, and we are adding other county chairmen as the state administrator sends them in so that that news letter will reach them directly; and we, of course, have in mind that our circulation may eventually necessitate a change in the printing procedure, and we are studying that.
- Graves: Mr. Sloan usually wants to avoid being called on, but I think he might tell you what we will do about moving.
- Sloan: I was down to the W. and J. Sloane building this morning, and I think that the top floor, which will be Mr. Powel's organization, will be ready to move in any time from tomorrow on, probably the latter part of this week or over the week-end. Coming down each floor, I think probably all of us can be in there between the fifth and tenth of August.
- Graves: We are all going into that building.
- H.M.Jr: I feel very badly that nobody asked me what song should be sung tonight or anything.
- Graves: That is Ferdie Kuhn's fault. He is the impresario in the song department.
- H.M.Jr: I don't know whether they are singing "Louise"

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over again or--

- Kuhn: They are singing Scotch songs.
- H.M.Jr: Nobody asked whether I like "My Bonnie Lies Over the Ocean" or whatever it is. I had no chance on it.
- Kuhn: I think we talked about the script the other day, and you said you thought it was all right.
- H.M.Jr: If it is not good, I am free to criticize you. (Laughter) Did you see the script?
- Kuhn: I have it. I can show it to you any time. There is still time to change certain things.
- H.M.Jr: Well, we were a little busy yesterday. It is all right, is it?
- Kuhn: Yes. I made some comments to them in New York yesterday, things that I thought should be changed. They had a little crack about John L. Lewis' eyebrows, and I thought we had better not go into that subject.
- Graves: Mr. Gilchrist is here for Mr. Callahan, if you have any questions about the radio business.
- H.M.Jr: Well, only my - that I was--
- Gilchrist: You asked for this release--
- H.M.Jr: Your Sunday program over Mutual can only go one way, and that is get better. It couldn't get any worse. It couldn't be any worse. That is my comment on it.
- Kuhn: I can report something on that, Mr. Secretary. Callahan feels that way also, and he has asked Monroe, a professional who runs the

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Texaco Hour, to take a hand and see that this Sunday thing is produced well, and he thinks that it is just a matter of getting a professional touch in there and making it less heavy, and I think it will be better next Sunday.

H.M.Jr: Shall I read this now? Who is doing this, you, Ferdie? (Referring to announcement of Tuesday round table broadcast.)

Kuhn: That is Mr. Callahan's shop, and they send these things over to me for my O.K.

H.M.Jr: Would you stay behind a minute?

Graves: I have a wire this morning from Palmer White, Portland, Oregon, our state chairman in Oregon, suggesting that we listen tonight to a national hockup on NBC, Blue Network, on National Defense Bonds. In other words, they are doing a Callahan on us out at Portland, as near as I can tell. That will be broadcast at nine-thirty. That is half an hour after ours. It will be on WMAL, if you would care to listen and see what some amateurs can do on Defense Bonds in Portland.

H.M.Jr: WMAL at nine-thirty?

Graves: Yes.

I may be sorry that I suggested that you listen in. I am going to listen.

H.M.Jr: All right.

Graves: I think there is nothing else.

H.M.Jr: The thing that pleases me the most is the way the E Bonds are going up and also the fact that that they are the small denominations. I think

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that is just the right direction. The only thing missing today is - there is no report on how we are getting along on the payroll plans.

Graves: Have you anything new on that, Bob?

Sparks: I tried to get Mr. Touchstone in. He just arrived this morning from a trip in the field, and he told me that he had very excellent results, and I told him to give me a detailed report immediately, but it did not reach me before I came to this office.

H.M.Jr: If you could have for Mr. Graves next Monday a report on how many concerns - if you haven't got them, it should be organized. How many concerns have got the payroll plan, how many employees have they got on their payrolls, and what percentage of their employees are participating. If you haven't got it--

Sparks: I think we will have a little difficulty, Mr. Secretary, on that last one, but I don't anticipate any on the first two.

H.M.Jr: Yes, but it is the last one that counts.

Graves: We sent out, when you first began to ask about this, to all of our states where we are organized, blank forms calling for precisely that information.

Sparks: That is right.

Graves: To what extent it has come in, I am sorry to say, I don't know.

H.M.Jr: Harold, we were going to do it on Michigan to start with.

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Graves: Well, I have a report on Michigan.
H.M.Jr: On this?
Graves: Yes, I have a report on Michigan.
H.M.Jr: Well, see what you can do anyway.
Graves: Yes.
H.M.Jr: Thank you all.

Grace Moore

280 Park Avenue
New York City.
July 16, 1941.

Secretary of the Treasury
Henry W. Morgenthau
Treasury Building
Washington,
D. C.

Dear Mr. Secretary,

I wish to thank you so much for the citation and also for the very beautiful corsage of orchids which arrived from the Treasury Department.

I am having the citation framed to hang among the treasured souvenirs of my career. Both it and the lovely flowers added so much to the pleasure of our memorable program on July second.

Sincerely,

Grace Moore de Parera

Grace Moore de Parera.

DEFENSE SAVINGS STAFF
ADVANCE NOTICE RADIO PROGRAM
WEDNESDAY - JULY 16, 1941

Secretary Morgenthau

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Time: 2:45 - 2:55 P.M.

Program: Children Are Also People
Talk by Miss Katherine Lenroot, Chief,
Childrens' Bureau, on Defense Bonds & Stamps

Station: WJSV and Columbia Broadcasting System

Time: 4:15 - 4:30 P.M.

Program: Portia Faces Life

Station: WRC and National Broadcasting Red Network

Time: 6:00 - 6:15 P.M.

Program: Fred Waring and His Orchestra

Station: WRC and National Broadcasting Red Network

Time: 6:15 - 6:30 P.M.

Program: Mr. Keen, Tracer of Lost Persons

Station: WMAL and National Broadcasting Blue Network

Time: 7:00 - 7:30 P.M.

Program: Quiz Kids

Station: WMAL and National Broadcasting Blue Network

Time: 7:30 - 8:00 P.M.

Program: Plantation Party

Station: WRC and National Broadcasting Red Network

Time: 8:00 - 9:00 P.M.

Program: "THE TREASURY HOUR - MILLIONS FOR DEFENSE"

Station: WJSV and Columbia Broadcasting System

The full hour broadcast will include a specially
prepared skit by the Aldrich family; Walter O'Keefe;
Burns and Allen; Lilly Pons; and Andre Kostelanetz.

THESE PROGRAMS PROMOTE THE SALE OF DEFENSE BONDS AND STAMPS.

UNITED STATES SAVINGS BONDS

Daily Sales - July 1941
On Basis of Issue Price

(In thousands of dollars)

Date	All Bond Sales				Post Office Bond Sales	Bank Bond Sales			
	Total	Series E	Series F	Series G	Series E	Total	Series E	Series F	Series G
July 1941									
1	\$ 9,505	\$ 2,387	\$ 957	\$ 6,160	\$ 595	\$ 8,910	\$ 1,793	\$ 957	\$ 6,160
2	11,612	4,066	845	6,701	1,735	9,877	2,331	845	6,701
3	15,045	4,903	843	9,299	2,077	12,969	2,827	843	9,299
5	22,900	9,589	2,437	10,875	3,191	19,709	6,397	2,437	10,875
7	11,028	6,315	472	4,242	3,908	7,120	2,407	472	4,242
8	11,226	4,867	1,197	5,162	1,346	9,881	3,522	1,197	5,162
9	16,570	6,277	880	9,413	2,229	14,341	4,048	880	9,413
10	11,430	6,018	605	4,808	2,459	8,972	3,559	605	4,808
11	16,311	8,504	1,197	6,610	2,405	13,905	6,098	1,197	6,610
12	12,689	4,482	860	7,347	1,672	11,017	2,810	860	7,347
14	13,435	7,754	1,046	4,636	3,060	10,375	4,693	1,046	4,636
15	10,083	4,754	602	4,728	1,458	8,625	3,296	602	4,728
Total	\$161,836	\$ 69,916	\$ 11,940	\$ 79,980	\$ 26,135	\$135,700	\$ 43,781	\$ 11,940	\$ 79,980

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

July 16, 1941.

Source: All figures are deposits with the Treasurer of the United States on account of proceeds of sales of United States Savings Bonds.

Note: Figures have been rounded to nearest thousand and will not necessarily add to totals.

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CONFIDENTIAL

UNITED STATES SAVINGS BONDS

Sales in July Compared with June, 1941
On Basis of Issue PriceFirst Twelve Business Days
(June 1-14, July 1-15)

(Amounts in thousands of dollars)

Item	Sales		Increase or Decrease (-) in July Compared with June	
	July	June	Amount	Percent
Series E - Post Offices	\$ 26,135	\$ 20,185	\$ 5,950	29.5%
Series E - Banks	<u>43,781</u>	<u>29,955</u>	<u>13,826</u>	<u>46.2</u>
Series E - Total	69,916	50,140	19,776	39.4
Series F - Banks	11,940	17,843	- 5,903	- 33.1
Series G - Banks	<u>79,980</u>	<u>110,085</u>	- <u>30,105</u>	- <u>27.3</u>
Total	<u>\$161,836</u>	<u>\$178,067</u>	- \$ <u>16,231</u>	- <u>9.1%</u>

July 16, 1941.

Office of the Secretary of the Treasury,
Division of Research and Statistics.Source: All figures are deposits with the Treasurer of the United States
on account of proceeds of sales of United States Savings Bonds.Note: Figures have been rounded to nearest thousand and will not
necessarily add to totals.

July 16, 1941
11:30 a.m.

HMJr: Hello.

Jere
Cooper: Hello.

HMJr: Jere?

C: Henry?

HMJr: Right.

C: Jere Cooper.

HMJr: Good morning.

C: Well, how're you this time?

HMJr: Well, I'm alive.

C: Well, that's good. That's some encouragement, isn't it?

HMJr: And I got a clear conscience.

C: Well, I'm the same shape.

HMJr: Yeah. What's going on?

C: Well, I - I understand Bob's going to call a meeting of the committee at ten o'clock in the morning.

HMJr: Yeah.

C: And with the idea that he and I will try to state to the committee what the President stated to us yesterday.

HMJr: Yeah.

C: And, that's all I know so far.

HMJr: I see.

- 2 -

C: Of course, he got - this is just between us.....

HMJr: I understand.

C:but he got busy just as soon as he got back up here, and been contacting the members and talking to them.

HMJr: Yeah.

C: So.....

HMJr: Well, what else could I do when he called me up? I mean - if he - I - if he wants to tell it to the committee, I think that that's the thing to do.

C: Yeah.

HMJr: Don't you?

C: Oh, sure. Of course, the committee'd have to be told, naturally.

HMJr: Yeah.

C: I had just thought it might be better for you and John Sullivan to come up and.....

HMJr: I don't think it'd be - I don't think that I'd help it; it might only irritate the committee.

C: Uh huh.

HMJr: But if Doughton says, "Well, now this is what the President said," that might have some effect.

C: Well, all right. I hope so.

HMJr: That's the way I feel.

C: Well, I hope so, but.....

- 3 -

HMJr: We've been up - we've been up there, and we failed. Now maybe if Mr. Doughton tells them this is what the President wants, it might have some effect.

C: Well, maybe so. I hope so.

HMJr: But.....

C: I just want to help any way I can.

HMJr: I know. You always do, and you were swell at the meeting yesterday. But there's no use my going up. I've had my say, and John's had his say.

C: Yeah.

HMJr: They paid no attention to us.

C: Yeah. So we'll try to see if they pay some attention to the other man.

HMJr: That's right.

C: I see.

HMJr: Well.....

C: Listen, Henry.

HMJr: Yeah.

C: I'm awful sorry to bother you again, but I - I'm intensely interested in that Miss Colleen Rhea that I talked to you about.

HMJr: Yeah.

C: Do you remember the name?

HMJr: Colleen Rhea.

C: Colleen Rhea. R-h-e-a.

HMJr: Well, we gave her a nice increase.

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C: Well, I understood from you at the time you called me about that, that she was given a Civil Service Status as senior stenographer, with a salary of \$1,620.

HMJr: Yeah.

C: Well, I understand the Civil Service status didn't come through for her.

HMJr: Now, just so we understand. It's - you want me to look up about her Civil Service status?

C: Yes. I understand that if Wilson, the Director of Personnel would give her six months' service as of July 1, she'd be in the clear all right.

HMJr: Well, let me inquire, and I'll call - I'll call you back myself.

C: And she - you see, Charlie Bell gave her the job for me.....

HMJr: Yeah.

C:the latter part of December.

HMJr: Yeah.

C: And he said - it was at Charlie's suggestion that she come in after the holidays, you see. She was here in my office on the second of January ready to go to work.

HMJr: Yeah.

C: I called Charlie, and he suggested that I bring her down the next day.

HMJr: Yeah.

C: Which I did.

HMJr: Yeah.

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C: If I'd taken her down the - January the second, the day I wanted to, why everything would have been in the clear.

HMJr: Yeah.

C: But at his suggestion, I waited until the next day to bring her down to his office and introduce her to him.

HMJr: I see.

C: And if Wilson will just give her six months' service as of July 1, I understand she'll be all right.....

HMJr: I'll send for the boys and talk to them.

C:as far as the classification is concerned.

HMJr: Yeah.

C: I'm awful sorry to trouble you with it.

HMJr: That's all right.

C: It's a matter of great importance to me. She.....

HMJr: Well, that's enough. That's enough said.

C: Her brother and brother-in-law and people that are awful good friends of mine.....

HMJr: That's enough.

C: All right.

HMJr: Enough for me.

C: All right, Henry.

HMJr: Thank you.

C: Thank you so much. Good-bye.

July 16, 1941
2:15 p.m.

HMJr: I just had the Undersecretary of Navy for lunch.

Harold Graves: Yes, sir.

HMJr: He had never seen our show out here in the square.

G: Uh huh.

HMJr: Very enthusiastic.

G: Yes.

HMJr: Said that they are just starting on a big program of recruiting.....

G: Yes.

HMJr:that they've got a lot of money.....

G: Yes.

HMJr:and they'd like to tie up the Navy's recruiting program with the Treasury Defense Bonds.

G: Yes.

HMJr: They - they've got all kinds of money, the Navy has.

G: Yes.

HMJr: Crazy about our show.

G: Well - I - I thought you had said he had never seen it.

HMJr: He'd never seen it.

G: Well, you mean he's crazy about the idea.

- 2 -

HMJr: I walked him over there.

G: Oh, I see. I see what you mean.

HMJr: I just walked him over, made him buy a dollar's worth of stamps.....

G: Good for you.

HMJr:and then he says, "The Navy has a lot of money....."

G: Yes.

HMJr:to recruit," and they want to tie up the Navy's recruiting program with the Treasury Defense Savings Bonds.

G: That's grand.

HMJr: Now, I told him that you were the man, but I don't want to - I'd like to take the initiative.

G: Yes, sir. Well, why - wouldn't you like for me to call on him.

HMJr: Why don't you call him up and ask him if you can come and see him?

G: Okay. Is that Forrestal?

HMJr: James Forrestal.

G: Yes.

And he - he, by the way, is a Princeton man, and I think a classmate of Gene Sloan, who knows him well.

HMJr: Well, why, if he does, take Gene - why not let Gene contact him.

G: I think I will, if you don't mind.

HMJr: Let Gene contact him if he knows him, and that saves time.

- 3 -

G: I'm sure that Gene knows him well. I believe they were classmates at Princeton.

HMJr: Well, anyway, one way or the other, do it today.

G: I'll take care of it today.

HMJr: But if we could tie up with the Navy on their whole recruiting program, it would be something.

G: Yes, it would.

HMJr: But what he likes is the band and all of the rest of the stuff.

G: Was there a band working while he - while you were there?

HMJr: Yeah. Fine. Yeah.

G: I'll get at it right away.

HMJr: Yeah. Thank you.

G: Yes, sir.

HMJr: Good-bye.

July 14, 1941

Dear Henry:

I am returning the original papers which you gave to me after the meeting yesterday in your office.

I have retained a copy of these documents for my file and have had sent a set to Under Secretary Sumner Welles, Secretary Claude R. Wickard and Secretary Jesse H. Jones.

Cordially yours

(Signed) Henry

Honorable Henry A. Wallace
Vice President of the United States

10:30 am
By Messenger 7/14/41

Enclosures

FMCG

1. Undated letter from The President to the Vice President re Problem of Economic Defense.
2. March 6, 1941 draft of the Bureau of the Budget on What Should Be Done About Economic Defense.
3. Executive Order Establishing the Office of Economic Defense in the Executive Office of the President And Defining Its Functions and Duties.

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THE WHITE HOUSE
WASHINGTON

My dear Henry:

I have been giving a great deal of consideration in the last few weeks to the whole problem of our economic defense.

As you know, several of the government departments and independent agencies have important responsibilities in this field which are fixed by statute.

I have given some consideration to appointing a director of economic defense who would administer certain phases of the program and act as coordinator. The more I think of it, however, the more I believe there is much to be said in favor of a committee giving broad consideration to the problem of our economic relationships rather than an administrative unit. I had in mind appointing five or six people from various departments concerned, who would consider the broad implications of our economic relationships in the light of what is going on in the world today and would consider further the potentialities of the future.

I realize the committee would have to give consideration to immediate problems and that at a later date that committee might wish to recommend to me a more definite administrative alignment within the government.

I am quite sure I am right about not appointing an administrator of economic defense at this time, but I do want the advice of a competent group sitting

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constantly in regard to these matters.

I have been wondering if you would take the chairmanship of such a committee. I am sure that you know more about this field than anybody in town and it is essential that we have someone as chairman in whom the various cabinet officers will have confidence.

Will you let me know what you think about this.

Very sincerely yours,



The Honorable
Henry A. Wallace,
Vice President of the United States.

March 6, 1941

WHAT SHOULD BE DONE ABOUT ECONOMIC DEFENSE

In order to aid Britain effectively as well as to protect ourselves against a thoroughgoing, although undeclared, economic war, we must develop a comprehensive program of economic defense. Economic defense consists of those economic measures having international implications exercised for the purpose of protecting and conserving the resources and the commerce of the Nation, aiding friendly neutrals and belligerents, and impairing the resources and commerce of unfriendly belligerents.

We should begin at once to plan the defense of our post-war foreign trade, for irrespective of the outcome of the present war, peace will be fraught with manifold economic problems, insoluble without a long period of study.

A number of instances, based on suggestions by various departments and agencies contacted during the course of the survey, illustrate some of the ramifications of economic defense problems. Random in nature, they reveal that the disposition of any particular problem may require the choice of one of many potential measures or the decision to take no action whatsoever.

Transit Trade to the "Axis"

The Japanese have been purchasing in Latin America raw materials for munitions. They have negotiated a contract expiring November first of this year to purchase the entire output of Peruvian molybdenum, and

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they have been buying Bolivian tungsten at a price well above the world market to assure preempting supplies. The Japanese are also purchasing Bolivian antimony, Brazilian quartz crystals, rubber, mica, castor seed, Mexican lead and mercury, Argentine quebracho and hides, and Chilean copper.

Using Japanese bottoms to Vladivostok, quantities of these materials it is charged are then shipped by rail to Germany. The Italians transport by airline non-bulk items such as platinum and industrial diamonds from Brazil to Europe.

Preclusive Purchasing versus Alternatives

Several Government agencies have recommended preclusive purchasing by the United States of the Latin American raw materials to preempt them from inimical interests. Before such a program is inaugurated, consideration should be given to the possible use of alternative measures: diplomatic pressure, lending power, managed exchange, and others.

Under the urgency for a stockpiling program, we have made purchases in Latin America with free and uncontrolled dollar exchange. Should we not have used our bargaining position as a buyer either to gain advantages for ourselves or to thwart unfriendly nations? Could we not have restrained Bolivia from selling tungsten to Japan? The latter could probably have been accomplished by diplomatic pressure or as a condition for granting a loan, since Bolivian tungsten is sold through only one outlet, Banco Minero.

Purchases in Latin America by Japan have been made largely with American dollars. If compatible with State policy, the prompt freeing of exchange here might have the effect of stripping unfriendly powers of their means of payment. Moreover, influence could be exerted through a series of special deals and barter; pressure could be applied through private exporting and importing firms. The use of private firms to regulate foreign trade would have the obvious advantage of being "unofficial." Since many of the Latin American countries desperately need shipping facilities and certain materials, e. g., aluminum, we could furnish these on condition that they refrain from supplying strategic materials to our potential enemies.

Loans and Subsidies

Loans made by the Export-Import Bank to South America might, in many instances, be conditioned upon the United States being granted reasonable considerations. Thus, the United States might have obtained cabotage (internal air transport) rights for the American line "Panagra" and cooperation in excluding German rights as consideration for a loan recently made to Chile by the Export-Import Bank. Actually part of the loan was used to finance the purchase of equipment for the Chilean National Airline. Since German and Italian airlines to South America are now encountering difficulties in obtaining new equipment, our loan and air subsidy programs assume a new and vital importance.

Boycott and Embargo

Instances pertaining to Japan and the Philippines illustrate the necessity for careful study of the economic as well as political effects of proposed measures. Thus in contemplating a boycott of Japanese silk, consideration must be given to the effect of such action upon American silk-consuming industries, upon competing materials and substitutes, and upon the price effects of the use of those materials and substitutes viewed both from the Japanese and the American side of the picture. In anticipation of such a boycott, Japan might increase her shipments, thereby acquiring additional amounts of exchange. The advantages and disadvantages of a boycott must thus be weighed against those of a currency freezing or another kind of program.

The Philippines constitute an important link in an embargo of materials to Japan, for the effect of such embargo is nullified if materials received in the Philippines can be reshipped to Japan.

Control of Shipping

The Office of Production Management requested the power to direct the requisitioning of ships in order to facilitate prompt shipment of strategic materials. Shipping has broader aspects. Control over shipping should be exercised in the light of our foreign commercial policy. Attention might be given to the requisitioning and directing of ships for the purpose of interfering simultaneously with the commerce of unfriendly belligerents and aiding that of friendly nations.

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Shipping rates affect the types of cargoes carried. Unless rates can be controlled, both the commodities carried and the ports covered may be out of line with defense needs. Control of ship movements may be the key to control over rates.

Economic Strings on "Lend-Lease" Program

Pending operations under the "Lend-Lease" program are tied up with these economic questions. While time is of the essence in aiding Britain to the fullest extent consistent with American defense, a great opportunity may be lost if careful consideration is not given to the many economic ramifications under that bill. Is the United States once more to win a war only to lose the peace? Or will she now, while still retaining her current bargaining position, take advantage of the lessons of 1918-19?

Many courses are open under the Lend-Lease program. We could merely give Britain armaments outright and forego the assurance of an important position in the post-war settlement. Or we might offer to exchange armaments for any one of a number of agreements relating to the post-war period. For example, we might insist on the elimination of the effects of the Ottawa Conference, whereby the colonies and dominions receive preferential trade treatment within the Empire, and in its place create a wide trading area, a kind of economic "Union Now" of states recognizing the writ of habeas corpus. Here might be the opportunity to return to the objectives of the reciprocal trade program, and to stimulate foreign trade and investment in order to cushion the effect of post-war economic readjustments.

We might exchange weapons for Britain's South American holdings and utilize these in a variety of ways to control trade (Britain uses them for this purpose), to obtain military bases, to gain the friendship of the Latin countries by returning the investments to them and their nationals, or to obtain concessions from Great Britain by returning these holdings to her after the war.

We might lend armaments to be repaid in kind, but before doing so, we should give thought to the economic effects of the repayment of such loans.

Deficiencies in Present Facilities

Many agencies of the Government have been thinking about isolated segments of economic defense, but no single focal point exists where all segments can be brought into proper relationship, coordinated, and adjusted to the over-all defense policies of the President. For example, one agency urges purchasing Mexican mercury in order to preempt the supply from Japan; another agency states that there are ample world supplies outside the United States and Mexico. Further, many suggestions for action toward South America have been made, but no agency appears to be relating these suggestions to a Far Eastern program or to the Nation's plan in regard to Britain and the Dominions.

The difficulties of planning and directing a program of economic defense lie in the number of the agencies involved and the variety of controls in each as well as in the complexity of the economic problems. The appended schedule of controls and devices and list of departments

and agencies concerned with economic defense indicate the scope of the problem.

The job of developing sound programs of action and the full coordination of effort of the many agencies concerned with economic defense cannot be accomplished by any existing department or agency for the following reasons:

1. Individual agencies are preoccupied by daily routine and with their main interests, which in every case are far narrower than the conception of total economic defense. For example, the Treasury Department contributes appreciably in the fiscal role, which is, however, only one segment of the problem.
2. Any existing agency because of jealousies and lack of central position would find it difficult to secure the thorough cooperation of other departments and agencies.
3. Direction of the economic defense activities requires someone of unusual qualifications and broad-gauged experience; the director must of necessity devote his full and undivided attention to this problem. He would have knowledge of plans known only to a few. Such a task precludes Cabinet members and agency heads who are already overburdened; nor should attention to pressing internal governmental problems be allowed to recede.
4. By nature, economic defense is an emergency function which is to be liquidated when the emergency passes; consequently, these activities should not be allowed to become so intermeshed with permanent governmental activities that they become a vested interest or that their cessation would cause disturbance of normal governmental functions.
5. The Department of State, probably the most eligible agency, should it be decided to entrust economic defense activities to an existing department, would be placed at a disadvantage in carrying out its main defense role as a buffer in our political relationships with other nations.

6. The Office of Administrator of Export Control seems unfitted for this role because of its military approach. The military mind is accustomed to dealing with concrete problems and obtaining direct results; whereas the mind concerned with economic defense must deal in abstractions and delayed or not easily controlled results. Moreover, the chief officials of the Economic Defense Unit of necessity must be experienced in international finance and trade and possessed of considerable analytical ability and imagination. In addition to the hierarchal arrangement of the Export Control Office, question is raised as to the ability of a military organization to deal successfully with and understand businessmen.

It is important to note that the Office of Export Control Administrator is now expanding its program and staff to cover the whole economic defense field.

What is the Solution?

The preceding random illustrations of economic defense activities reveal that the determination of any particular course of action—or inaction—may require the choice of one of many possible measures. Economic controls should be exercised only after the most careful preliminary study. Here is indeed a case where haste makes waste, and where partial measures may undo the desired total effect. International trade and finance is a highly complicated field, with influencing factors commingling from every angle. In such a field there is danger that any one agency, focusing upon some particular phase of defense, may fail to see the alternatives or the full implications of a given measure. It may want action of some nature, any nature, when action is the most undesirable course in a particular set of circumstances.

The many officials contacted in the course of this survey believe that the establishment of a coordinating center on economic

defense measures is exceedingly urgent. Except in the case of the Office of the Export Control Administrator and the Treasury, which desire to be entrusted with these responsibilities, opinion was unanimous that the job must be done by a new agency under the President. Only in this fashion can the respective parts which several agencies may play in a particular course of action be scheduled and unified. Only through such an agency can that all-important, illusive factor of "timing" be safely exercised. Only by the creation of a central unit can we be assured that carefully planned, deliberate study is being given to problems of economic defense in the proper order of importance and with proper attention to the inherent ramifications of alternative measures and policies.

This might be accomplished by the designation of someone with outstanding ability and broad experience in this field to assist the President and such Cabinet Committee as may be desirable in formulating and coordinating programs for economic defense. If necessary, this could be done quite informally. However, the many agencies which deal with particular segments of the problems would need to understand the role of this advisor so that the necessary planning and unification of actions could result.

Or preferably perhaps a Division of Economic Defense in the Office for Emergency Management of the Executive Office of the President could be established by Executive order.

Under either alternative, a major task for the economic defense advisor or division would be to assist in a secretarial and advisory

way whatever Cabinet Committee the President might wish to designate on economic defense. The same Cabinet Committee which is now helping the President on Lend-Lease operations might appropriately cover this related field. Such an arrangement could be accomplished informally as a normal method of doing business.

In any event, intimate relationships would be necessary between the Economic Defense Unit and the agencies administering the Lend-Lease program and the Office of Production Management. Likewise, a close relationship would necessarily exist between the Economic Defense Unit and any price administration and consumer agency that might be established as a successor to the Price Stabilization and Consumer Protection Divisions of the Advisory Commission on National Defense. The Coordinator of Commercial and Cultural Relations between the American Republics would have in the Economic Defense Unit a channel for securing more effective action than he now possesses.

The Office of the Administrator of Export Control should also come under the direction of this unit. While that office is not suited to be the central economic defense agency, the fact that it has been developing a program and specific projects which go far beyond export control is fortunate. The location of that office in the proposed Economic Defense Unit will capitalize on the various economic defense activities already launched by that office and on the experience of its staff in dealing with such matters.

In either plan a highly competent research man in the international economics field would be needed to assist the Advisor or Director in carrying on the necessary studies and the many contacts with

- 11 -

the departments and agencies affected. The staff would appropriately consist largely of persons borrowed from other departments and agencies who have been actively engaged in working on the specific problems under consideration. While there might be some type of actions which the Economic Defense Advisor or Director would need to carry out through his own facilities, most of the actions would be executed through the normal facilities of existing departments and agencies. Clear-cut and speedy channels of relationship with such departments and agencies would need to be established.

Since the Economic Defense Unit would be dealing with matters which require continuous decision by the President and the advice of Cabinet members, its head would need ready access to the President and his principal officers. The unit would need to work at all times in close consultation with the Department of State, and any proposed action should have the approval of that Department.

EXHIBIT A

MEASURES THAT MIGHT BE EXERCISED IN A
PROGRAM OF ECONOMIC DEFENSEExports

Embargo (by countries); "moral" embargo; licensing of exports (special and general); favoring or hampering through United States production priority regulations; requisitioning of goods under license; licensing of exporters; quotas (rationing of neutrals to prevent re-export); subsidies (including subsidized export competition ("dumping") to drive out enemy goods from a neutral market); barter and special trade deals; pressure on exporting firms, such as: Black lists, bonuses and subsidies, pressure on producers, private monopolies. Examination of foreign orders.

Imports

Boycott (by countries); licensing (special and general); licensing of importers; quotas; barter and special trade deals; tariffs (special increases and reductions); administrative discretion by customhouse; pressure on importers such as: Black list, bonuses and subsidies, private trade monopoly, indirect pressure by consumer boycotts.

Purchases of strategic materials to: Acquire needed materials, help friendly countries, prevent acquisition by unfriendly countries, pressure on private firms to purchase materials.

Foreign Exchange

Freeing of foreign assets as follows: Prohibiting transactions in foreign exchange, transfers of credit, transfers of securities, export or withdrawal of gold, silver, coin, and currency, and transfers of other evidences of indebtedness, or of ownership involving property of specific countries or nationals.

Licensing of foreign exchange transactions as follows: Clearing agreements, use of blocked money units.

Manipulation of the value of currencies: Price at which bullion is bought or sold; purchase by United States Treasury of gold or silver, or refusal to purchase it when origin from accepted areas cannot be proved; licensing of export of bullion; the purchase and/or sale of foreign currencies through the stabilization fund.

Foreign Investments

Direct loans to foreign governments (for roads, airports, etc.); direct loans to foreign nationals (for trade monopolies, special

productive facilities, etc.); encouragement of private loans to foreign governments or nationals; subsidies and loans to our nationals for the benefit of foreign governments or foreign trade (as subsidization of tin smelter in America for Bolivian ore); gifts; paying civil servants in orphaned colonies (e.g., in French colonies); calling of loans, refusal to renew; assistance or threats through influential United States companies (e.g., the United Fruit Company in Central America).

Special International Activities

Cooperative purchasing agreements for stockpiling: To attain needed materials, to prevent purchase of materials by the enemy, to maintain prices.

Cartels for marketing or regulating production; furnishing or withdrawal of technical experts, including government and civilian experts and military technicians, to develop resources, transportation systems, etc.; training of experts (exchanges of students).

Furnishing of needed materials to friendly countries; support of currencies of friendly nations; joint propaganda and cultural activities (promotion of travel); joint agreements to prohibit transactions with unfriendly countries and their nationals; seizure of property of unfriendly countries and their nationals; cooperative trade policies (such as a joint program with Britain in regard to South American trade); blacklisting of uncooperative neutral firms.

Shipping and Transportation

Acquisition by purchase or lease; requisition (ships of neutrals and belligerents); determination of routes; control of anchorage; control of bunkers, harbor facilities, warehouse facilities; regulation of marine insurance; regulation of overseas mail and parcel post; control of shipping in territorial waters (as through clearance papers, inspections, etc.); favorable or unfavorable treatment in allocation of shipping (assuming shipping control); offer of convoy protection of ships of a neutral; blockade reinforced by navicert system; control of overseas airlines.

Patents and Other Property

Restriction of international licensing under new patents; offering to friendly nations of special patent rights; confiscation of enemy patents; licensing of foreign firms doing business in the United States; seizure of enemy property.

Communications

Prohibition of adverse commercial propaganda, broadcast and otherwise communicated; encouraging of commercial propaganda to friendly

nations; control over mail and parcel post (used for shipment of non-bulk articles, plans, and military secrets; examination of mails to trace illegal transfers and obtain information on goods shipped to the enemy, etc.).

Political Instruments

Threats and pressures, or favors and concessions, in the political (diplomatic) field, for which the country concerned might reciprocate by economic measures that help our friends or harm our enemies.

Military and Naval Instruments

Bombing and other attacks on objectives picked for their key importance in a campaign of economic attrition; blockade, perfected by a navicert system.

E X H I B I T B

FEDERAL GOVERNMENT ESTABLISHMENTS CONCERNED WITH ECONOMIC DEFENSE

Executive Office of the President

Office for Emergency Management
Office of Production Management
Division of Priorities
Division of Purchases
Bureau of the Budget
National Resources Planning Board

Council of National Defense

Advisory Commission to the Council of National Defense
Price Stabilization Division
Defense Communications Board
Office for Coordination of Commercial and Cultural Relations
between the American Republics

Office of Export ControlInterdepartmental Committee for Coordination of Foreign and Domestic
Military PurchasesPermanent Joint Board on DefenseInterdepartmental Committees:

Joint Army and Navy Munitions Board
Executive Committee on Commercial Policy
National Munitions Control Board
Interdepartmental Committee on Inter-American Affairs

Department of State

Division of Controls
Division of International Communications
Special Division
Liaison Office
Division of European Affairs
Division of Near Eastern Affairs
Division of Far Eastern Affairs
Division of the American Republics
Office of Philippine Affairs
Division of Commercial Affairs
Division of International Conferences
Division of Commercial Treaties and Agreements
Consular Service
Passport Division
Office of the Advisor on International Economic Affairs

Department of the Treasury

Procurement Division
Bureau of Customs
U. S. Coast Guard
(Stabilization Fund)
Secretary, as personal representative of the President in
matters relating to formal purchasing of war materials

War Department

War Department General Staff

Department of Justice

Anti-Trust Division
Immigration and Naturalization Service
Federal Bureau of Investigation

Post Office Department

International Postal Service
Bureau of the Chief Inspector

Department of the Navy

Office of the Chief of Naval Operations
Bureau of Supplies and Accounts

Department of the Interior

Bureau of Mines
Geological Survey
Petroleum Conservation Division

Department of Agriculture

Bureau of Agricultural Chemistry and Engineering
Bureau of Agricultural Economics
Office of Foreign Agricultural Relations
Surplus Marketing Administration

Department of Commerce

Bureau of Foreign and Domestic Commerce
Patent Office
Bureau of Marine Inspection and Navigation
Civil Aeronautics Authority

Federal Loan Agency

Reconstruction Finance Corporation
Rubber Reserve Company
Metals Reserve Company
Defense Supplies Corporation
Export-Import Bank of Washington

Federal Trade Commission

Federal Communications Commission

United States Maritime Commission

United States Tariff Commission

The Federal Reserve System

The Pan American Union

EXHIBIT C

AN EXAMPLE OF SUCCESSFUL ECONOMIC WARFARE

Back in 1918, acting under an agreement for joint intervention in eastern Siberia by the United States and Japan, Japan violated the terms of the agreement. Instead of sending 12,000 troops into Siberia, as agreed, she dispatched a force of 72,500 fighting men and officers. This was more than the combined forces of the Allied intervention in both east and west Siberia.

President Wilson, disappointed and displeased with Japan's failure to observe the agreement, made the most vigorous diplomatic protest and authorized the strongest kind of economic pressure. On November 18, the War Trade Board issued an order stopping the further granting of all licenses for the export of cotton to Japan and the import of silk from Japan to this country. Iron and steel and their products were considered for similar action, but, as it seemed that Japan would be able to obtain these products elsewhere, cotton and silk were chosen as the commodities that would make the economic pressure most effective.

At that time we were buying from Japan about \$15,000,000 worth of silk per month and were selling that country roughly \$13,000,000 worth of cotton per month. This trade was vital to Japan's economy. The action taken by the United States, together with the effect of the collapse of Germany, brought an immediate response from the Japanese. By the end of December, 1918, they had removed over 50,000 troops from Siberia. Having achieved the desired result, the United States restored the granting of licenses, and trade in cotton and silk was resumed.

In this incident we have a concrete example of the effectiveness of American economic pressure. Thus in 1918 the United States was not afraid to make its displeasure felt by measures which were easily understood by the militarists of Japan. Diplomatic protests were backed by economic pressure and the desired results immediately achieved. Today the issues at stake are of even more vital importance to the United States; the economic weapons at hand are of even greater effectiveness when war becomes a total effort.

EXECUTIVE ORDER

852

ESTABLISHING THE OFFICE OF ECONOMIC DEFENSE
IN THE EXECUTIVE OFFICE OF THE PRESIDENT
AND DEFINING ITS FUNCTIONS AND DUTIES

By virtue of the authority vested in me by the Constitution and statutes of the United States, and in order to define further the functions and duties of the Office for Emergency Management of the Executive Office of the President in respect to the unlimited national emergency as declared by the President on May 27, 1941, and for the purpose of developing, coordinating, and carrying out plans and programs designed to protect and strengthen the international economic relations of the United States in the interest of national defense, it is hereby ordered as follows:

1. The term "economic defense" as used in this Order means the conduct, in the interest of defense, of international economic activities relating to exports, imports, the acquisition and disposition of materials and commodities from foreign countries, foreign exchange, international investments, shipping and transportation of goods among countries, the international aspects of patents, international communications pertaining to commerce, and other foreign economic matters.

*preclusive buying in
foreign countries*

2. There shall be within the Office for Emergency Management of the Executive Office of the President an Office of Economic Defense, consisting of a Director to be appointed by the President, and a Committee on Economic Defense composed of the Secretary of State, Secretary of War, Secretary of the Navy, Secretary of the Treasury, Secretary of Commerce, and such others as the President

~~may from time to time designate. The Director shall serve~~

~~as Chairman of the Committee on Economic Defense. The~~

Director shall receive compensation at such rate as the President shall approve and, in addition, shall be entitled to actual and necessary transportation, subsistence, and other expenses incidental to the performance of his duties.

3. Subject to such policies, regulations, and directions as the ~~President~~ ^{Committee} may from time to time prescribe, the Office of Economic Defense shall:

- a. Study and analyze problems and methods of economic defense and formulate plans and programs relating thereto; and advise the ~~President~~ ^{Committee} as to economic defense measures to be taken or functions to be performed essential to the effective defense of the Nation.
- b. Use all appropriate means to assure that policies and measures relating to economic defense approved by the President are carried into effect by the departments and agencies concerned, and in the case of policies and measures which are not appropriate for execution by other departments and agencies, take all lawful steps necessary to carry them into effect.

- (c) Initiate plans and make arrangements for the coordination of the work of agencies engaged in the accumulation and assembly of information and data required for economic defense in order to assure maximum availability and utility of such information and data.
- (d) Review proposed or existing legislation relating to or affecting economic defense and recommend such additional legislation as may be necessary or desirable; and perform such other functions relating to economic defense as the President may from time to time assign.

4. The Director shall exercise and perform all powers and functions heretofore vested by any Proclamation, Executive order, or regulation in any officer or agency of the Government (1) under section 6 of the act of July 2, 1940, entitled "An Act to expedite the strengthening of the national defense" (Public, No. 703, 76th Cong.), as extended by joint resolution of May 28, 1941 (Public, No. 75, 77th Cong.), and (2) under the act of October 10, 1940, entitled "An Act to authorize the President to requisition certain articles and materials for the use of the United States, and for other purposes" (Public, No. 829, 76th Cong.), except the powers and functions vested in the Joint Army and Navy Munitions Board by sections 1 and 2 of Executive Order No. 8567 of October 15, 1940; and all such Proclamations, Executive orders, and regulations are amended to the extent necessary to make this paragraph effective, but shall otherwise remain in full force and effect, and

any of the provisions thereof heretofore applicable to any such officer or agency shall be applicable to the Office of Economic Defense.

5. The Director, with the advice and assistance of the Committee on Economic Defense, shall discharge and perform the administrative responsibilities and duties required to carry out the functions and authorities set forth in this Order.

6. In the study of problems and in the execution of programs, it shall be the policy of the Office of Economic Defense to collaborate with existing departments and agencies which perform functions and activities pertaining to economic defense. Such departments and agencies are requested to cooperate with the Office of Economic Defense in arranging for appropriate clearance of proposed policies and measures involving economic defense considerations. The Office of Economic Defense ^{with the approval of the} may arrange for the establishment of committees or groups of advisers, representing two or more departments and agencies as the case may require, to study and develop economic defense plans and programs in respect to particular commodities or services, geographical areas, types of measures that might be exercised, and other related matters.

7. To facilitate unity of action and the maximum use of existing services and facilities, each of the following departments and agencies, in addition to the departments and agencies represented on the Committee on Economic Defense, shall designate a responsible officer or officers to represent the department or agency in its continuing relationships with the Office of Economic Defense: The Departments of Justice, Agriculture, and Labor,

Rockefeller

Commerce, the Federal Loan Agency, the United States Maritime Commission, the United States Tariff Commission, the Federal Trade Commission, the Board of Governors of the Federal Reserve System, the Office of Production Management, the Office of Price Administration and Civilian Supply, the Office for Coordination of Commercial and Cultural Relations Between the American Republics, the Permanent Joint Board on Defense, the Division of Defense Aid Reports, and such additional departments and agencies as the President may from time to time determine. The Office of Economic Defense shall provide for the systematic conduct of business with the foregoing departments and agencies.

7. The Director may provide for the internal organization and management of the Office of Economic Defense. He shall obtain the President's approval for the establishment of the principal subdivisions of the Office and the appointment of the heads thereof.

8. Within the limits of such funds as may be appropriated to the Office of Economic Defense, or as may be allocated to it by the President through the Bureau of the Budget, the Director may employ necessary personnel and make provision for the necessary supplies, facilities, and services. However, the Office of Economic Defense shall use such statistical, informational, fiscal, personnel, and other general business services and facilities as may be made available through the Office for Emergency Management.

9. This Order shall become effective immediately, except that paragraph 4 shall become effective on June 1941.

THE WHITE HOUSE,

June , 1941

July 16, 1941

My dear Admiral:

As a token of the great pleasure that I derived from my trip with you on the U. S. S. AUGUSTA, I am sending you a silver cup which I would like to present, through you, to the AUGUSTA to be given to "who in the opinion of his Commanding Officer has contributed most to the battle efficiency of the U. S. S. AUGUSTA.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Admiral Ernest J. King,
U. S. S. AUGUSTA,
Care, Postmaster,
Newport, Rhode Island.

July 16, 1941

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U. S. S. AUGUSTA,
Care, Postmaster,
Newport, Rhode Island.

THE BRITISH SUPPLY COUNCIL IN NORTH AMERICA

TELEPHONE: REPUBLIC 7860


 Box 660
 BENJAMIN FRANKLIN STATION
 WASHINGTON, D. C.

 Dr Harry E. White,
 Director of Monetary Research,
 U.S. Treasury,
 Washington, D.C.

July 16th, 1941

My dear White,

In connection with the recent press criticisms about our export policy, I have obtained the latest available figures of *export values and volumes* by telegram from London. You may be interested to have a copy of these.

The figures are not published in England and should, therefore, be regarded as strictly confidential.

Very sorry to hear that you have been not quite well to-day. I am making a bold bid to leave Washington for London late next Tuesday evening.

Yours sincerely,



VALUE AND VOLUME OF AGGREGATE BRITISH EXPORTS

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(Monthly Averages)

	Value £ million	Volume Index 1935 = 100
1937	43.5	111.1
1938	39.2	98.6
1939	36.6	92.9
1940 (first six months)	41.7	90.4
" (second six months)	27.4	54.1
1941 (Jan. Feb. March, Apr., May)	27.9	53.2
May	24.7	47.0(?)

II.

(Monthly Averages)

	Exports of	
	Iron and Steel Manufactures	Machinery
	1000 tons	1000 tons
1937	215	36.5
1938	160	38.3
1939	132	30.5
1940 (first six months)	115	26.5
" (second six months)	65	15.9
1941 (Jan. Feb. March, Apr., May)	47	15.7
May	35	13.2

III.

(Monthly Averages)

	Exports to	
	North America	South America & West Indies
	£ million	£ million
1937	5.1	4.2
1938	3.7	3.7
1939	4.3	3.6
1940 (first six months)	5.5	4.7
" (second six months)	5.8	3.3
1941 (Jan. Feb. March, Apr., May)	6.1	2.9
May	4.7	2.3

*discussed in meeting
in Admin's office 7/19/41*

SALES OF LEAD

The British representatives would appreciate advice on the following question, which raises a matter of principle possibly applicable to other commodities.

It is understood that negotiations have just been concluded between the Metals Reserve Company, and the Consolidated Mining & Smelting Company of Canada, for the prompt delivery of 35,000 short tons of lead, and in addition, a minimum of 5,000 short tons, and a maximum of 8,000 tons a month, during the period July to December 1941, inclusive, the price being 3.75 cents (U.S.) per pound f.o.b. Trail. It is believed that additional quantities will be required by U.S.A. The British Government own a stock of 60,000 tons of lead in Canada surplus to their requirements similarly placed in all respects to the above, which they would like to offer to the Metals Reserve Company; and they may also have a further small amount available from forthcoming supplies. The question for decision is that of the price at which this lead shall be offered. There are three possible alternatives:

(1) The lead might be offered at the price of 3.75 f.o.b. Trail agreed upon for recent purchases by the Metals Reserve Company from Canadian and also other producers.

(2) The lead in question has, however, been acquired by the British Government under a running contract, arranged immediately after the outbreak of war, at a basic price only slightly in excess of 3 cents, with increments corresponding to any increased costs of production. (The exact price is only determinable some time after the production period.) Carrying charges have also been incurred. The lead might be offered at the contract price.

(3) In order to avoid a transaction between Governments at a profit, the lead might be released by the British Government to the Canadian producers, leaving them free to sell it to the Metals Reserve Company at 3.75 f.o.b. Trail.

(1) would provide the British Treasury with the maximum amount of dollars. (2) and (3) would preserve the principle, that there

should be no question of profit in transactions between Governments. (3) would transfer the profit to the Canadian producers and furnish the British Treasury with Canadian, not U.S., dollars.

A possible argument in favour of (1), which might provide a defensible precedent, is that Great Britain in purchasing this lead a considerable time ago took the risks of the market and has incurred subsequent carrying charges. An argument against (3) is that much of this lead was paid for in effect in gold, so that it is reasonable that the British Treasury should now be reimbursed in U.S. dollars. If we depart from the existing price, difficulties may arise where the contract price is higher than the existing price.

The above is to be sharply distinguished from a subsequent lead transaction which the British authorities may wish to suggest for the purchase of a stock pile of surplus lead (40,000 tons in Burma, and 100,000 - 200,000 tons in Australia), which cannot be shipped. In the case of a purchase of unshippable surplus lead the price would unquestionably be the same as that paid by the British Government without any question of recovery in back carrying charges. The British Treasury do not like to suggest a different basis for the Canadian lead without explaining the full position. But it might be held that the proper course is to make use of the existing price where raw materials are supplied for immediate shipment and the contract price in other cases.

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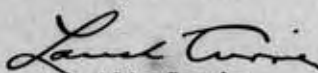
THE WHITE HOUSE
WASHINGTON

July 16, 1941.

Dear Mr. Secretary:

This is a copy of the letter I spoke to you about. I should appreciate it very much if you would check the fourth paragraph with your own records.

Sincerely yours,


Lauchlin Currie

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

WAR DEPARTMENT
General Staff
War Plans Div.
Washington

June 16, 1941.

WD 400.3295 (6-13-41) MC-E

Honorable Mr. Lauchlin Currie,
Administrative Assistant to the President,
Washington, D. C.

Dear Mr. Currie:

The War Department has given careful consideration to your letter of June 3, 1941, relative to ammunition, spare parts and accessories for the one hundred Curtiss P-40 airplanes and their armament to be shipped to China.

The supply of ammunition presents one of the most critical problems in the munitions program. A study of the ammunition requirements to meet the minimum needs of the Army and Navy, including certain special urgent requirements, indicates the inability of the War Department to fulfill your request.

The subject of spare parts and accessories for armament and airplanes is now being considered and you will be advised at an early date on this matter.

At the time the decision was made to reallocate 300 P-40 airplanes, allotting 100 to China and 200 to Britain, the British agreed to supply the guns and ammunition for the 100 airplanes allotted to China. I informed the Secretary of the Treasury that the United States Army would be unable to furnish guns and ammunition for the above airplanes.

I regret that circumstances do not permit a favorable reply at this time.

Faithfully yours,

(G. C. Marshall - Signed)

Chief of Staff.

SECRET

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE July 16, 1941

TO Secretary Morgenthau

FROM Mr. Kamarok

Subject: Airplane Deliveries

1. A total of 85 planes shipped is reported in the latest statement received.

2. Two Bell Airacobras are reported as shipped to England. This is the first mention of a movement of P-39's to England.

3. Out of the total of 1,440 airplanes shipped since January, two types make up more than half (Curtiss Tomahawks, 431, all to the Middle East; Lockheed Hudsons, 342, all to England).

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Division of Monetary
ResearchAirplane Shipments to the British
(From February 1 to July 13 by air
January 11 to June 21 by sea)

Table A. - Shipments by Area

	Latest Week	Total Reported To Date
<u>To the United Kingdom</u>		
Light and medium bombers	34	521
Heavy bombers	0	41
Naval patrol bombers	3	71
Pursuit	<u>2</u>	<u>11</u>
Total to United Kingdom	39	644
<u>To the Middle East</u>		
Light and medium bombers	0	150
Pursuit	<u>40</u>	<u>431</u>
Total to Middle East	40	581
<u>To the Far East</u>		
Light and medium bombers	0	6
Naval patrol bombers	0	9
Pursuit	6	145
Trainers	<u>0</u>	<u>55</u>
Total to Far East	6	215
<u>Totals</u>		
Light and medium bombers	34	677
Heavy bombers	0	41
Naval patrol bombers	3	80
Pursuit	48	587
Trainers	<u>0</u>	<u>55</u>
Grand Total	85	1,440

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Division of Monetary
Research

Table B. - Shipments by Types

	Latest Week	Total Reported To Date	
Bell Airacobra (P-39)	2	2	
Boeing B-17	0	21	
Brewster Buffalo	6	145	
Consolidated Catalina	3	80	
Liberator	0	20	
Curtiss Tomahawk	40	431	
Douglas Boston I	0	1	
Boston II	0	72	
Boston III	14	83	
Glenn Martin Maryland	0	150	
Grumman Martlet II	0	9	
Lockheed Hudson I	0	1	
Hudson III	0	57	
Hudson IV	0	18	
Hudson V	16	266	
North American Harvard II	0	55	
United Chesapeake	<u>4</u>	<u>29</u>	
Grand Total - All Types	85	1,440	

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Division of Monetary
Research

Table C. - Plane Deliveries to the British by Weeks

Week Ended	Light and Medium Bombers	Heavy Bombers	Naval Patrol Bombers	Pursuit	Trainers	Total
Feb. 8 *	22	-	3	-	-	25
Feb. 15 *	39	-	-	100	-	139
Feb. 22 *	35	-	-	27	-	62
Mar. 1 *	7	-	5	25	-	37
Mar. 8 *	16	-	3	10	-	29
Mar. 15 *	26	1	4	-	-	31
Mar. 22 *	17	-	2	22	-	41
Mar. 29 *	25	-	3	18	-	46
Apr. 5 *	21	-	7	73	-	101
Apr. 12 *	21	2	2	27	-	52
Apr. 19 *	20	3	4	5	-	32
Apr. 26 *	23	2	3	-	28	56
May 3 *	61	1	2	15	27	106
May 10 *	36	1	8	10	-	55
May 17 *	61	13	7	19	-	100
May 25 *	30	10	-	25	-	65
June 1 *	28	5	5	21	-	59
June 8 *	37	2	7	-	-	46
June 15 *	26	1	4	20	-	51
June 22 *	28	-	4	52	-	84
June 29 *	45	-	1	50	-	96
July 6 *	19	-	3	20	-	42
July 13 *	34	-	3	48	-	85
	677	41	80	587	55	1,440

* The date given is for shipments by air. Shipments by water start three weeks earlier. That is, the statement reporting the shipment of planes by air for the week ending July 13 would report the shipment of planes by water for the week ending June 21.

Prepared by: Mr. Turner
Mr. Foy
Mr. Murphy
Mr. Haas

Y DEPARTMENT
CE COMMUNICATION

371

DATE July 16, 1941

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Current Developments in the High-grade Security Markets

SUMMARY

- (1) Prices of United States Government securities have changed very little on balance during the first half of July (Charts I and II). The only group of issues to gain markedly were the taxable bonds.

Weekly reporting member banks increased their holdings of guaranteed securities by \$174 millions in the week ended July 9 (Chart III). This reflects mainly the absorption by these banks of the cash portion of the new RFC note which was issued on July 3.

- (2) The new GOB note offered on July 10 was quoted at the close on that day at 100-19/32 to yield .96 percent. The issue appears to be selling about in line with the market for comparable guaranteed securities (Chart IV).
- (3) High-grade corporate and municipal bonds showed little change in price during the first half of this month. New bond offerings in the first two weeks of July were relatively small.
- (4) About 53 percent of the \$5.8 billions increase during the fiscal year 1941 in the volume of direct and guaranteed Government securities held by private investors was financed by the expansion of bank deposits. The remaining 47 percent (about \$2.7 billions) was financed out of "real savings" or idle bank balances. During the same period about 54 percent of the increase in member bank deposits can be attributed to Government financing operations. The remainder was principally due to the growth of bank loans.
- (5) The prices of British Government securities have recently risen rather sharply (Chart V). Among the reasons offered by the press for this rise are rumors of a new "tap" security to be issued on terms less attractive to investors than the current yields on outstanding securities.

Secretary Morgenthau - 2

I. United States Government Securities

Prices of Treasury bonds and notes have varied within a fairly narrow range in the first half of July (Chart I). With the exception of the outstanding taxable bonds, which advanced about $5/8$ of a point, Treasury securities were very little changed at last night's close from their prices on June 30. Price changes are shown by maturity classes and tax-exemption status in the following table:

		Average price change		
		June 30 - July 15		
		Tax-exempt	Taxable	All issues
		issues	issues	
(In thirty-seconds)				

Notes

1 to 3 years	0	0	0
3 to 5 years	+ 1	- 1	0

Bonds

5 to 15 years to call	+ 2	+ 20	+ 5
15 years and over to call	0	-	0

The average yield of long-term partially tax-exempt Treasury bonds was 1.90 percent yesterday, the same as on June 30 (Chart II).

During the week ended July 9, weekly reporting member banks in leading cities increased their holdings of guaranteed securities by \$174 millions, of which \$96 millions was accounted for by banks in New York City and \$78 millions by banks in other cities (Chart III). This increase presumably reflects the issuance on July 3 of the 1 percent RFC note due April 15, 1944. The amount of this note outstanding is \$573 millions, of which about \$210 millions represented re-funding of a maturing issue and \$363 millions new money. It appears, therefore, that about one-half of the new money portion of the issue went to weekly reporting banks, at least in the first instance.

Secretary Morgenthau - 3

II. CCC Financing

The new 1-1/8 percent CCC note due February 15, 1945, which was offered on July 10, was quoted at the opening that day at 100-23/32 bid. At the close it was quoted at 100-19/32 bid, equivalent to a yield of .96 percent. Since the offering date the when-issued quotations have varied with the quotations of other guaranteed securities.

Chart IV, based on last night's closing bid quotations, compares the yield of the new CCC note with the yields of the other outstanding taxable guaranteed securities. The new note appears to be selling about in line with the market.

III. High-grade Corporate and Municipal Securities

Prices in the high-grade corporate and municipal bond market have been stable during the past two weeks. Our average of the yields of five high-grade corporate bonds, moving inversely to prices, has increased one basis point since June 30 (Chart II). The weekly average price of municipal bonds remains unchanged from its high level of June 28.

New bond offerings to the public in the New York market in the first two weeks of this month totaled about \$30 millions. This compares with offerings of about \$103 millions in the last two weeks of June.

The registration of the new large issue of \$234 millions of American Telephone and Telegraph Company convertible bonds became effective July 15. About \$94 millions of the \$234 millions will probably be used by the Company to call an outstanding issue. Therefore, the new issue will probably absorb about \$140 millions of funds seeking bond investment.

IV. Increase in the Public Debt and in Bank Deposits During the Fiscal Year 1941

During the fiscal year just ended, the total interest-bearing debt increased by \$6.9 billions. Of this amount, \$6.0 billions consisted of direct obligations of the United

Secretary Morgenthau - 4

States and \$0.9 billions of guaranteed securities. Federal Government agencies and trust funds and the Federal Reserve Banks absorbed about \$1.1 billions net. (The Federal Reserve Banks decreased their holdings of Governments by \$0.3 billions during the period.) The remaining \$5.8 billions was absorbed by private investors.

As has been the case in other recent years, commercial banks were the largest single group in amount of Government securities absorbed, taking about 53 percent of the increase in the privately held debt. The estimated absorption of the \$5.8 billions available to private investors is shown in the table below.

Estimated Absorption of Government Securities
by Private Investors

June 30, 1940 - June 30, 1941

(Billions of dollars)

Weekly reporting member banks	2.7	
Other member banks	.3	
Non-member commercial banks	<u>.1</u>	
All commercial banks		3.1
Mutual savings banks	.2	
Insurance companies	.8	
All others:		
Marketable obligations	.3	
Savings bonds - July through April	.7	
Savings bonds - May and June	<u>.7</u>	2.7
		5.8

Approximately 47 percent of the increase in privately held debt was financed from real savings or from idle bank deposits. Mutual savings banks and insurance companies together accounted for only \$1 billion, or about 17 percent, while all others -- principally individuals and non-financial

Secretary Morgenthau - 5

corporations -- accounted for about \$1.7 billions, or about 30 percent of the increase. All except \$0.3 billions of this absorption was in the form of United States savings bonds, however. It is also of considerable interest that the amount of United States savings bonds sold during the two months of the defense savings bond campaign was equal to the whole amount of savings bonds sold during the ten months preceding the campaign.

It is estimated that deposits of all member banks increased \$5.6 billions in the fiscal year 1941. The part played by Government financing in increasing these deposits is shown below.

Factors Accounting for the Increase
in Member Bank Deposits

June 30, 1940 - June 30, 1941

(Billions of dollars)

Increase in deposits:

Demand deposits	+ 5.3	
Time deposits	+ <u>.3</u>	5.6

Principal factors accounting
for the increase:

Government security holdings	+ 3.0	
Other investments	+ .1	
Loans	+ 2.9	
Cash and reserve balances	- .6	
Other	+ <u>.2</u>	5.6

During the fiscal year 1941 the increased holdings of Government securities accounted for about 54 percent of the \$5.6 billions estimated increase in deposits of member banks. However, the increase in loans during the same period accounted for only slightly less of the increased deposits than did the increased Government security holdings.

Secretary Morgenthau - 6

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

The foregoing figures present several interesting contrasts with the developments of the fiscal year 1940 before the Defense Program had gotten under way. During fiscal 1940 the privately held direct and guaranteed public debt increased by \$1.4 billions, of which \$0.8 billions, or about 57 percent, was absorbed by commercial banks. Purchases of \$0.9 billions of United States savings bonds by investors other than banks and insurance companies, were almost offset by a decrease of \$0.7 billions in the marketable securities held by these investors. During this same period deposits of member banks increased by \$5.4 billions. About 69 percent of this increase was attributable to an increase in cash and reserve balances — the result of the large inflow of gold which occurred during that year — while only 16 percent of the increase was attributable to purchases of Government securities and 15 percent to an increase in loans.

V. British Government Securities

After remaining fairly steady since the beginning of the year, prices of British Government securities have recently risen sharply. The 2-1/2 percent consols have gained almost 4 points in the two months since the middle of May to a price of 82-1/4, equivalent to a yield of 3.05 percent, at yesterday's close (Chart V). This rise compares with a rise of only one point in the four months between mid-January and the middle of May.

The price behavior of other British Government securities has been similar. The 3-1/2 percent War Loan is now quoted at 105-1/16, to yield 3.01 percent, as compared with 103-1/2 in the middle of May. The British financial press attributes this improvement in the prices of Government bonds partly to favorable war news and partly to rumors that the current "tap" issue will soon be replaced by another issue on terms which will make the current yields on outstanding issues favorable by comparison.

Attachments.

Chart I

CHANGES IN THE PRICES OF U.S. SECURITIES
 Points Plotted Represent the Difference from December 26, 1940 Price of Each Maturity Class

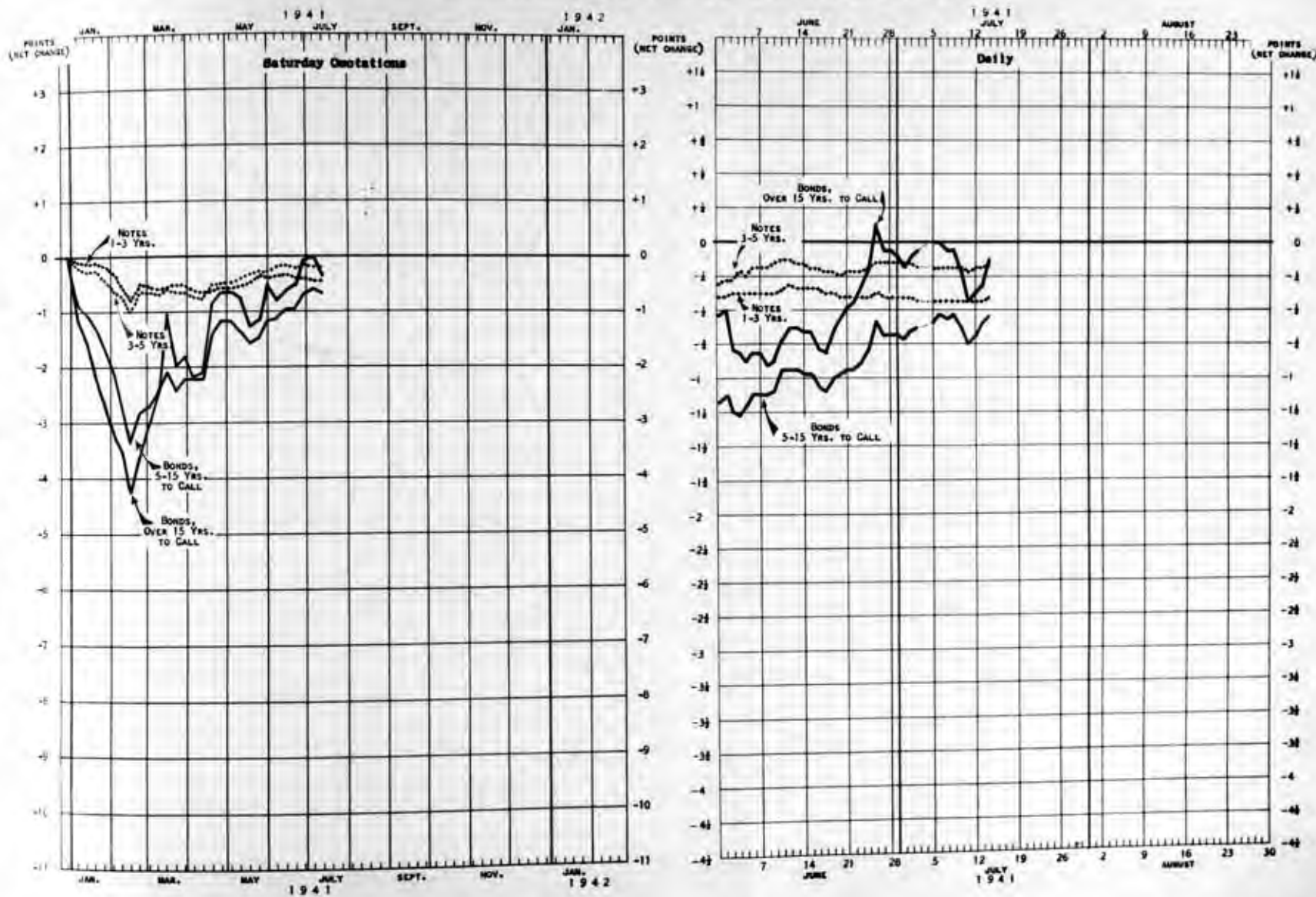


Chart II

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U S TREASURY AND AVERAGE OF HIGH GRADE CORPORATE BONDS

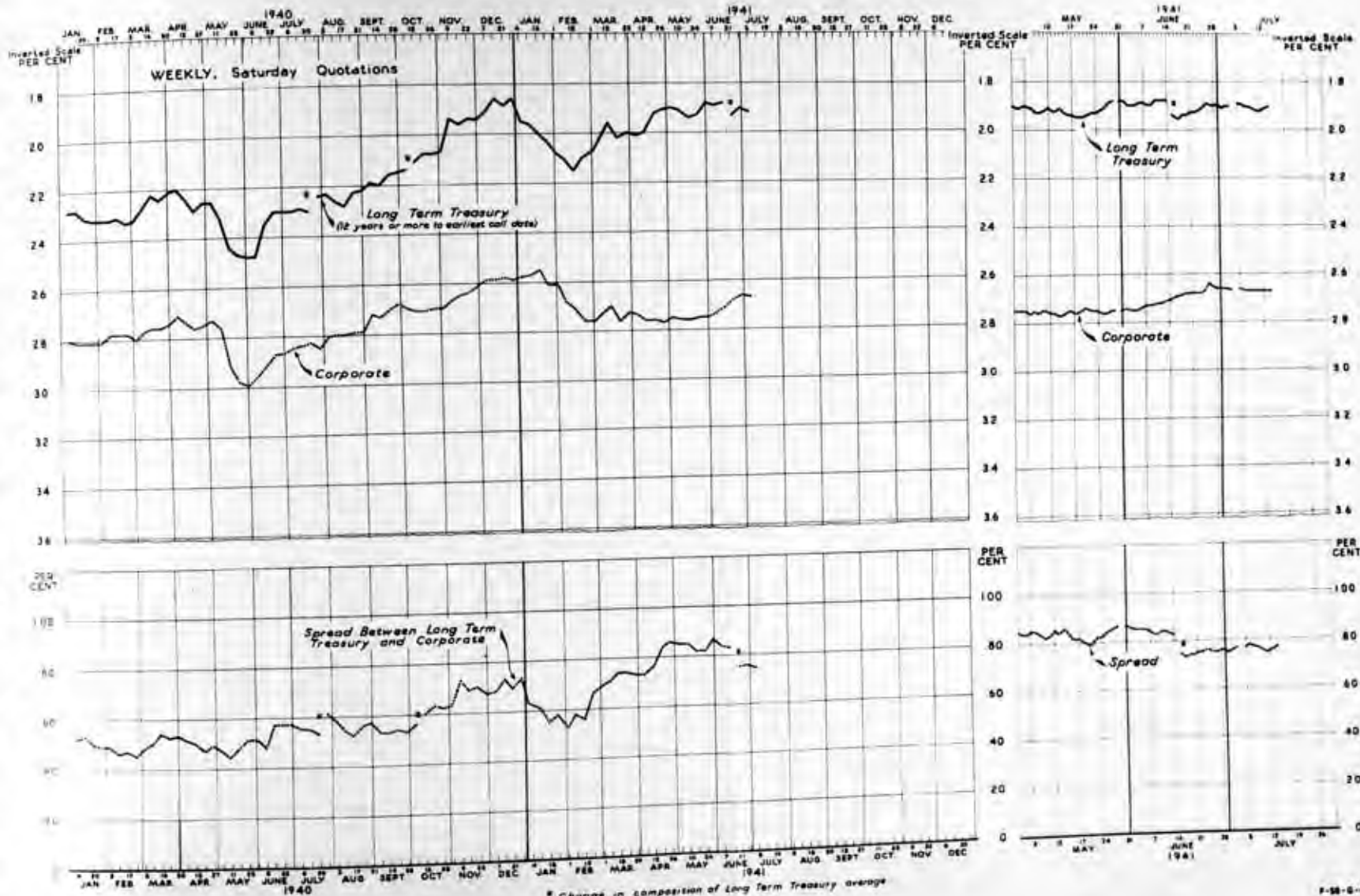
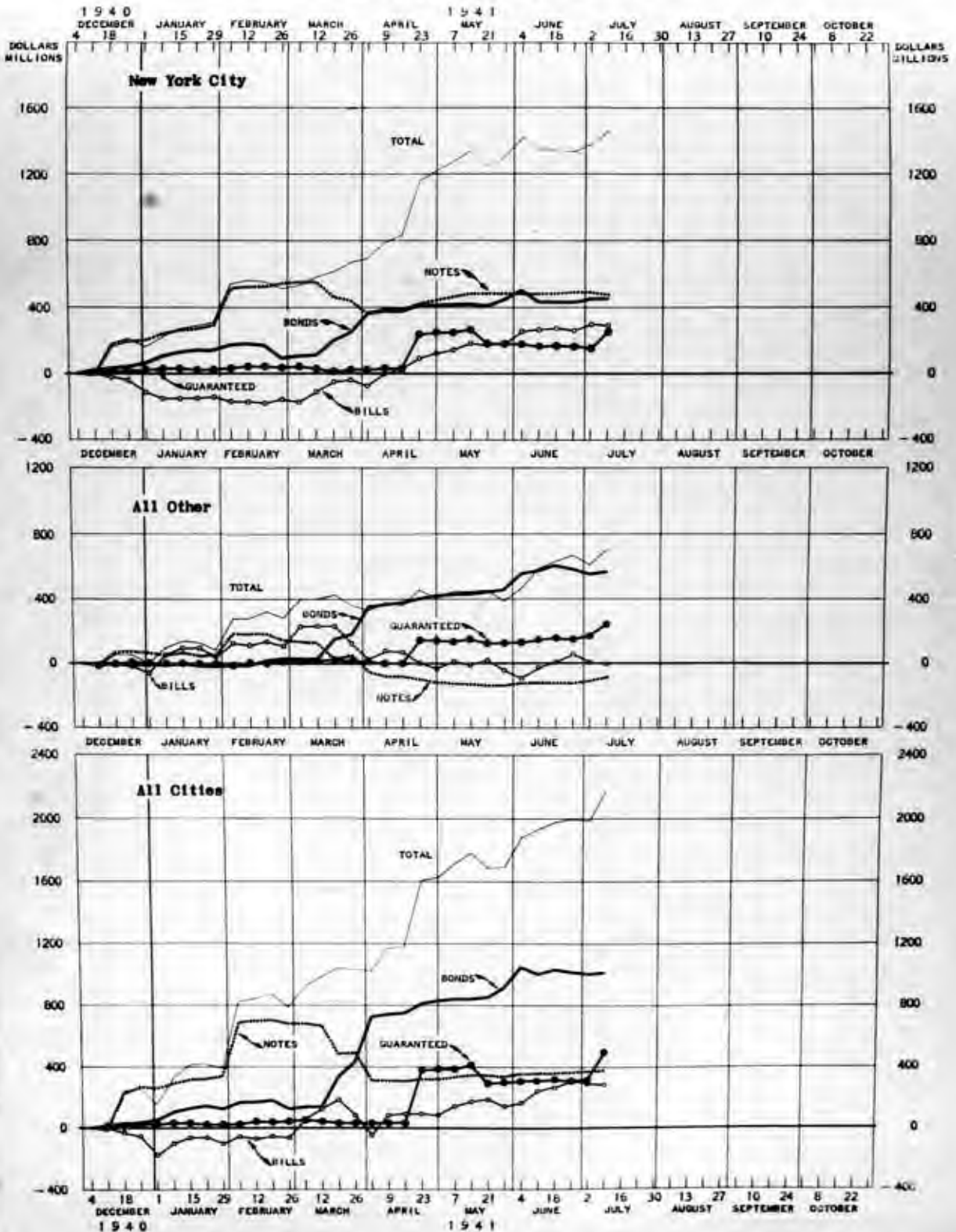


Chart III

U. S. GOVERNMENT SECURITY HOLDINGS, WEEKLY REPORTING MEMBER BANKS

Cumulative Net Change from December 4, 1940



379

CHAPTER IV
YIELDS OF TAXABLE GUARANTEED SECURITIES

Based on Closing Bids, July 15, 1941

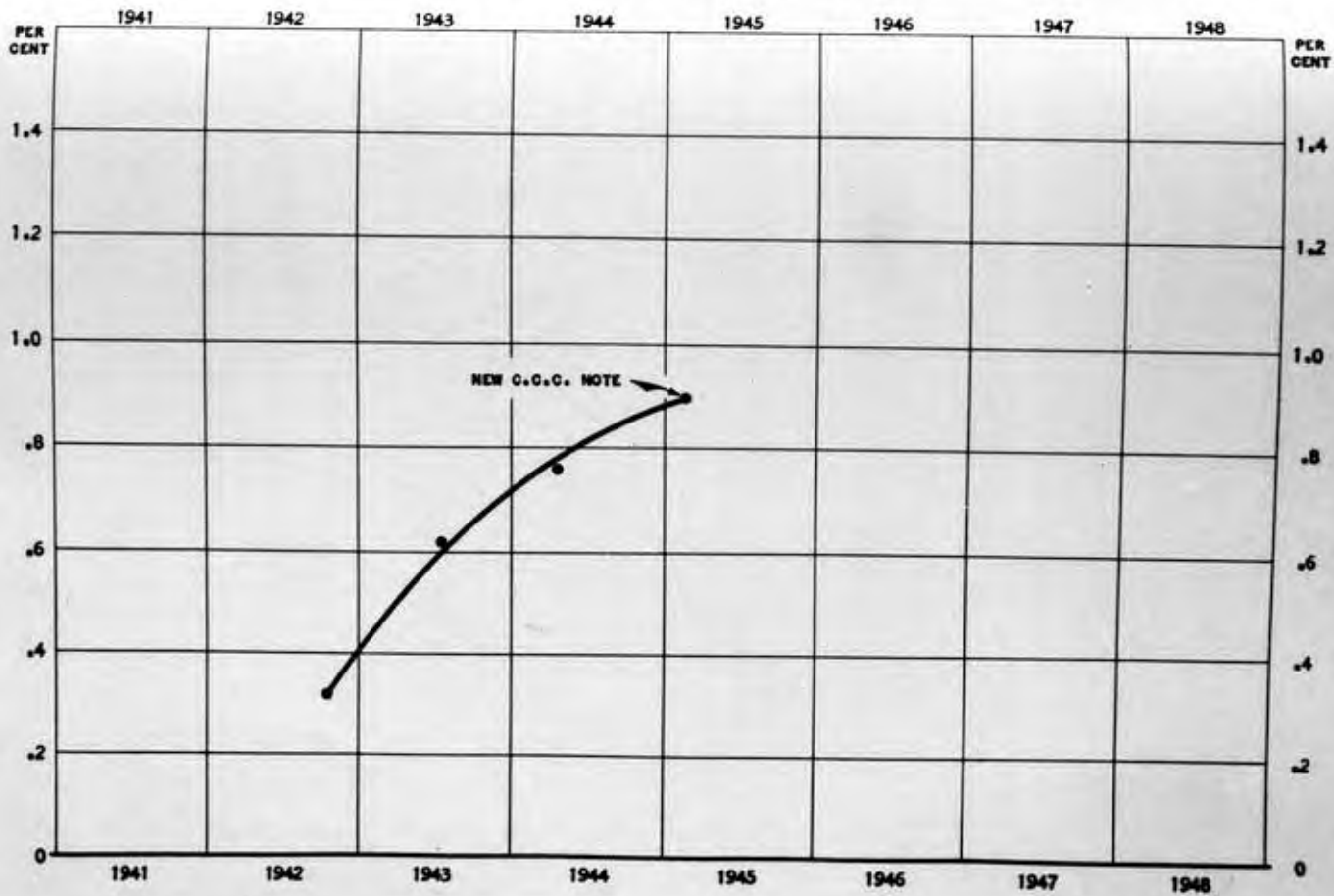
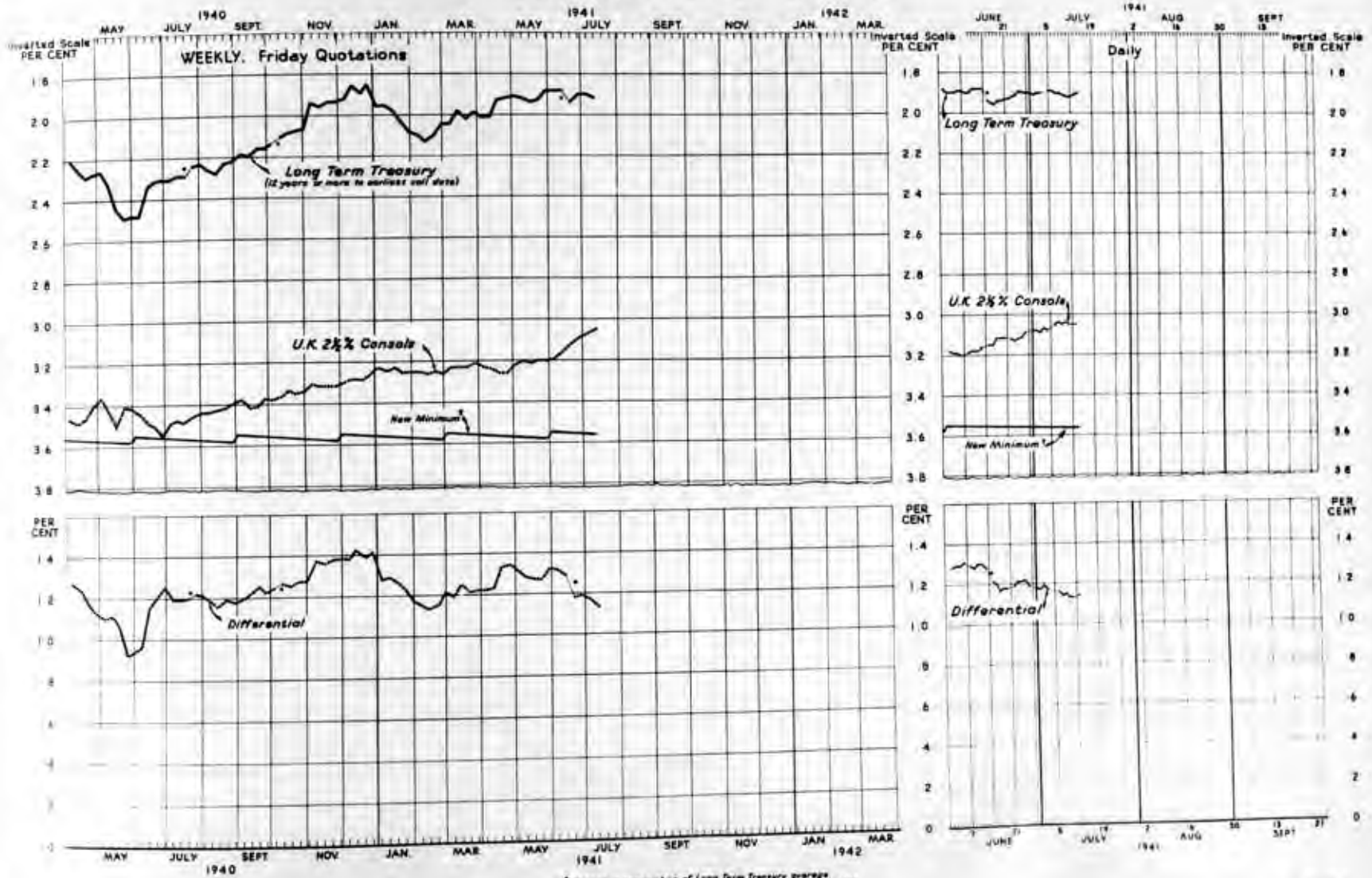


Chart V

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY BONDS AND U.K. 2½% CONSOLS



* Change in composition of Long Term Treasury average.
 † Fixed in terms of price, but varies in terms of yields.

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE July 16, 1941.

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£39,000
Purchased from commercial concerns	£13,000

Open market sterling closed at $4.03\frac{3}{4}$, as against a final quotation of $4.03\frac{1}{2}$ yesterday. There were no reported transactions.

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

Canadian dollar	11- $\frac{3}{4}$ % discount
Argentine peso (free)	.2380
Brazilian milreis (free)	.0505
Uruguayan peso (free)	.4380
Colombian peso	.5800
Mexican peso	.2070
Cuban peso	1- $\frac{5}{16}$ % discount
Japanese yen	.2358

In Shanghai, the yuan remained at $5\frac{5}{16}$ ¢. Sterling was quoted at $3.92\frac{1}{4}$, the decline of $2\frac{1}{4}$ ¢ cancelling yesterday's gain.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$3,185,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

In London, spot and forward silver were again fixed at $23\frac{3}{8}$ d, equivalent to 42.44¢.

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 $34\frac{3}{4}$ ¢.

We made no purchases of silver today.

- 2 -

The report of July 9 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 \$5,646,000, an increase of \$649,000 in the short position since July 2. Net changes were as follows:

<u>Country</u>	<u>Short Position July 2</u>	<u>Short Position July 9</u>	<u>Change in Short Position*</u>
England**	\$ 193,000	\$ 766,000	+ \$573,000
Europe	2,943,000	2,922,000	= 21,000
Canada	572,000 (Long)	421,000 (Long)	+ 151,000
Latin America	484,000	469,000	= 15,000
Japan	45,000	42,000	= 3,000
Other Asia	1,887,000	1,921,000	+ 34,000
All others	<u>17,000</u>	<u>53,000 (Long)</u>	<u>= 70,000</u>
Total	\$4,997,000	\$5,646,000	+ \$649,000

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

**Combined position in registered and open market sterling.

N.M.S.

CONFIDENTIAL

MEMORANDUM FOR THE SECRETARY.

Mail Report

July 16, 1941.

General mail has very much fallen off during the last week or ten days. Although the volume is not so great, the particular tenor of the mail continues in the same type and proportion it has been for some time.

Attacks on England, on convoys, and on any participation in the war continue to lead in numbers. There are 10 anti-England letters to one pro-England, and out of each 10, at least 3 attack cooperation with Russia.

Only 1 letter personally abusive of the Secretary has come in in the last ten days. It was anonymous. There are many abusive of the Administration, rather than any individual, largely on the basis of extravagance, but also because of the "President's desire to drag us into war, etc."

There are a few letters protesting strikes and urging curbs on labor, but these have fallen off.

The campaign against the proposed additional taxes on married couples continues very active.

The new radio hour elicited a great many suggestions, original poems, music, etc., but so far as the Secretary's mail is concerned, little direct comment either of praise or criticism. There were 3 letters after the last hour criticising the use of English songs, and 2 after the first hour criticising the fact that an English actor instead of an American one recited the Gettysburg Address.

Several Seattle citizens wrote praising the income tax investigation there.

There continued to be many suggestions as to methods of raising taxes -- horse races, dog licenses, bank accounts, real estate transfer taxes, etc., are frequently suggested. Protests are against joint returns, the record keeping necessary for small businesses, and the burden on the middle classes.

Handwritten: Forwarded to Mrs. Forbach each week
7/31/41

- 2 -

Memorandum for the Secretary.

July 16, 1941.

There are also many suggestions as to methods of increasing bond sales. There is much continued criticism of getting to banks or Post Offices in lunch hours or after the office. Many wish to have wage deduction or canvassing within plant or office where they work.

Comments from various letters follow:

W. T. Marshall, Tuxedo Park, Delaware, Tinsmith in Pa. Railway Shop, has bought \$1,400 worth of bonds. Will buy more. Has canvassed Wilmington shop and out of 73 tinsmiths, is only one who has bought. Doesn't know of any other buyer in plant of 2,000 except self and boss. On talking with fellow workers hears many wisecracks and is often offered a dime with the statement, "This is my all-out-aid". Believes resentment against scale of wages, rather than U. S., responsible for lack of enthusiasm. Also, banks closed before workmen can reach them, and Post Office too far away. If any representative of the Government -- not of employers, churches or labor unions -- were to canvass, believes it would have immediate result.

J. O. Nuckolles, Little Rock, Ark., notes we are still paying Senator Wheeler's salary. Doesn't loyalty to country apply even to Senators? Why pay salary to a man working for Hitler and not United States?

Among the letters from editors of country newspapers canvassed by Defense Bond staff are a number strongly expressed comments on Government drive for free advertising. The word "chiseling" is frequently used! Editors write that the Treasury can afford to spend a proportion of the money for launching the bond campaign in the advertising which the small paper desperately needs to maintain its existence. The country press gives liberally of its space to print releases from many Government Departments, and supports the drive editorially and by private purchasing. Why ask that it also contribute its very livelihood? One editor in Texas writes, "Seven out of ten letters we get are franked, and our private opinion (not agitated in our columns) is that it is high time a little economy was practiced in Washington, and tax-eating employees in the entire alphabet of Government agencies stop sending releases with the suggestion, 'publish this if it doesn't cost us anything'. We will cooperate -- but we are paying taxes, find the cost of paper and other commodities soaring, and the hick-town press is completely passed by when there is advertising appropriation to pass out".

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Memorandum for the Secretary.

July 16, 1941.

K. Morgan, Ann Arbor, Mich. Some who cannot conscientiously take part in military services, either actively or through purchase of Defense Bonds, would like to help carry peacetime burdens of Government. Could not the Government issue peace bonds for non-military purposes, bearing no interest? Many would be glad to buy at a sacrifice to show love of country.

A. H. Mogensen, New York City, suggests we print special cards to be used instead of Christmas greetings. Could be distributed through Post Offices, and would cost very little either to print or distribute. Cards would have some such legend as this — "By purchasing this special Defense Christmas Card I have turned over to the Treasury (or USO or other beneficiary) the amount I would ordinarily have spent for cards."

W. E. Staley, Los Angeles. Why I do not buy Defense Bonds -- the more this Administration has, the more it spends. The money is not devoted to National Defense, but goes in loans to China, Latin America, to crop control, and other pet projects. The President is doing all he can to provoke war, giving away our destroyers, occupying Iceland, etc.

C. H. Crandon, a County Commissioner, Director of the First National Bank, and leader in the defense work of Miami, Florida, writes that the food stamp plan was more or less forced upon the Board of County Commissioners, which now feels it is not wise or necessary. The writer has been asked to help push the sale of Defense Stamps and Bonds, and urges that a survey be made to undertake to determine whether the food stamp should be eliminated. Local welfare workers have reported that the plan has not only not been helpful, but has actually wasted public funds. He believes that the Government on one hand is coming into the community and encouraging public officials to waste money, and on the other hand, is asking them to save and invest in Government Stamps and Bonds.

A belated letter of praise for the Amherst speech came from Miss Ortha Vanerstrom, Seattle, Wash., who read what was printed in the Christian Science Monitor on June 24th. "It is a fine thing for the graduating class to hear that message from one who is not on the faculty, and from one who holds such an important position in the Federal Government. I liked the way you handled the subject, from the first line right down to the last period."

H. F. Foubush

C
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P
YCONFIDENTIALPARAPHRASE

A telegram (no. 867) of July 16, 1941 from the American Consul General at Shanghai reads substantially as follows:

There are reports current to the effect that the question of stabilization may affect financial activities of the Japanese in the Shanghai area and that the United States may yet "freeze" Japanese and/or Chinese accounts. The operation of the export license systems of the Philippine Islands and the United States and of similar systems by the Netherlands and the British territories in the eastern hemisphere reduce to a great extent Japan's opportunity to continue the use of Shanghai as a supply base for imported commodities. It is believed that the foregoing are factors which may result in the adoption by the banking regime and Japan of new strategy concerning the currency problem in East Central China and Shanghai.

The fact that the Yokohama Specie Bank at Shanghai is estimated to have sold during the two weeks ending July 14 in the Shanghai foreign exchange market US \$5,000,000 is significant. This may be, it is thought, part of a plan by means of which the Central Reserve Bank's foreign exchange reserves,

as

allegedly turned over recently to the Yokohama Specie Bank, are disposed of for the acquirement of alightly less than 100,000,000 national Chinese yuan with which Japan may purchase necessary materials out of the stocks remaining at Shanghai (?) or from the goods of the hinterland, since Japan's problems of supplies are no doubt growing more serious. However, it is possible that the above-mentioned sales of US currency may be representative of the reserves abroad of the Huahsing Bank.

The supposition is that Wang Ching-wei's regime will be allowed to use the 300,000 yen loan to accomplish objectives as follows: (a) acquiring fapi gradually in exchange for the military scrip yen borrowed from Japan, in this way depressing gradually the exchange value of the scrip yen to parity with Central Reserve Bank yuan issues and so breaking the way for the inclusion of the region within the yen currency and the economy bloc, and (b) obtaining in exchange for the fapi thus acquired services and goods with which to improve the administrative position of the Wang regime in this area. It is thought probable that this program, if carried out, will affect adversely the purchasing power of the fapi in this area and impair the position of the fapi with relation to the Central Reserve Bank currency which it is likely will be dissociated from its arbitrary temporary parity with fapi at a later date. Although these measures would not affect directly the exchange value of the fapi on the market at Shanghai (technically rates tend to be strengthened by the current sales of United States currency) such measures may affect

- 3 -

even more adversely the economy of the Shanghai area and the position of the Chinese currency. No doubt these moves when once started will have a tendency to affect adversely the economy of unoccupied China, especially if a back flow of fapi from East Central China to Chinese-controlled areas results, increasing the circulation in the Chinese-controlled areas, thus raising prices and, perhaps, making it possible for the Wang Ching-wei regime to buy with fapi goods from unoccupied China.

Copy:lg 7/21/41

July 16, 1941

Dear Mr. Seong:

Thank you for sending me the latest telegram from Berlin. I have forwarded it to the President.

Yours sincerely,

(Signed) E. Morgenthau, Jr.

Mr. T. V. Seong,
2817 Woodland Drive,
Washington, D. C.

July 16, 1941

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2817 WOODLAND DRIVE
WASHINGTON, D.C.

July 15, 1941

Dear Mr. Magenthan,

I take the pleasure of sending
you copy of a telegram that might prove of
interest, although it was dated the ninth.

With kind regards

Yours sincerely
Walter Dill Scott

TELEGRAM FROM BERLINJuly 9th, 1941

Staunch resistance of Soviet troops entirely unexpected by the General Staff, which had hoped to achieve a break through in a few days, entrap and destroy the main Red armies and destroy their fighting strength, and secure the crops and industrial areas intact.

So far the Soviet line is unbroken, their armies are making orderly retirement according to plans, and destroying everything in the areas they are evacuating.

If, in the scheduled time, the German army cannot achieve the collapse of the Soviet armies, it will affect their entire military plans and the situation of Germany.

After careful consideration I propose to come to the United States and report to you before returning to Switzerland.

July 16, 1941

My dear Mr. President:

Mr. T. V. Seong has given me another message which he has received from Berlin. I am enclosing a copy herewith.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

By Messenger

A. M.
Secret Service

July 16, 1941

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The President,
The White House.

By Messenger

*A. M.
Sewer Sewer*

July 16, 1941

My dear Mr. Ambassador:

If you are furnishing the President or our Army and Navy with military information on the progress of the war between Russia and Germany, I would appreciate it if you would also let me have copies which I would treat confidentially.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

His Excellency
The Ambassador of the Union of
Soviet Socialist Republics,
Washington, D. C.

4:25 pm
7/14/41

July 16, 1941

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7/16/41
7:25

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His Excellency
The Ambassador of the Union of
Soviet Socialist Republics,
Washington, D. C.

4:25 pm
7/16/41



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
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July 16, 1941

My dear Mr. Secretary:

As you will recall, during the fall of 1940 we had under consideration an exchange of notes between the Soviet Ambassador and myself in which it was proposed to give assurances to the Government of the Union of Soviet Socialist Republics that no prohibitive or restrictive measures would be applied by the Government of the United States to the export or import of Soviet gold or silver which would not be applied to all other countries. In view of certain considerations of an international character the contemplated exchange did not take place.

The Soviet Ambassador has brought up this question again and desires to effect an immediate exchange of notes on this subject. He has furthermore suggested that this exchange
be

The Honorable

Henry Morgenthau, Jr.,

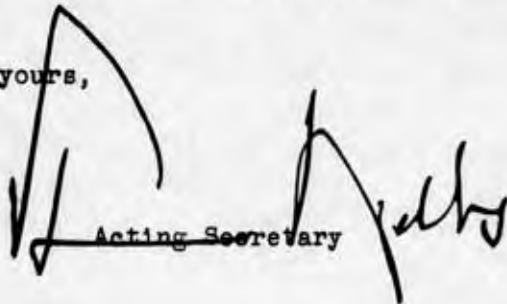
Secretary of the Treasury.

-2-

be connected with, or perhaps form a part of, the commercial agreement between the Soviet Union and the United States which is to be renewed in the immediate future.

I am enclosing herewith draft copies of the notes which we propose to exchange, subject of course to your approval, and I would appreciate receiving from you at your earliest convenience any comments which you may wish to make on these draft notes.

Sincerely yours,



Acting Secretary

Enclosures:

Draft copies of notes.

RECEIVED

1941 OCT 13 AM 11:00

SECRETARY OF STATE
OFFICE

My dear Mr. Welles:

For a number of years purchases by the Union of Soviet Socialist Republics in the United States of America have greatly exceeded exports from the Soviet Union to the United States and it is probable that this condition will continue to exist for some time. In view of this situation the Government of the Union of Soviet Socialist Republics may find it desirable to export gold to the United States of America in an amount sufficient to enable it to meet obligations which it has already made or the making of which is under contemplation. It would, therefore, appreciate assurances from the Government of the United States

that

The Honorable

The Secretary of State.

-2-

that the State Bank of the Union of Soviet Socialist Republics will be permitted without hindrance to export gold into the United States for the purpose indicated, that the Treasury of the United States will purchase such gold, and in particular that the Government of the United States of America will not take with respect to the Union of Soviet Socialist Republics any measures prohibiting or curtailing exports or imports of gold or silver which shall not be applied with respect to all other countries.

I am, my dear Mr. Welles,

Very sincerely yours,

My dear Mr. Ambassador:

The receipt is acknowledged of your note of 1941, in which you state that the Government of the Union of Soviet Socialist Republics would appreciate certain assurances from the Government of the United States relating to the purchase of Soviet gold in the United States.

In announcements of January 31 and February 1, 1934, the Secretary of the Treasury stated that, until further notice, the United States would buy gold imported from abroad at the rate of \$35 per fine troy ounce, less the usual

His Excellency

Constantine A. Goumanov,

Ambassador of Union of Soviet

Socialist Republics.

-2-

usual mint charges and less one-fourth of one percent, all subject to compliance with the regulations issued under the Gold Reserve Act of 1934. Such gold purchases have been made continuously thereafter and without discrimination.

The foregoing continues to be the policy of the Government of the United States and assurances are given to the Government of the Union of Soviet Socialist Republics that no prohibitive or restrictive measures will be applied to the export or import of Soviet gold or silver which will not be applied to all other countries.

I am, my dear Mr. Cumanisky,

Very sincerely yours,

EM:SP:LIS
7/15/41

With-best compliments 407
from

OUNT R. N. COUDENHOVE-KALERGI
PRESIDENT OF THE PAN-EUROPA UNION

2501 PALISADE AVENUE

NEW YORK CITY

July 16, 1941

My dear Mr. President:

Count R. N. Coudenhove-Kalergi called on me today and gave me, in confidence, the following suggestion:

"To transform Liberia into an American Bridgehead in Africa.

1. By an understanding with the Liberian Government, analogue to its recent agreement with Iceland, the U.S.A. could assure a strategical bridgehead in Africa at the narrowest part of the Atlantic, without risking any conflict with France, Portugal or other European powers.
2. An American naval and air-basis in Liberia would enable the U.S.A. to control all communications between West Africa and South America.
3. This American stronghold in Africa would back decisively the resistance of the French government and of its African Empire against any German attempt to invade North-Africa or to seize or control Dakar.
4. Liberia might eventually be considered as within the Western Hemisphere, if the Date-Line is accepted as its natural geographic limit."

-2-

The suggestion seems sufficiently interesting
to pass along to you.

Yours sincerely,

The President,
The White House.

P. S. Count Coudenhove-Kalergi, as you probably know,
is President of the Pan-Europa Union.

July 16, 1941

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3501 PALISADE AVENUE
NEW YORK CITY

SUGGESTION to transform Liberia into an American Bridgehead in Africa.

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2145
Kalerigi

415

MRS. HENRY MORGENTHAU
BAR HARBOR
MAINE

July 13/41

My dear Count Londenhaven,
Kalerigi!

I spoke to my son
to day & told him I would
give you a letter of introduction
to him - so he will expect you

Please communicate with
his Secy Mrs Klotz & she will
arrange an interview - Show
her this letter -

With kind regards
Yrs sincerely
H. Morgenthau

Institute of Public Affairs
University of Virginia
Charlottesville, Virginia

Morning Address
Friday
July 4, 1941

Topic: Post War Problems

THE FUTURE OF EUROPE AND AMERICA

Address by Count R. N. Coudenhove-Kalergi: President, Pan-Europa Union;
Author, Europe Must Unite; The Totalitarian State Against Man; The Technical Revolution; The Struggle for Pan-Europa; etc. New York, New York.

"The conception of a United States of Europe is right. Every step taken to that end which appeases the obsolete hatred and vanished oppressions, which makes easier the traffic and reciprocal services of Europe, which encourages its nations to lay aside their precautionary panoply, is good in itself - is good for them and good for all."

Winston Churchill (1930)

The main issue of this war is the future of Europe: whether this artificial continent will join the West or the East, America or Asia.

If Europe joins the West, an "Atlantic Union" of Western Civilization, embracing Pan-America, Pan-Europe, and the British Commonwealth will become the most powerful association on earth, capable of assuring a century of peace, progress and prosperity.

But if Europe should join the East, then a totalitarian world would emerge, embracing the whole of Europe, Africa and Asia. The democratic New World would be confronted by ^a Totalitarian Old World, combining its strong forces to smash Western Civilization, and to replace it by other anti-democratic forms of life.

After this war the Atlantic will either become a huge bridge between Europe and America, uniting them by a stream of common ideals and interests - or a deep abyss, separating two hostile worlds, continents, and civilizations.

The issue of this war therefore is decisive not only for Europe, but also for America and for the world.

This war cannot be understood as a mere conflict between nations: for it is a decisive struggle between three utterly different principles of life, represented by three very different men: by Churchill, Hitler, and Stalin.

Each of these three men is fighting for a Europe and for a world following his proper conceptions:

Churchill as champion of Western Civilization;

Hitler as champion of Nazism;

Stalin as champion of Bolshevism.

Churchill's victory would affirm Europe as a part of the great world of Western Civilization, organizing it as a reliable and permanent partner and ally of the Americas.

Hitler's victory would transform Europe into the center of a new Nazi-world, profoundly hostile toward America, its ideals, its interests, and its principles of life.

Stalin's victory would condemn Europe to become a part of the Soviet Union, equally hostile against everything America stands for and lives for.

Hitler and Stalin are both fighting for a Union of Europe, but for a Union that would transform all Europeans into slaves.

Hitlers's Europe would be based on German domination, Nazi-dictatorship and his personal tyranny.

Stalin's Europe would be based on Russian domination, Bolshevik dictatorship and his personal despotism.

In both cases Europe would become a deadly enemy of America.

For both men, and their systems, aim not only at the domination of Europe, but of the entire planet. Triumphant in Europe, controlling Africa, and

Count Coudenhove-Kalergi

3

backed by Asia, they would, without delay prepare the siege, the revolution and conquest of America as the decisive step toward their world-domination.

Therefore America's future only can be secured if Churchill triumphs over this totalitarian peril. Britain's victory alone can save Europe from barbarism, and America from utter isolation.

To assure a bright and peaceful future for America, for Europe, for Britain, and for the World, an Allied victory is the first, the most essential, but not the only condition. The years that followed the Allied victory of 1918 have proved that even the most brilliant military triumph remains futile, if followed by a fragile and stupid peace.

Victory alone cannot guarantee our future, but only a victory completed by a stable and constructive peace.

Our first task then is to win the war, our second task to win the peace.

Just as war must be prepared in peace-time so must peace be prepared in war-time. No one can know when, and by what surprising events, peace may become possible. It would then be a disaster, if the Allies had to improvise a peace-treaty, only to end the war, and neglect to prepare in advance a solid and lasting peace-order as a gateway toward a new and better era of history.

Hitler and Stalin know exactly what kind of a world they would attempt to create after their eventual triumph.

Hitler would organize Europe under German domination, and Germany under Nazi dictatorship. After having crushed the Soviets, and having transformed Russia into a German colony, he would attempt to encircle the United States from the West, East, and South, preparing her collapse, disintegration and destruction. Finally he would preach a racial crusade against his Asiatic ally, as a final step to conquer the Globe.

Stalin works with different means toward a similar aim. All his

policies aimed to prolong the wars in Europe, and in Asia, until Hitler and the democracies as well as Japan and China would be utterly exhausted, starved, and ruined. Then he hoped to pick in five continents the ripe fruits of his revolutionary agitation, using a bolshevist Germany as his main instrument for the conquest of Europe, and a bolshevist China for the conquest of Asia. From these two points he hoped to carry his world-revolution across the Atlantic and the Pacific, to undermine and to conquer the last stronghold of liberty: America.

Compared with these world-embracing war aims of Hitler and Stalin, Britain's vision of a New World remains rather uncertain. Yet the declared British war-aims can be resumed in a threefold program:

- 1.) To overthrow Hitlerism.
- 2.) To break forever Germany's domination over Europe.
- 3.) To organize an era of world-wide peace and general prosperity.

It is obvious that the liquidation of Hitlerism is the key of this entire program. If Hitlerism is overthrown, Britain has won the war; if Britain is obliged to sign any peace with Hitler, she will have lost the war.

For any peace-treaty with Hitler would be but a screen to hide his preparations for a surprising and final assault against England. The experience of more than a dozen nations which trusted in Hitler's pledges until they were suddenly invaded and smashed, have shown that no negotiated peace is conceivable with men who consider peace-promises only as instruments of aggression. Neither disarmament, nor reconciliation, nor prosperity, could follow such a negotiated peace with Hitler, or any of his Nazi successors. Britain faces the alternative of either smashing Hitler, or to be smashed by him.

Britain can smash Hitler, either by crushing his army - or by provoking a military upheaval in Germany that would crush Nazism and open the path to peace-negotiations.

A decisive military victory for Britain, over Germany, would certainly be possible, after the conquest of the European skies with the help of American production. But such an effort would mean a long war with incalculable consequences.

Therefore, the second alternative of a military upheaval ought not to be neglected. Today the German army with its national aims, and the Nazi Party with its party-aims, are not friends, but allies. This alliance will be maintained as long as the army-chiefs hope that Hitler will end the war by a crushing victory over Britain. But as soon as the army-chiefs become aware that such a military decision has become impossible, and that Britain will never negotiate with Hitler, they will take the government into their own hands to obtain an honourable peace, and to save Germany from utter destruction.

Britain can promote such an evolution, by barring definitely all possibilities of peace-negotiations with a Nazi-Germany, and by offering simultaneously, an honourable peace to any German government that will overthrow Nazism, on the following terms:

- 1.) Re-establishment of the Rights of Man and the Rule of Law in Germany:
- 2.) Guarantee of Germany's pre-invasion frontiers of 1937:
- 3.) Formation of a European Federation limiting national sovereignty in the framework of an Atlantic Union with Britain and America.

It is evident that no victorious Germany will be ready to accept such terms; but they might be very welcome to a German army and government after decisive military reverses.

The second British war-aim is to put an end forever to Germany's domination over Europe, just as Great Britain put an end to the Spanish hegemony of Philipp II. and to the French hegemony of Napoleon. This war-aim is not only directed against Nazism, but also against every other form of Pan-Germanism,

Count Coudenhove-Kalergi

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because any form of German domination over Europe could only be maintained by force and by armaments, threatening the peace and the life of Britain.

The first guaranty against such a German hegemony would have to be the re-establishment of the German pre-invasion frontiers of 1937. Should Germany maintain control over Austria, Hitler would remain in German public opinion the creator of Greater Germany, and his regime would be glorified in spite of all sacrifices. If Austria remained in German hands, the independence of the Czechs would be doomed - and with their independence the independence of the Poles.

Controlling Austria, and the Sudeten-region, Germany even after its defeat would remain the master of Central and Eastern Europe, and hence the potential master of Europe.

Therefore the future delimitations in Europe cannot be based on the principle of nationality, but on the principle of balance.

Should every linguistic group in Europe be recognized as a single national state, then Germany would constitute in the center of Europe a huge state of 85 millions of inhabitants. This Pan-Germany would be surrounded by a dozen of much smaller and weaker states, the largest of which would be France and Italy with only 45 millions each.

It is obvious that nothing could prevent the predominance of this German block and its future attempts to rule the continent. Therefore Europe must be based on the principle, that the general interest of the Continent must prevail over all regional or national aspirations of its sections.

Europe must learn to consider itself as a single great nation, like the United States or China, or India - in spite of the diversity of its languages, religions and traditions.

This European Nation was united for centuries by the Roman Empire, and

again for centuries by the Roman Church. Now this community is totally disorganized, and will have to be re-organized again into a Federal System at the end of the war.

To prevent German hegemony, Europe must break with its pre-war structure, when three or four great powers were surrounded by some two dozen weak little states. This fatal system will have to be transformed into a new system of balance, setting an end to German predominance, and paving the way toward equality, collaboration, and reconciliation.

This balance of power would demand the organization of federal groups within the framework of a United Europe. Such regional groups might be formed by each of the four main peninsulas of Europe: The Balkan, Scandinavia, the Iberian, and the Italian; a fifth group could be organized by the four Western Democracies: France, Belgium, Holland, Switzerland; a sixth group by the four Catholic states of Eastern Europe: Poland, Czechoslovakia, Austria, Hungary. Germany then would constitute a seventh group, without dominating its neighbours nor being dominated by them. If she ever should try to resume her policies of pan-Germanism, she would immediately be stopped by her strong and united neighbours.

To overcome forever the threat of German hegemony such a system of European balance would have to be combined with the principle of European Federalism, depriving Germany, and all the other continental states, of their unlimited sovereignty, in order to prevent new European wars.

Such a Federation would have to organize its Federal Government and Parliament; its Federal Army and Supreme Court; its Federal Economy and Reserve Bank; its Federal Police and its Federal Bill of Rights, for all citizens of the United States of Europe.

Europe does not need any artificial blueprint for its Federation,

Count Coudenhove-Kalergi

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because it has worked out during the last three generations an excellent model of the future United States of Europe. This model is Switzerland. Here 25 little states of different tradition, origin, language, religion, and economy, have constituted a Federation that has found ideal and practical solutions for all problems confronting European Federalism. Europe would only have to follow this very successful example - to find the way to permanent peace and general prosperity.

The Federal executive of Switzerland is formed by a Federal Council of 7 men, elected and always reelected by the Senate and the Parliament. Each of these seven men is the chief of a separate Federal Department: State, Commerce, Finance, Justice, Interior, Army and Transports. Every year another member acts as chairman of this executive board, with the title of the President of the Swiss Confederation.

Each of the 25 Swiss Canton-States has complete self-government, but the army, the supreme Court, the monetary system, the foreign and economic policy - the federal policies.

In Switzerland there is no national, religious, or racial oppression, because the Federation guarantees to all Swiss citizens the same human rights.

There is also no shade of national hegemony in spite of the fact that three quarters of the Swiss population are of German breed and tongue. But this German-speaking majority is not united to a single dominating canton, but split up into a system of balance. Moreover the Swiss Constitution stipulates that all of the Federal Counsellors originate from different cantons, - a very wise stipulation indeed, that Europe would have to adopt in its future Federal Constitution.

If Europe accepts the principle of Swiss Federalism, its different states should be able to maintain their traditional political systems as far as

they are not in contradiction to European collaboration and civilization. This means that neither Nazism nor Bolshevism would be tolerated within the European system; but that for instance, Holland could maintain its democratic kingdom, and that Austria should be allowed to reestablish its traditional monarchy to prevent a new Anschluss-movement in the very interest of European balance, peace and order. Such democratic monarchies should collaborate loyally with their republican sister-states under the control of the Federal Government.

As for the linguistic problem of Europe, it could find an easy solution, if the leading language of the West, English, would be introduced as a second language in all schools throughout the continent.

Although it is evident that no lasting peace nor prosperity in Europe are conceivable without some kind of Federation, many Europeans are opposed to this idea because they decline to become co-citizens of their German oppressors. They demand either the exclusion of Germany from the European system, or its transformation into a kind of European "Ghetto".

They do not understand, that no solid European Union can be organized without or against the Germans. They do not understand that any such attempt would only drive Germany into the arms of Russia, because this overpopulated country cannot live in a state of isolation, but must choose between East and West.

A German-Russian block, reaching from the Rhine to the Bering Strait, and eventually allied with Asia, would be a formidable and permanent threat against Western Europe, even if its democracies were backed by Britain and America.

To break the German threat some are advocating to split up the German Reich into a series of little states, instead of neutralizing German predominance by a European Federation.

Although a transformation of German centralism toward federalism would facilitate reconciliation in Europe, a destruction of German unity by force would risk the creation of a new and fierce movement for national unity and revenge among the Germans, thus threatening European peace.

Therefore Europe must deprive Germany of all means of revenge, without creating new elements of hatred, fear, misery and oppression.

The Germans will have to be assimilated by the West and not excluded. Therefore they will have to receive equal access to the raw-materials, and equal economic and individual opportunities shared by all Europeans.

The peace of tomorrow should not be based on hatred and revenge like the peace of 1918 - but on reason and cooperation like the peace of 1815, which put an end to the long period of Napoleonic wars and invasions.

After twenty years of continental invasions, started by the French Revolution and continued by Napoleon, the Allies concluded a lasting peace with France. This peace was signed with an anti-Napoleonic French government, after France had restituted all its conquests of 20 years, and was ready to participate on equal terms in a system of European reconstruction.

This reconciliation became possible, because the Allies had thrown the entire responsibility of the French era of invasion on Napoleon and his system, without trying to punish, to isolate, or to humiliate, the French nation in spite of its obvious complicity.

The striking success of this method compared with the failure of the punitive peace of Versailles, indicates the way toward European reconstruction and reconciliation. This is the same way Lincoln chose after victory in the Civil War, assuring permanent peace by collaboration, and granting equal rights to the vanquished within a strong Federal system.

Only such a system of European Federation, balance, solidarity and control can enforce the second British war-aim: to break German hegemony and to

Court Coudenhove-Kalergi

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assure Europe against any future German attempt at invasion or domination.

Only such a United States of Europe, following the Swiss model, could assure Europe against hegemony, and open an era of Continental peace and prosperity. But it could, by itself, not assure the third British war-aim: World Peace.

This world-peace is inconceivable as long as Europe remains in its pre-war state of anarchy, economic division and national rivalry. Should such a dismembered Europe again survive the war America and the British Empire would risk involvement every twenty years in a new European conflagration.

But even a United Europe could only prevent international wars by a close and permanent association with the British Commonwealth and the American Republics.

After the war, the world will presumably be divided in five huge groups: The British Empire, Pan-America, Russia, Pan-Europe, and the Far East. The sino-Japanese war will probably end with a federation between the belligerents, just as the European war will probably end.

Among these five huge groups three are associated by a common civilization and traditions: Pan-Europe, Pan-America and Britain.

The future of Russia remains uncertain and the Far East represents a very different way of life with its own ideals, interests and aspirations.

Therefore the Atlantic Family of nations must form a closer association to assure an era of lasting peace, to defend its territory, and its common civilization, and to assure a rising standard of general prosperity.

Such an Atlantic Union would be strong enough to maintain an air-fleet and a navy capable of enforcing peace all over the world against any potential coalition, and to assure peaceful solutions of all eventual conflicts in the Pacific and at the eastern borders of Europe.

This Atlantic Union is not only a necessary consequence of the growing development of the Far East, but also of the fact, that Britain is linked by inseparable bonds with Europe as well as with America. She never can separate her fate from that of the European Continent, although the inter-continental character of her world-embracing Empire prevents her from becoming a member of a European Federation. But she also can never separate her destiny from that of the United States of America.

Therefore her mission is to form a living bridge across the Atlantic with England and Canada as main bridgeheads.

This necessary Union between Europe and Britain in the East, America and Britain in the West, assures an adequate Union between the European and the American continents, embracing Africa and Australia.

The closer and sooner such an Atlantic Union between all nations of Western Civilization develops, the better for Europe, for America and for Britain. Such an association would have to be based on common ideals, and interests, on a common policy of defense, on a common economic system, and a common respect for International Law.

Such an Atlantic Union, emerging from a British victory, would transform the Atlantic Ocean into the Mediterranean Sea of our era; its coasts would become the natural centers of a common civilization, like the coasts of the Mediterranean during the long and prosperous period of Roman Peace.

This Atlantic Union, based on the great combined ideas of Pan-Americanism, Pan-Europe, and the Union of English-speaking nations, could alone assure the third of the British war-aims: the establishment of an era of lasting peace and of general prosperity.

The world of tomorrow will have to develop three different organizations, replacing the ill-fated League of Nations after its failure to organize

Europe and the world to a single Federal system.

- 1.) A universal, but unpolitical League of Nations, embracing the whole world, for economic, scientific, medical, moral, and technical issues, and continuing the successful non-political activity of the former League.
- 2.) An Atlantic Union, organized as a system of political, economic, military, and monetary cooperation between a reformed Panamerica, a reorganized British Commonwealth and an organized Pan-Europe as guardians of international peace and Western Civilization.
- 3.) A United States of Europe, transforming the European Continent with its colonies into a Federal State, organized after the democratic example of Switzerland.

Every research-work toward the future peace will have to follow these three outlines.

It would be very wrong to consider the plans for a new League of Nations, for a closer Union between America and Britain, and for a United States of Europe as antagonistic aims, rather than coordinating them to a single system of post-war peace and international collaboration.

But we must draw the lessons from the past, and understand why the generous but unpracticable idea of a world-wide League of Nations has been such a failure.

We also must understand that any Union limited to Britain and the United States would provoke the organization of a contra-union between Europe and Latin-America, thus splitting up the world of Atlantic civilization into two hostile groups, instead of uniting it.

We must understand that the future of Europe, of America and of Britain,

are so closely linked, that neither of them can tolerate the decline of the others in its own vital interest; and that the future of our common Civilization depends on such a Union with all its moral and material strength.

While Europe is enslaved, and Britain involved in a heroic struggle for its life and future, America can prepare this great reconstruction of the world.

This great Reconstruction would have to follow the main principle of American life and politics: Federalism. For this grand principle unites liberty with cooperation, and peace with power. It is the soul of the American Constitution and the goal of Pan-Americanism.

In this American spirit the United States of America should become the natural sponsor of the United States of Europe, and in closest association with Britain build up the Atlantic Union of peace, prosperity and liberty.

Then the prophecy will be fulfilled, pronounced almost a century ago by the great French poet Victor Hugo:

"The day will come when these two huge Unions: The United States of America and the United States of Europe, will face and greet each other across the Ocean, exchanging their goods, their commerce, their industry, their art, and their genius - to civilize the planet, to fertilize the deserts, to improve creation under the eyes of the Creator; and to assure the greatest benefit for all by combining these two infinite forces:

The brotherhood of man, and the might of God!"

C
O
P
YDEPARTMENT OF STATE
DIVISION OF THE AMERICAN REPUBLICS

July 16, 1941

Mr. Cochran:

These documents were left with me by the
Colombian Ambassador.

E. G. Collado

(Initialed) E.G.C.

COPY:lap-7/16/41

COPY

(TRANSLATION)

DECREE NUMBER 548 OF 1940

(March 16)

by which are formulated certain regulations concerning the Fund dealt with in Clause 4 of the contract of October 31, 1934, authorized by Law 7 of 1935.

THE PRESIDENT OF THE REPUBLIC OF COLOMBIA exercising the extraordinary powers conferred upon him by Article 1 of Law 54 of 1939,

DECREES:

Article 1

In accordance with the powers granted by Paragraph b) of Article 1 of Law 54 of 1939, the Government is authorized to come to an agreement with the Banco de la Republica (Bank of the Republic) upon a change in the contracts in force concerning the establishment, organization and functioning of the Stabilization Fund, dealt with in Clause 4 of the contract of October 31, 1934, authorized by Law 7 of 1935, and which (Fund) shall have an independent legal personality.

Article 2

In contracts which are made according to the provisions of the above Article, there may be stipulated:

a) - An increase in the capital of the Fund through contributions of the Government, the Banco de la Republica, or both.

b)

- b) - The power of the Fund to make, in a form to be agreed upon with the Office of Exchange and Export Control, contracts for the purchase and sale of foreign exchange, on either a sight or future basis.
- c) - The power of the Fund to contract loans in legal currency or in foreign currencies (divisas), and to negotiate promissory notes, drafts, bills of exchange and other certificates of debt.
- d) - A guarantee by the Government and the Banco de la Republica of the operations of the Fund.
- e) - The reorganization of the Management of the Fund.
- f) - Other changes in the present organization which may be necessary for the proper fulfillment of the functions assigned to it.

Article 3

The Government and the Banco de la Republica are hereby authorized to make loans to the Stabilization Fund in legal currency or in foreign currencies (divisas), and to increase their contributions to the capital of the said Fund in the amount considered necessary to enable the latter to function properly.

Article 4

The Office of Exchange and Export Control is authorized
to

-3-

to hand over to the Stabilization Fund requests for the purchase of international exchange, approved in accordance with existing regulations, and which have been covered by exchange contracts made by the said Fund or through its intermediary.

The above shall be communicated and published.

Given at Bogota on March 16, 1940.

EDUARDO SANTOS.-

Carlos Lleras Restrepo.-

Minister of the Treasury and Public Credit

copy:kma
7/17/41

DECREE NUMBER 669 OF 1940
(April 5)

by which a contract is approved and certain measures are ordered concerning the Banco de la Republica.

-THE PRESIDENT OF THE REPUBLIC OF COLOMBIA,
exercising the extraordinary powers conferred upon him by Article 1 of Law 54 of 1939.-

DECREES:

Article 1.- The following contract is hereby approved:

"The undersigned, namely: Carlos Lleras Restrepo, Minister of the Treasury and Public Credit, having been duly authorized by His Excellency the President of the Republic, who in the text of this contract will be called the Government, on the one hand, and Julio Caro, in his capacity as Manager of the Banco de la Republica, having been duly authorized by the Board of Directors of the said bank, on the other hand, who in the text of this contract will be called the Bank, bearing in mind the stipulations in the agreements of October 31, 1934 and November 23, 1938, made between the Government and the Bank and, as authorized by Extraordinary Decree No. 548 of 1940, have drawn up the contract as shown below:

First.- The Stabilization Fund dealt with in Clauses 4 and 5, respectively, of the contracts of October 31, 1934 and November 23, 1938, made between the Government and the Bank,

shall

- 5 -

shall exercise, in accordance with the provisions of Article 1 of Extraordinary Decree No. 548 of 1940, the rights and prerogatives of an autonomous legal person.

Second.- In accordance with the provisions of Clause 5 of the above-mentioned contract of November 23, 1938, the Stabilization Fund shall be administered by an Autonomous Board composed of the Minister of the Treasury and Public Credit, the Manager of the Banco de la Republica and a member freely designated by the President of the Republic. The Fund, as a legal person, shall be represented by one of the members of the Administrative Board, designated by the Board itself.

Third.- The Stabilization Fund, besides the powers which it now possesses in conformity with the provisions regulating its functions, may negotiate promissory notes, drafts, bills of exchange and other certificates of debt, and may contract loans, on short or long terms, in national currency or in foreign currencies (divisas).

The Stabilization Fund may likewise conclude contracts for the purchase and sale of foreign exchange, on a sight or future basis, adhering to rules which may be issued by the Office of Exchange and Export Control on the subject.

Fourth.- The Government and the Bank may guarantee any operations of the Stabilization Fund referred to in the above Clause. In order to establish the Bank's guarantee,

- 6 -

the approval of the Board of Directors of the said Bank is required in each case. The guarantee of the National Government may be given by the Minister of the Treasury and Public Credit, by authorization of the President of the Republic.

Fifth.- The Banco de la Republica shall be obligated solely to contribute to the Stabilization Fund, as its total, an amount equivalent to 10% of the initial Government contribution, according to the first (1st) Clause of the above-mentioned contract of November 23, 1938.

The Bank shall make its contributions to the Fund at the time fixed by the Board of Directors of the said Bank, and they (the contributions) shall be not less than one half percent (1/2%) of its paid up capital and legal reserve fund annually, until the said 10% limit of the initial contribution of the Government is reached.

Sixth.- In case of liquidation of the Stabilization Fund, their respective contributions shall be returned to the Government and the Bank. In such an event, the contributions made by the Bank shall have priority of reimbursement over those of the National Government.

If the Banco de la Republica should be liquidated before the Stabilization Fund, its contributions to the latter shall subject to demand from the moment the liquidation begins.

Seventh.- The Board of Directors of the Banco de la Republica shall, upon the approval of the Minister of the Treasury and Public Credit, establish regulations for the manner of carrying

- 7 -

on the operations of the Stabilization Fund. The said regulations may be modified only by the Board itself with the approval of the Minister of the Treasury.

Eighth.- There remain in force those stipulations of the contracts of October 31, 1934 and November 23, 1938 which are not contrary to the present agreement.

Ninth.- This contract must have, to be valid, the approval of His Excellency the President of the Republic, after a favorable report of the Council of Ministers and the Board of Directors of the Banco de la Republica, and it is being issued in duplicate, at Bogota the second of April, nineteen hundred forty.

(Signed) Carlos Lleras Restrepo.

(Signed) Julio Caro

Republic of Colombia.- Council of Ministers, Bogota,

April 2, 1940.

In today's session the Honorable Council issued a favorable report on the preceding contract.

The Secretary, Miguel Velandia

Republic of Colombia.- Executive Branch, Bogota, April 2, 1940.

Approved,

(Signed) EDUARDO SANTOS

The Minister,

(Signed) Carlos Lleras Restrepo

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DEPARTMENT OF STATE

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DIVISION OF THE AMERICAN REPUBLICS

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MEMORANDUM

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July 16, 1941

Memorandum for Undersecretary Bell:

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There are attached an informal confidential memorandum bringing up-to-date the progress on the financial negotiations with Mexico referred to in the Department's memorandum of last fall and the Mexican Government's note of February made available to the Secretary several months ago, and copies of (some brief notes on financial aspects of the Mexican note which I submitted to Mr. Welles shortly after its receipt.

I hope that you will be able to arrange a meeting with Mr. Pierson and myself upon his return to Washington tomorrow, and that Mr. White or someone else will be able to talk to Mr. Monteros at some length this week.

E.G.C.
Emilio G. Collado

RA:EGC:MJC

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CONFIDENTIAL

July 16, 1941

Financial Aspects of Mexican Negotiations1. Oil Expropriations

We have asked the Mexican Government to make a down payment of \$9,000,000 on account of compensation to be paid to American oil companies. The two Governments would appoint experts to determine the total indemnity.

The Mexican Government has suggested a down payment of \$5,000,000, and feels that the down payment must not be construed to give any indication of amount of eventual settlement. It is likely that down payment will be something above \$5,000,000 and possibly less than \$9,000,000.

2. Claims

There exists a mass of property claims of American citizens running back many years. These include agrarian claims (against which Mexico has already paid in \$3,000,000 which will be credited against that amount mentioned below), general claims, and other property claims. Mexico has agreed to pay \$40,000,000 against all of these, a down payment of \$3,000,000 plus annual payments of \$2,500,000 beginning in 1943. The Department has requested that when the payments of \$500,000 a year on account of

Special

- 2 -

Special (Revolutionary) Claims have been completed after five years, the annual payments under the present agreement be increased to \$3,000,000. It is not certain that Mexico will agree to the latter proposal, and the point is not of the highest importance in the whole negotiation.

The claims arrangement would be embodied in a Convention.

3. Foreign Debt

The Mexican Government has been having informal discussions with the Lamont Committee regarding a plan to settle its outstanding foreign public and railway debts, all of pre-1911 origin, which amount as to principal to some \$500,000,000, which have been more or less continuously in default for over thirty years, which have been quoted as low as 1/4 on the New York Stock Exchange, and of which about twenty percent are held by Americans. The plan under discussion envisages the issuance of new bonds denominated in pesos at one peso to one dollar original face value (a reduction to one-fifth), paying 4 percent interest, and to be amortized over a long period. Mexico would need some \$4,000,000 to \$5,000,000 annually for the purpose.

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The Department does not believe that the whole plan should be directly contingent upon the conclusion of these discussions and is requesting the Mexican Government to agree to some such statement as the following in the formal announcement of agreement in principle:

"Without prejudice to the principle that the difficulties arising between bondholders and foreign governments are primarily matters for adjustment between these parties rather than between governments, the Department expresses the gratification with which it has learned that the Mexican Government is about to enter into negotiations with representatives of holders of bonds of the railway debt and the so-called public debt with a view to effecting a settlement. American citizens are understood to hold approximately 20% of the bonds in each category."

4. Stabilization Arrangement

Being discussed with the Treasury.

5. Silver Purchase Arrangement

Being discussed with the Treasury.

6. Export-Import Bank Credits

Being discussed with Mr. Pierson, whom it is suggested the Treasury consult. The Department has suggested informally that the Bank consider a credit of \$10,000,000 or \$15,000,000 to a Mexican institution, guaranteed by the Mexican Government, aiding the completion

completion of construction of the Inter-American Highway and perhaps certain other major highways. In addition, Mexico is asking for assistance in a number of projects such as the purchase of freight cars urgently needed for transporting strategic materials to the United States, expansion of steel mill facilities by adding a blast furnace and rolling mill, establishment of a cellulose industry, and the construction of a steam plant to supply additional electric power badly needed in Mexico City. Since these projects are not all ready for the Bank to consider in detail it will probably make some general commitment in principle. The Department envisages a total figure for Export-Import Bank operations of \$30,000,000 or more.

7. The Mexican Government has just signed a contract with the Metals Reserve Company whereby the latter will provide a market for all of Mexico's production of a number of strategic materials, while Mexico is prohibiting export of these items except to the United States and, for consumption needs only, to other American republics. Mexico is also about to adopt general export control parallel to our own.

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SALE OF SILVER

The Mexican note requests:

a) "The assurance, at least for a period of four years, of the purchase of silver by the American Treasury at a reasonable price."

b) "A contract for the purchase of 6,500,000 ounces a month for four years."

c) Price - that now being paid to American producers, 71 cents per ounce, to compensate for the loss of European markets for industrial metals which at present are being sold in the United States after payment of heavy import duties. Mexico would be willing that any amount received over 45 cents an ounce be applied to military works.

The Secretary of the Treasury has indicated that he would be prepared at the appropriate time to enter into conversations with the Mexican Government regarding the possibility of an arrangement for the purchase of silver. The Treasury would probably be willing to consider only an arrangement similar to that in force between 1936 and 1938, by which, it will be recalled, the Treasury agreed to buy directly from Mexico up to 5,000,000 ounces per month at its "world" price fixed daily. The agreement was on a month to month basis and was extended monthly during that period. So long as the Treasury maintains its present policy of buying all silver delivered to it at its world price, the agreement is only a facility since it would guarantee such purchase only for monthly intervals.

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It is probable that the Treasury would agree, on such terms, to purchase the 6,500,000 ounces a month requested by Mexico, and it is just possible that we might persuade the Treasury to enter into slightly longer contracts than monthly ones. As to price, it is very unlikely that the Treasury would be willing to pay more than 35 cents an ounce and should this world price subsequently be changed, the price to Mexico would in all probability likewise be changed.

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STABILIZATION CREDIT

The Mexican note requests a stabilization credit of up to \$30,000,000, and fixes a rate of interest of 1-1/2% on the balance actually used. This much of the operation would apparently be quite feasible, and in fact is the operation which the Department has suggested and which it is probable the Treasury would be willing to undertake.

The Mexican note goes on to add numerous conditions which do not seem reasonable, and which it is probable the Mexicans do not actually expect to receive. The first of these is that reciprocal interest, presumably interest to be paid by the United States on Mexican balances, also be paid at the rate of 1-1/2%. The Federal Reserve Bank of New York and commercial banks pay no interest on this type of deposits and I believe that there is no possibility that they or Treasury would even consider paying interest.

The Mexican Government also suggests that any balance outstanding against Mexico at the end of five years be subject to liquidation in twenty years 3% bonds, to be amortized yearly, with the option of repayment in silver. This type of operation is actually possible, I believe, under the Stabilization Fund legislation, but is

very

very different from any operation which the Treasury has up to now entered, such as the Argentine. It is extremely doubtful whether the Treasury would consider such an arrangement, although the use of silver even as collateral or for repayment might possibly be discussed.

The Mexican note also suggests that the dollars in any balance be computed at the rate of \$35 per ounce of gold. This may be of some importance if the operation is based in part against gold or silver collateral. If the operation is carried out on the same basis as the Argentine operation, the provision has no meaning at all since dollars will be repaid in dollars and not in some other unit.

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CONSTRUCTION OF HIGHWAYS

The Mexican note indicates that the Mexican Government proposes to issue road bonds in an amount which is apparently \$100,000,000 and which it hopes to place entirely within Mexico. It requests, however, that some institution, presumably the Export-Import Bank, agree to underwrite such an issue to the extent of 60% to take the form of 3% bonds to be liquidated in ten to fifteen years.

An operation of financing roads or other public works in Mexico, as well as other American materials needed in development operations, is quite feasible. It is very doubtful whether the Federal Loan Agency would wish to go as high as \$60,000,000 immediately and the going rate of interest in the past has been 4% for a ten years operation. Nevertheless, the Mexicans' request presents a possibility for discussion, although it would be desirable immediately to remove the impression that any such generous credit is likely.

While no requests therefor are actually pending it is possible that Mexico may soon desire direct or indirect financial assistance in the rehabilitation of the railway and telegraph systems.

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YBALANCE OF PAYMENTS CONSIDERATIONS

In addition to considering individually the various points of the suggested plan for handling the Mexican situation, it is essential that we give some consideration to the net economic effect of the entire proposal. This it is obviously very difficult to do in a definitive way since so many items are still quite indefinite. Nevertheless, it is possible to examine the probable effects on the balance of payments of Mexico of the financial items of the plan.

Items which will affect the balance of payments of Mexico include:

- a) The claims settlement.
- b) The petroleum settlement.
- c) The foreign debt.
- d) The sale of silver.
- e) Stabilization credit.
- f) Credits for public works and development.
- g) Trade agreement.
- h) Military expenditures.

Of these no attempt will be made to evaluate the results of a possible trade agreement; it will be assumed that the psychological benefits of a stabilization credit will result in a small further inflow of short term capital and the remaining in Mexico of the funds which recently have entered; and military expenditures will be left out of consideration since no estimates are available of the amounts involved and we are forced to assume that they will

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be taken care of by special financial operations. It should be kept in mind that these three items may have a considerable effect on the balance of payments, but there is reason to believe that the effects of any one of them may be offset by the effects of others. With respect to sale of silver, as opposed to the use of silver as collateral for any operation, it can probably be said that no change which will affect the Mexican balance of payments for the better is to be expected, and that at best the Treasury may agree to continue purchasing at the present world price.

The Mexican note proposes an annual payment on claims of \$2,500,000 which would take about fifteen years. The note gives no details as to a possible debt settlement, but the Mexicans have had in mind a figure of about \$4,500,000 annually for some forty years to cover both the federal and railway debts. Only about 20% of this amount will accrue to American bondholders; the rest will be made available to European bondholders.

With respect to petroleum the Mexican note implies that all payment is to be made in petroleum, and ignores our suggestion that some \$9,000,000 or \$10,000,000 down payment also be made. If the settlement is to include all of the oil companies and not only the American it is probable that at least \$9,000,000 or \$10,000,000 worth of
oil,

-3-

oil, or of oil and cash would be involved annually. A portion of this would of course come out of the returns which Mexico is now receiving from such oil exports as she is able to make. In 1940 it is probable that Mexico exported at least \$14,000,000 worth of oil. Since any arrangement which would be satisfactory to Mexico would unquestionably involve the export of considerably greater quantities of petroleum from Mexico, it is probably safe to say that a much less than \$10,000,000 a year, perhaps only \$5,000,000 a year, net effect on the balance of payments would result.

As a result of all these payments Mexico would undertake a balance of payments drain of at least \$12,000,000 for ten years or more, \$7,000,000 for an additional five years or so, and \$4,500,000 for the whole forty year period. This would constitute a serious load in the first period, while the oil situation was being clarified. In the subsequent years the drain is one which is within the possibilities of the Mexican balance of payments as far as can be foreseen from a distance of ten years or more.

The effect on the Mexican exchange of the stabilization credit, largely psychological, will help to make possible the heavy drains of the first ten years, and financial assistance by the Export-Import Bank, in connection with public works and development projects if a portion of this can

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be devoted to local expenditures in Mexico, will also tend to ease the situation at first. If the highway program extends over say five years, there should be a net inflow of funds for four or five years, following which additional amortization payments must be added to those mentioned above.

All of these considerations point to the fact that, while it is possible that such a heavy scale of out-payments can be handled by Mexico, a complete meeting of all these obligations will be practicable only if the general economic situation of the United States and the other American republics is kept on a satisfactorily even keel so that markets for Mexico's present export products are maintained and developed.

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Copy of Letter from B. Mexico City, July 16, 1941

The big news of the period under review was the announcement in yesterday's papers of the conclusion of an agreement between the United States and Mexico regarding certain exports from this country.

So far there have been no comments regarding this agreement, excepting one from Lic. Padilla, Secretary of the Exterior, who applauds the measure and calls it the first step towards a real understanding between the two countries. We don't know at this writing what the effect of this agreement is going to be, although we are under the impression that Mexico's export of fibers and metals to other than American countries has been restricted to the sales of some lead to Japan, which country was also absorbing most of the mercury produced here. Manufacturers here, who depend on the United States for materials, continue to worry over their ability to purchase from the States, in view of the priorities, etc., and the new agencies will probably be kept busy on that side of the agreement.

Otherwise there has been nothing of importance excepting certain agitation amongst the communists. There is also quite a bit of agitation amongst federal employees, because the President wants to make certain readjustments in Federal offices, which are suffering from an excess of personnel and a notorious inefficiency.



Copy of Letter from A. Mexico City, July 18, 1941

A few minor changes have taken place in the Government which give some rays of hope, but that is all.

I am informed that Calles thinks the President well meaning and that he expects a large amount of changes to come within ~~the~~ a few months. I hope he is right.

Please treat this letter information as strictly private.

Against this the decision of the Labor Department came out which condemns the textile factories in Orizaba 100%. They had won their case at the Supreme Court; the labor did not conform with such decision, and wanted to strike. No agreement was reached and the Labor Department was made arbiter. The final decision is completely against the decision of the Supreme Court.



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MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, July 16, 1941

TENTATIVE LESSONS BULLETIN
No. 133
G-2/2657-235

NOTICE

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

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NOTES ON THE BALKAN CAMPAIGNSOURCE

These notes are based upon the report of an American official observer in Berlin. The report, which was dated May 26, 1941, contained information released verbally to the observer by a highly competent foreign military attache who had visited the battlefields of the Balkan Campaign.

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1. BRITISH SECTOR
2. GREEK SECTOR
3. MISCELLANEOUS
 - a. Crossing of Streams
 - b. German Supply
 - c. German Military Estimate of the Campaign
4. COMMENT BY AMERICAN OFFICIAL OBSERVER

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NOTES ON THE BALKAN CAMPAIGN

1. BRITISH SECTOR*

a. Forces Engaged

No Greek forces at all were in the British sector, and the British had practically no air force there; one South African division, which had been landed at Athens, had re-embarked immediately after the fall of Salonika. On the other hand the Germans had at hand as large an air force as the ground troops could desire and large reserves of all arms. These reserves were never committed.

The following forces were actually engaged:

(1) German

Corps Hartmann 3 infantry divisions;

Corps Böhme 2 mountain divisions - 5th and 6th;

1 panzer division - the 2d;

1 infantry division.

Corps Stümme 2 panzer divisions;

1 motorized infantry division - this followed behind but was not committed.

Leibstandarte Adolf Hitler

(2) British

1 English mechanized Brigade equipped with Heavy Carden Loyd - 2 men - tanks

2d New Zealand Infantry Division

6th Australian Infantry Division

b. Losses incurred

(1) German

In the corps which did the heaviest fighting the losses in one mountain division were 66 dead and 147 wounded, and in one panzer

* No Greek forces were in the British sector

division 97 dead and 160 wounded.

(2) British

It was estimated that the British losses were 5,000 dead or wounded, and 10,000 prisoners. The British took with them all of their dead and most of their wounded.

c. German Coordination of Combat Teams

The German plan of attack was based on air superiority and the close coordination of three combat teams:

- (1) Panzer division followed by motorized infantry divisions and normal infantry divisions;
- (2) Mountain divisions followed by normal infantry units;
- (3) Air attack units principally consisting of Stukas.

Since the German forces were superior in strength to the British, the British forces could be, and were, out-manuevered, which accounts for the extremely low German losses. The heaviest British losses were suffered through air attacks.

In this campaign German panzer units were confined within comparatively narrow limits by the character of the terrain which extended along the few vital roads to southern Greece. The German commander advanced with his first team, the panzer troops, as the spearhead. When these units met determined resistance, no serious effort was made to break it, and the second team, the mountain troops, were sent through the mountains to penetrate to a point in the rear which could threaten the defending force. Since no continuous line was held, this method was usually possible. If, however, the mountain troops also met stiff resistance, the commander could then put in his third team, the Stukas, to break it. Moreover, the Stuka team could be used to help either the panzer team or the mountain troop team, depending on which operation promised the greatest advantages. This type of maneuver was followed throughout the campaign.

During the retreat of the British forces, the air force team had the added mission of attacking along the roads. Bombs placed on both sides of the roads were effective in destroying or disrupting transport and troop columns without damaging the road for a later advance of German panzer and motorized units.

While that was the general plan, naturally it was varied by the use of task teams developed for special operations. These task teams were organized from different arms and services for the parti-

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cular operations, but in all cases they were built to support either panzer or mountain troop teams.

2. GREEK SECTOR

A six kilometer sector of the Struma River pass, along the Metaxas line, was defended by approximately one regiment of Greek troops. This regiment also covered the terraced fortifications which in turn were manned by normal garrisons. The Germans allotted the following forces to attack on that sector:

- 1 infantry regiment;
- 1 infantry battalion;
- 1 light 105-mm. battalion;
- 1 heavy 210-mm. battalion;
- 2 mixed battalions, each including
 - 1 battery of 105-mm. guns,
 - 1 battery of 150-mm. howitzers;
- 2 batteries Sturm Geschutze - four 75-mm. guns;
- 1 battery of 88-mm. antiaircraft guns;
- 2 Pioneer companies;
- Extra signal troops.

As additional support for the main attack, the following forces were placed under a group commander.

- 2 mixed artillery battalions;
- 2 mixed antitank battalions.

No reconnaissance was made prior to attack. This particular attack failed to break through during the first 48 hours, although one battalion penetrated to a depth of six kilometers. The Greek position was surrendered only after the Metaxas Line had been pierced at another point and Salonkia had fallen.

3. MISCELLANEOUS

a. Crossing of Streams

The German crossing of streams was accomplished by means of

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the methods developed during previous campaigns of this war. However, the crossing of the Corinth Canal, near its southeastern end, was of particular interest. The nearby terrain on the Corinth side was suitable for aircraft landing, and both banks of the Canal were occupied by parachute troops. It was reported that 25 graves of German parachutists were seen on the north bank of the Canal, and it is believed that even stronger resistance was met on the south bank. Immediately after both sides had been secured, German pioneers blew away enough of the steep Canal bank to form approaches for vehicles. A previously prepared pontoon bridge in three sections was then put in place - the middle section could be removed to permit the passage of vessels.

b. German Supply

The Germans fought the entire campaign without field kitchens or trains. The first supply train arrived in Athens on April 26 - after the final capitulation.

Troops depended upon supplies dropped from the air to supplement captured supplies. The resulting scarcity of food, together with the tremendous physical demands placed upon troops, had an interesting effect. When the assault troops were sent to rest camps after the capitulation of Athens, they suffered from insomnia and from an inability to keep cooked food on their stomachs. In some cases two weeks were required to bring these soldiers back to normal mental and physical condition.

c. German Military Estimate of the Campaign

The Metaxas Line was extremely strong and well defended. The British positions had been selected with care and were defended with skill and courage, but the British forces were too small, they arrived too late, and they had no air support. These positions were not taken by direct assault, but they were made untenable by threats from the rear. The Germans were able to accomplish their successes through air superiority and greatly superior ground strength. The entry of Yugoslavia into the war was a real advantage to the German conduct of operations; the Yugoslav armies were in no position to offer effective resistance, and were easily brushed aside, and the freedom to move through Yugoslav territory permitted the German forces to out-manuever British and Greek forces with a minimum cost in casualties.

The first British troops arrived in Greece on March 2, although the British had brought in their heavy weapons, ammunition, food supplies, and transport during the fall of 1940. Their practice of separate loading in troop transport probably caused them much trouble. The Germans found huge undamaged British stores at Larissa; one dump contained 100,000 tins of corned beef and all other supplies in proportionate amounts.

The British infantry divisions did not reach their positions until after the Greek main positions had been taken, and they were thus unable to support the Greeks. British defeat was inevitable and no great military operation was required; the skill of the German commanders in holding down the casualty list was especially commendable.

After the fall of the Epirus Army the British had but one thought, and that was to get back to their ships. They occupied and held positions almost entirely along the roads, and these they held only long enough to cover the retreat, which was skillfully carried out considering their relatively weak forces and the fact that they had no air support.

England entered the Balkan Campaign with two objects in mind:

- (1) To establish a Balkan front primarily to prevent German occupation of Greek airports which could be used to threaten the British Mediterranean fleet and its bases;
- (2) To strengthen the Greek and Yugoslav Governments in the hope that by military operations, damage could be done to the German economical and political organizations.

4. COMMENT BY AMERICAN OFFICIAL OBSERVER

The Balkan Campaign followed the general pattern of all German campaigns during this war. It was characterized by neither new weapons nor new tactics. It could easily be said that no new lessons were to be learned, but it must be stated emphatically that at least one of the old lessons has now assumed the importance of a basic military principle. That lesson is that air supremacy is an essential and vital factor in the success of all military operations.

German officers and soldiers never criticize the courage, equipment, or tactical skill of British units. On the contrary, they have great admiration for the British soldier, and their estimate of British skill in selection and defense of positions in this campaign is no surprise. German officers have, however, criticized British strategy for arriving too late, with insufficient forces and with inadequate air support. Of course the British High Command is faced by tremendous difficulties, but the obvious lesson, based on cold facts, should not be disregarded.

The positive evidence in this campaign is that German panzer units and troop columns choked the limited roads of approach for days. Obviously they were extremely vulnerable to air attacks, and it is thought that if the British had had even local air supremacy in support of their greatly out-numbered land forces in this favorable defense terrain, the German attack would have been far more costly in time, personnel, and materiel.

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At no time in this war has the force lacking air supremacy been successful, regardless of the relative superiority of the ground forces. Relatively small forces having air supremacy, however, have at times been able to defeat much larger opposing forces.

The attacks on the British Isles illustrate the lack of success of the air attacker who has overwhelming land forces and superior air forces, but does not have air supremacy over the theater of operations. It is not meant that the air force supersedes any other arms; on the contrary, it is believed that the final decision will still be made by carefully balanced ground forces. However, if these ground forces lack air support they are in the same desperate position of World War I ground forces which lacked artillery support and observation. In fact, their position is even more precarious because the enemy with air supremacy has the advantage of mobility in action, relative security for his air bases, clear lines of air communication, and the great advantage of unhampered observation. Even a highly mobile ground defensive force is vitally handicapped in action against an enemy having air supremacy.

Another old lesson which should be emphasized is the importance of coordination between attack groups. In the German Army, task forces are the general practice. These forces are designed to accomplish the assigned mission with due consideration to terrain and other obstacles, lines of communication available, and opposing forces. Each task force consists of a team of attack groups. Wide difference in composition is to be expected, but close coordination is the invariable rule, and again it must be pointed out that close coordination depends basically upon air supremacy, and secondarily upon liberal facilities for communication.

In the Balkans the usual task force consisted of three attack groups:

- a. Panzer units;
- b. Mountain Units;
- c. Air Attack units.

The Panzer units had to get through in any event in order to take over the limited, but vital, lines of communication. In the confining terrain of the Balkans a small defending force could effectively hold up panzer troops.

The mountain units were employed to work their way around the flanks of the defenders and to make the defense position untenable. If both units were held up, the commander of the task force had at his disposal, by virtue of air supremacy, air attack units capable of breaking the resistance at either point. These air units preferably

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would be used in support of mountain units in order to avoid destruction of roads, although the choice was always in the hands of the task commander. In the Balkan Campaign this close coordination, and the limited defense forces opposing, permitted unusual maneuver with minimum casualties on the part of the attacker.

The fact that the German troops were able to operate without their trains in this campaign is proof of a very high state of training and sound discipline.

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G-2/2657-220 No. 442 H.I.D., W.D. 12:00 H., July 16, 1941.

SITUATION REPORTI. GERMAN-RUSSIAN FIGHT.

Ground: Operations in Murmansk Sector show definite gain by columns moving east from Petsamo. German-Finnish offensive has driven Russians out of six former Finnish towns. The thrust east and south around Lake Ladoga is being reinforced and is making gains.

German columns are advancing between Luga and Ilmen Lake on Leningrad. In the encounter at Orsha east of Borisov, the Russians were driven back, but German columns are driving east on highway to Smolensk.

Russians continue to hold the Dnieper River at Rogachev while German columns in flanking maneuvers advance toward Gomel.

German advanced units have reached the vicinity of Kiev. Russians are counterattacking southwest of Kiev to check German advance.

Air: No change in the general situation. The Russians continue to attack the Ploesti (Roumania) oil area.

II. GERMAN-BRITISH FIGHT.

Air: German. Extremely limited activity.

British. Apparently no daylight attacks; subnormal night attacks on the Ruhr.

III. MEDITERRANEAN FIGHT.

Ground: Nothing of importance.

Air: Axis raids on Tobruk and over the Western Desert.

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Summary of Code Sublogon
Received at the War Department
at 12:12, July 16, 1941.

London, filed 18:15, July 16, 1941.

1. British Air Activity over the Continent.

a. Night of July 14-15. The numbers of tons of high explosive bombs and numbers of incendiaries dropped upon the objectives named were as follows: the railway center at Hannover, 86, including five 4000 pound bombs and nine 1000 pound bombs, and 4000; Bremen, 72 and 10,000; and the rubber factory at Hannover, 18 and 3000.

b. Day of July 15. A total of 207 fighters were dispatched as follows: 73 on interception patrols, 6 on special patrols, and 128 in the protection of shipping. No losses were reported on these missions.

c. Night of July 15-16. Dispatched to the railway center of Duisburg were 38 bombers. Considerable fighter opposition was encountered, resulting in casualties to the bomber personnel. Thirty per cent of the aircraft sent out attacked the target, forty per cent attacked the city of Duisburg.

2. German Air Activity over Britain.

a. Day of July 14. 375 fighters were used on defensive patrols. 20 reconnaissance aircraft and 10 long range bombers were offensively employed.

b. Night of July 14-15. The Germans sent out the following: 15 nine-layer aircraft, 10 fighters, 25 long range bombers and 5 reconnaissance aircraft.

c. Day of July 15. On this day German activity consisted of reconnaissance over the Channel and the South Coast.

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4. Night of July 15-16. Operations were directed against shipping off the East and English Coasts.

5. Aircraft Losses Reported.

a. British losses. Of the bombers dispatched to Duisberg the night of July 15-16, three were unreported, one crashed in the sea and one crashed in England.

Information obtainable here indicates that the Russian Air Force is still operating efficiently and that it appears to be attacking German armored units with success. Personnel of the Russian desk at the British Air Ministry are unofficially of the opinion that the Russian Air Force should be operating at the end of three months, inasmuch as it is now operating after three weeks of combat with the German Air Force.

LHM

Distribution:

Secretary of War
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Assistant Chief of Staff, G-2
War Plans Division
Office of Naval Intelligence
G. H. G.
Chief of the Army Air Forces
Secretary of Treasury
Assistant Chief of Staff, G-3
Air Corps

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