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THE SECRETARY OF THE NAVY  
WASHINGTON

December 28, 1940

My dear Mr. Secretary:

Upon my return this morning, I found your letter of December 27 relative to the possible use of Danish vessels.

I should be happy to join you in a conference with Admiral Land if you will let me know when it will be convenient for you.

Yours sincerely,



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

**TREASURY DEPARTMENT**

**INTER OFFICE COMMUNICATION**

**DATE December 28, 1940**

**TO Secretary Morgenthau**

**FROM Mr. Wiley**

Joe Alsop is publishing a column Monday next on the question of extending freezing. He is linking it up with "ship control", meaning, I believe, the taking over of foreign vessels in American ports. My impression is that the article may be sensational.

*Wiley*

BRITISH EMBASSY,  
WASHINGTON, D. C.

December 28, 1940.

Dear Mr. Secretary,

I told you some little time ago that I was obtaining fuller information and instructions from London on the subject of United Kingdom direct investments. These have now arrived.

I have already alluded to some of the technical difficulties of disposing of these investments and you will, I am sure, allow me to recapitulate these shortly. The difficulties and complications arise in fact from the nature of the holdings, since these, unlike stock exchange investments, have no ready market or determinable sale price. Even in the case of those which should prima facie be attractive to American interests, the transaction is not dependent alone on our willingness to sell, but depends also upon the possibility of finding an equally willing buyer. Such sales by private treaty naturally take time and are not easy work. Some of our recent efforts have not been very successful; for example, an attempt to sell \$13,250,000 of 5% bonds of the Manila Railroad Company at 80%, which appears to be a reasonable price in view of the fact that the interest on these bonds has always been paid in full, has met with a quite inadequate offer from the company. I could give you one or two similar examples.

In other/

Recd Dec 28, 1940 7.30 P.M.  
at House -



BRITISH EMBASSY,  
WASHINGTON, D.C.

-2-

In other cases, the difficulty may be increased by the fact that the British parent company is under an obligation to offer the investment first to American associates. In such cases the sale requires most careful handling if the interests of both the British and American parties are not to be injured.

In a large proportion of cases the American business is so dependent upon the parent company in the United Kingdom, through exchange of technical information, management, etc., as to make the American business incapable of separation without a serious drop in its value. It may, however, be possible in certain cases to find a way around this difficulty by arranging, instead of a sale of the American business, for an issue of bonds or preferred capital on the American market, the dollar proceeds of which would flow to the British Treasury.

Notwithstanding these technical difficulties, however, His Majesty's Government are ready to continue practical examination of the extent to which United Kingdom direct investments can be used for the purpose of raising dollar exchange whether by way of sales or of capital issues. For this purpose His Majesty's Government would propose to send their own representative to the United States. I hope that we shall be able to select this representative shortly and that when he arrives in the United States he may have the benefit of your counsel. The businesses are scattered over many parts of the United States, some small, some large, and their participation will be essential in the negotiations and arrangements either for sales or capital issues. The representative of His

Majesty's Government/

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BRITISH EMBASSY,  
WASHINGTON, D.C.

-3-

Majesty's Government would co-operate with the representatives of the companies and give them the necessary guidance on policy.

Yours sincerely,

*F. Phillips*

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

COPY

British Embassy,

Washington, D. C.

December 28, 1940

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- 2 -

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Yours sincerely,

(Signed) F. Phillips

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

WAR DEPARTMENT  
OFFICE OF THE CHIEF OF STAFF  
WASHINGTON

December 28, 1940.

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

Dear Mr. Morgenthau:

Thank you very much for the following reports,  
which you sent me this date:

Part I - Airplanes

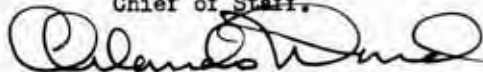
Deliveries of and New Orders for Airplanes,  
June 9 - December 21, 1940; Unfilled Orders  
and Estimated Deliveries on December 21, 1940.

Part II - Airplane Engines

Deliveries of and New Orders for Airplane  
Engines, June 9 - December 21, 1940; Unfilled  
Orders and Estimated Deliveries on December 21,  
1940.

Faithfully yours,

Chief of Staff.



ORLANDO WARD

Maj. Col., General Staff

Secretary, General Staff

*Incl. of C of S.*

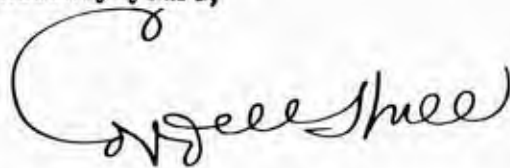
THE SECRETARY OF STATE  
WASHINGTON

December 28, 1940.

My dear Mr. Secretary:

I want to thank you for your kindness in sending me, with your letter of December twenty-seventh, a statement of the deliveries of airplanes. Your courtesy in making it available to me is appreciated.

Sincerely yours,

A handwritten signature in cursive script, reading "Cordell Hull". The signature is written in dark ink and is positioned below the typed name.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

TO:

~~12/31/40~~  
Miss Chauncey

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This memo was changed the <sup>see</sup> <sup>att</sup> <sup>also</sup> morning of 12/28'40 after Mr. Foley had seen the Secretary at the house on the night of 12/27'40

see revised copy with draft of Exec Order taken to West lunch by Tomp 12/30 and filed that date

see revised copies (pages 1-2-10) as signed by Tomp on 1/3/41 & del'd to Percy Hull by Mr Cot.

MR. FOLEY

o  
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y

December 28, 1940.

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MEMORANDUM FOR THE SECRETARY OF STATE

Approved is the proposed Executive Order which I discussed with you this morning and which I would like to call to your attention at the conference in your office on Monday morning at 9:30 A.M.

Briefly summarized, the proposed Order provides the following:

- (1) Creation of an Economic Defense Board. This board is to consist of the Secretary of State, the Secretary of the Treasury, the Secretary of War, the Secretary of the Navy, the Secretary of Commerce, and the Director of the Office of Production Management. The Secretary of State is to be chairman of the Board. The chairman and the board are to formulate all the policies relating to the administration of the order by the Secretary of the Treasury.
- (2) Extension of Existing Controls. The order proposes to extend existing control to all foreign countries and nationals. As you know, the Treasury organization is now controlling the property in this country belonging to trusted countries and their nationals. Such organization can be readily expanded to handle the increased work of an extended control.
- (3) Coordination of Foreign Service and Civil Control Activities. These functions are, as you know, already carried on by the Treasury Department through the medium of the President's Liaison Committee and through the Coast Guard. The order contains such administration in the Treasury, but subject to the policy determinations made by the Economic Defense Board. The proposal does not cut across the contemplated functions of the Office of Production Management.
- (4) Export Policies and Reinstatement. These functions are now being administered by Colonel Harrell as Administrator of Export Control. The order transfers such functions to the Treasury and Colonel Harrell will administer the powers under the suggestion and control of the Secretary of the Treasury. Here again the administration will be subject to the policy formulations of the Economic Defense Board. At the present time the policy on reinstatement of defense materials is determined by the Secretary of War and Secretary of the Navy acting through the Army and Navy Institutions Board. Under the proposed order such policies



would be determined by the Economic Defense Board of which both the Secretary of War and the Secretary of the Navy as well as the Director of Production Management would be members.

I believe that the proposed Order offers two primary and over-all advantages. It meets the need of a coordinated formulation of this Administration's policy on problems of economic defense. The proposed six-member board, acting under your chairmanship, would be the cabinet officers most directly concerned with this problem and the Director of Production Management. They would meet periodically and consider jointly current problems against a background of our whole picture of economic defense.

The coordination of the administration of these problems as envisaged by the order would eliminate a vast amount of the red tape and "running around" now required of Americans as well as foreign governments and foreign nationals who desire to purchase or sell materials, etc., in this country. For example, today an American manufacturer selling defense materials to a country covered by the foreign exchange control would have to go through the following cumbersome procedure; (1) file an application for a license with the foreign exchange authorities to make it possible for him to be paid out of blocked funds and to be able to transfer bills of lading and other shipping documents to the purchaser; (2) obtain a clearance from the President's Liaison Committee to negotiate the contract with the foreign country; (3) secure a license from the Administrator of Export Control; (4) obtain a license under the Neutrality Act from the Division of Controls of the State Department; and, finally, (5) assuming that the manufacturer has obtained these four licenses from four different sources and has put his goods on a boat destined for the purchaser, the Treasury would have to determine whether the ship would be permitted to sail.

Inevitably, public criticism will be directed at such uncoordinated activities by the Government in such closely related fields. In these days, when our export trade has dwindled appreciably, we should endeavor to make it as simple, not as difficult, as possible for a manufacturer to sell his goods abroad.

The proposed Order would make it possible for an American manufacturer to go to one place, such as the Customs House in his district, for an appropriate application and thereby ascertain at one time whether he will be permitted to take all of the necessary steps to consummate a sale of the goods abroad. The advantages both to the Government as well as the public from such a more simplified and speedy procedure are obvious.

## EXECUTIVE ORDER

ESTABLISHING AN ECONOMIC DEFENSE BOARD,  
REGULATING TRANSACTIONS IN FOREIGN EXCHANGE,  
FOREIGN PROPERTY AND FOREIGN BUYING, CONTROL-  
LING THE EXPORT AND OTHER DEALINGS IN DEFENSE  
MATERIALS, THE REQUISITIONING THEREOF, SHIP  
MOVEMENTS, AND RELATED MATTERS.

By virtue of and pursuant to the authority vested in me by the Constitution, by section 1 of Title II of the Act of June 15, 1917 (40 Stat. 220), by section 5(b) of the Act of October 6, 1917 (40 Stat. 411, as amended, by section 2(a) of the Act of June 28, 1940 (54 Stat. 676), by section 6 of the Act of July 2, 1940 (54 Stat. 714), by the Act of October 10, 1940 (54 Stat. 1090), and by virtue of all other authority vested in me, and by virtue of the continued existence of a period of national emergency, it is hereby ordered as follows:

## TITLE I

Section 1. There is hereby established an Economic Defense Board (hereinafter referred to as the "Board"). The Board shall consist of the Secretary of State, who shall be Chairman, the Secretary of the Treasury, the Secretary of War, the Secretary of the Navy, the Secretary of Commerce and the Director of the Office of Production Management. The Board shall formulate and determine all questions of policy relating to the carrying out of the purposes of this Order.

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Section 2. The administration of the Order shall be vested in the Secretary of the Treasury acting in accordance with the policies formulated by the Chairman and the Board.

#### TITLE II

Executive Order No. 6560 of January 15, 1934, as amended, is amended to read as follows:

Section 1. All of the following transactions are prohibited, except as specifically authorized by the Secretary of the Treasury by means of regulations, rulings, instructions, licenses, or otherwise, if involving property in which any foreign country or any national thereof has at any time on or since the effective date of this Order had any interest of any nature whatsoever, direct or indirect:

A. All transfers of credit between any banking institutions within the United States; and all transfers of credit between any banking institution within the United States and any banking institution outside the United States (including any principal, agent, home office, branch, or correspondent outside of the United States, of a banking institution within the United States);

B. All payments by or to any banking institution within the United States;

C. All transactions in foreign exchange by any person within the United States;

D. The export or withdrawal from the United States, or the earmarking of gold or silver coin or bullion or currency by any person within the United States;

E. All transfers, withdrawals or exportations of, or dealings in, any evidences of indebtedness or evidences of ownership of property by any person within the United States; and

F. Any transaction for the purpose or which has the effect of evading or avoiding the foregoing prohibitions.

Section 2.

A. All of the following transactions are prohibited, except as specifically authorized by the Secretary of the Treasury by means of regulations, rulings, instructions, licenses, or otherwise:

(1) The acquisition, disposition or transfer of, or other dealing in, or with respect to, any security or evidence thereof on which there is stamped or imprinted, or to which there is affixed or otherwise attached, a tax stamp or other stamp of a foreign country designated in this Order or a notarial or similar seal which by its contents indicates that it was stamped,

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imprinted, affixed or attached within such foreign country, or where the attendant circumstances disclose or indicate that such stamp or seal may, at any time, have been stamped, imprinted, affixed or attached thereto; and

(2) The acquisition by, or transfer to, any person within the United States of any interest in any security or evidence thereof if the attendant circumstances disclose or indicate that the security or evidence thereof is not physically situated within the United States.

B. The Secretary of the Treasury may investigate, regulate, or prohibit under such regulations, rulings, or instructions as he may prescribe, by means of licenses or otherwise, the sending, mailing, importing or otherwise bringing, directly or indirectly, into the United States, from any foreign country, of any securities or evidences thereof or the receiving or holding in the United States of any securities or evidences thereof so brought into the United States.

Section 3.

A. The Secretary of the Treasury may require any person to furnish under oath, in the form of reports or otherwise, from time to time and at such time or times as he may designate, complete information relative to any transaction referred to in

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subdivision (b) of section 5 of the Act of October 6, 1917 (40 Stat. 411), as amended, or with respect to any property in which any foreign country designated in this Order or any national thereof has any interest, including the production of any books of account, contracts, letters, or other papers, in connection therewith, in the custody or control of such person, either before or after such transaction is completed.

B. Every person engaging in any of the transactions referred to in sections 1 and 2 of this Order shall keep a full record of each such transaction engaged in by him, regardless of whether such transaction is effected pursuant to license or otherwise, and such record shall be available for examination by a representative of the Treasury Department for at least one year after the date of such transaction.

Section 4.

A. The term "effective date" means with respect to any foreign country or any national thereof, the date specified in the following schedule: (a) Norway and Denmark - April 8, 1940; (b) the Netherlands, Belgium and Luxembourg - May 10, 1940; (c) France - June 17, 1940; (d) Latvia, Estonia and Lithuania - July 10, 1940; (e) Rumania - October 9, 1940; (f) any other foreign country - , 194 .

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B. The term "transactions \* \* \* involving property in which any foreign country or any national thereof has \* \* \* any interest" shall include, but not by way of limitation, (i) any payment or transfer to such foreign country or any national thereof, (ii) any export or withdrawal from the United States to such foreign country and (iii) any transfer of credit expressed in terms of the currency of such foreign country.

C. The term "United States" means the United States and any place subject to the jurisdiction thereof; the term "continental United States" means the States of the United States, the District of Columbia, and the Territory of Alaska, and the term "person" means an individual, partnership, association, corporation, or other organization.

D. The term "foreign country" shall include, but not by way of limitation, the state and the government thereof on the effective date of this Order as well as any political subdivision, agency or instrumentality thereof or any territory, dependency, colony, protectorate, mandate, dominion, possession or place subject to the jurisdiction thereof; and shall also include any other government (including any political subdivision, agency, or instrumentality thereof) to the extent and only to the extent that such government exercises or claims to exercise de jure or de facto

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sovereignty over the area which on such effective date constituted such foreign country; and shall further include any person who is, or has been, or who there is reasonable cause to believe is, or has been, acting or purporting to act directly or indirectly for the benefit or on behalf of any of the foregoing. Any place which is subject to the jurisdiction of the United States and which is outside of the continental United States shall not, except as otherwise provided by the Secretary of the Treasury, be deemed to be included within the term "foreign country".

E. The term "national" shall include any person who has been domiciled in, or a subject, citizen or resident of a foreign country at any time on or since the effective date of this Order, but shall not include any individual domiciled and residing in the United States at all times on and since such effective date, and shall also include any partnership, association, corporation or other organization organized under the laws of, or which on such effective date had its principal place of business in such foreign country, or which on or after such date was or has been controlled by, or a substantial part of the stock, shares, bonds, debentures, or other securities or obligations of which was or has been owned or controlled by, directly or indirectly, such foreign country and/or one or more nationals thereof as herein defined; and shall



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further include any person who is, or has been, acting or purporting to act directly or indirectly for the benefit or on behalf of such foreign country or national thereof; and shall further include, any other person who there is reasonable cause to believe is a "national" as herein defined. In any case in which by virtue of the foregoing definition a person is a national of more than one of the foreign countries designated in this Order, such person shall be deemed to be a national of each of such foreign countries. The Secretary of the Treasury shall have full power to determine who is or shall be deemed to be a "national" within the meaning of this definition.

F. The term "banking institution" shall include any person engaged primarily or incidentally in the business of banking, of granting or transferring credits, or of purchasing or selling foreign exchange or procuring purchasers and sellers thereof, as principal or agent, or any person holding credits for others as a direct or incidental part of his business, or brokers; and, each principal, agent, home office, branch or correspondent of any person so engaged shall be regarded as a separate "banking institution".

Section 5. The Regulations of November 12, 1934, and the general license therein granted, are hereby revoked. All licenses, rulings, and instructions issued pursuant to

Executive Order No. 8389, as amended, which were in effect as of the date of this Order, are hereby continued in full force and effect, subject to amendment, modification or revocation pursuant to the provisions of this Order.

### TITLE III

Section 1. Coordination of Foreign Buying. Pursuant to the policies formulated by the Board, and in accordance with the provisions of Title II hereof, the Secretary of the Treasury shall coordinate the buying, or other acquisition, by or on behalf of any foreign country or national thereof, of all defense materials, including all military equipment and munitions, component parts thereof, and machinery, tools, and material and supplies necessary for the manufacture, servicing or operation thereof, and shall prescribe the procedure for the negotiation and execution of contracts for the foregoing, in such a manner as will most effectively further the interests of national defense. For such purpose the Secretary of the Treasury shall serve as the exclusive liaison officer between this Government and foreign countries and nationals thereof, and, in accordance with policies formulated by the Board, the Secretary shall give consideration to the requirements of such foreign countries and nationals thereof for the aforementioned materials in relation to (a) availability of the desired articles; (b) priorities, and (c) prices. The Secretary of the Treasury shall keep the Board currently and fully informed of his activities in connection herewith.

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**Section 2. Export Embargoes.** The Proclamations, Orders and Regulations heretofore issued under section 6 of the Act of July 2, 1940 (54 Stat. 714) shall, except as herein or otherwise amended, remain in full force and effect and the administration thereof by the Administrator of Export Control and his staff shall be subject to the supervision and control of the Secretary of the Treasury acting in accordance with the policies determined by the Board.

**Section 3. Regulation of Materials Denied Export.** The Executive Order and Regulations heretofore issued by me under the Act of October 10, 1940 (54 Stat. 1090) shall, except as herein or otherwise amended, remain in full force and effect, except that the powers therein vested in the Secretary of War and the Secretary of the Navy, acting jointly through the Army and Navy Munitions Board, are hereby transferred to the Economic Defense Board and the administration thereof shall hereafter be exercised by the Administrator of Export Control under the supervision and control of the Secretary of the Treasury acting in conformity with the policies of the Board.

**Section 4. Control of Ship Movements.** The Proclamation and the regulations issued under the Act of June 15, 1917 (40 Stat. 220) shall remain in full force and effect, except that the powers conferred upon the Secretary of the Treasury shall hereafter be exercised by him in accordance with the policies formulated by the Board.

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Section 5. Recommendations by the Board. The Board shall engage in such studies and shall make such recommendations to the President, to the Congress and to the appropriate departments and agencies of the Government as the Board deems in the interests of the economic defense of the United States.

Section 6. Continued Validity of Prior Actions. All regulations, licenses, rulings, instructions and other actions issued or taken pursuant to any Proclamation, Order or Regulations hereinbefore referred to which were in effect as of the date of this Order, are hereby continued in full force and effect subject to amendment, modification or revocation pursuant to the provisions of this Order.

Section 7. Regulations. The Secretary of the Treasury is authorized and empowered to prescribe from time to time regulations, rulings, and instructions to carry out the purposes of this Order, and to provide therein or otherwise the conditions under which licenses may be granted by or through such officers or agencies as the Secretary of the Treasury may designate. In so far as possible in administering this Order, the Secretary of the Treasury shall limit the number of applications and licenses required for the performance of acts covered by this Order. The decision of the Secretary of the Treasury with respect to the approval or disapproval of any application for a license shall be final.

**Section 8. ~~Education~~.** This Executive Order and any regulations, rulings, licenses or instructions issued hereunder may be amended, modified or revoked at any time.

THE WHITE HOUSE,

194 .

TO:

12/28'40

Nell

25

This was sent out to the Secretary's house last night upon request.

The Secretary called Foley over sometime about nine and the summarizing memo to Hull was changed.

The summarizing memo was changed \* and sent without initials of the Secretary (his suggestion) to the office of the Secretary of State.

Mr. Stone was told the material was coming over by hand and that it was that which was to be discussed at the 9:30 meeting on Monday morning. He said he would see that Secretary Hull got it as soon as he, Stone, received it.

McGuire

\* Your copy is the one that went to Secretary Hull.

MR. FOLEY

December 28, 1948

My dear Mr. Secretary:

At the direction of Secretary Mergenthau, I am attaching a proposed Executive Order and a short summary of it.

This is the matter which Secretary Mergenthau proposes to take up with you when he meets with you at 9:30 on Monday morning.

Sincerely yours,

(Signed) E. H. Foley, Jr.

The Honorable  
The Secretary of State

Enclosure

EHF:s 12-28-48

27

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

December 27, 1940

Secretary Morgenthau

FROM E. H. Foley, Jr.

If this memorandum summarizing the proposed Executive Order establishing an Economic Defense Board is satisfactory, please initial it and return it to me, and I shall see that it is delivered to Secretary Hull.

*S.N. 76*

Attachments (2)



**EXECUTIVE ORDER**

---  
**ESTABLISHING AN ECONOMIC DEFENSE BOARD,  
REGULATING TRANSACTIONS IN FOREIGN EXCHANGE,  
FOREIGN PROPERTY AND FOREIGN BANKING, CONTROL-  
LING THE EXPORT AND OTHER DEALINGS IN DEFENSE  
MATERIALS, THE REQUISITIONING THEREOF, SHIP  
MOVEMENTS, AND RELATED MATTERS.**

By virtue of and pursuant to the authority vested in me by the Constitution, by section 1 of Title II of the Act of June 15, 1917 (40 Stat. 230), by section 5(b) of the Act of October 6, 1917 (40 Stat. 411, as amended, by section 2(a) of the Act of June 28, 1940 (54 Stat. 676), by section 6 of the Act of July 2, 1940 (54 Stat. 714), by the Act of October 10, 1940 (54 Stat. 1090), and by virtue of all other authority vested in me, and by virtue of the continued existence of a period of national emergency, it is hereby ordered as follows:

**TITLE I**

Section 1. There is hereby established an Economic Defense Board (hereinafter referred to as the "Board"). The Board shall consist of the Secretary of State, who shall be Chairman, the Secretary of the Treasury, the Secretary of War, the Secretary of the Navy, the Secretary of Commerce and the Director of the Office of Production Management. The Board shall formulate and determine all questions of policy relating to the carrying out of the purposes of this Order.

- 2 -

Section 2. The administration of the Order shall be vested in the Secretary of the Treasury acting in accordance with the policies formulated by the Chairman and the Board.

#### TITLE II

Executive Order No. 6560 of January 15, 1934, as amended, is amended to read as follows:

Section 1. All of the following transactions are prohibited, except as specifically authorized by the Secretary of the Treasury by means of regulations, rulings, instructions, licenses, or otherwise, if involving property in which any foreign country or any national thereof has at any time on or since the effective date of this Order had any interest of any nature whatsoever, direct or indirect:

A. All transfers of credit between any banking institutions within the United States; and all transfers of credit between any banking institution within the United States and any banking institution outside the United States (including any principal, agent, home office, branch, or correspondent outside of the United States, of a banking institution within the United States);

B. All payments by or to any banking institution within the United States;

C. All transactions in foreign exchange by any person within the United States;

D. The export or withdrawal from the United States, or the earmarking of gold or silver coin or bullion or currency by any person within the United States;

E. All transfers, withdrawals or exportations of, or dealings in, any evidences of indebtedness or evidences of ownership of property by any person within the United States; and

F. Any transaction for the purpose or which has the effect of evading or avoiding the foregoing prohibitions.

Section 2.

A. All of the following transactions are prohibited, except as specifically authorized by the Secretary of the Treasury by means of regulations, rulings, instructions, licenses, or otherwise:

(1) The acquisition, disposition or transfer of, or other dealing in, or with respect to, any security or evidence thereof on which there is stamped or imprinted, or to which there is affixed or otherwise attached, a tax stamp or other stamp of a foreign country designated in this Order or a notarial or similar seal which by its contents indicates that it was stamped,

- 4 -

imprinted, affixed or attached within such foreign country, -- where the attendant circumstances disclose or indicate that such stamp or seal may, at any time, have been stamped, imprinted, affixed or attached thereto; and

(2) The acquisition by, or transfer to, any person within the United States of any interest in any security or evidence thereof if the attendant circumstances disclose or indicate that the security or evidence thereof is not physically situated within the United States.

B. The Secretary of the Treasury may investigate, regulate, or prohibit under such regulations, rulings, or instructions as he may prescribe, by means of licenses or otherwise, the sending, mailing, importing or otherwise bringing, directly or indirectly, into the United States, from any foreign country, of any securities or evidences thereof or the receiving or holding in the United States of any securities or evidences thereof so brought into the United States.

### Section 3.

A. The Secretary of the Treasury may require any person to furnish under oath, in the form of reports or otherwise, from time to time and at such time or times as he may designate, complete information relative to any transaction referred to in

subdivision (b) of section 5 of the Act of October 6, 1947 (49 Stat. 411), as amended, or with respect to any property in which any foreign country designated in this Order or any national thereof has any interest, including the production of any books of account, contracts, letters, or other papers, in connection therewith, in the custody or control of such person, either before or after such transaction is completed.

B. Every person engaging in any of the transactions referred to in sections 1 and 2 of this Order shall keep a full record of each such transaction engaged in by him, regardless of whether such transaction is effected pursuant to license or otherwise, and such record shall be available for examination by a representative of the Treasury Department for at least one year after the date of such transaction.

Section 4.

A. The term "effective date" means with respect to any foreign country or any national thereof, the date specified in the following schedule: (a) Norway and Denmark - April 8, 1940; (b) the Netherlands, Belgium and Luxembourg - May 10, 1940; (c) France - June 17, 1940; (d) Latvia, Estonia and Lithuania - July 10, 1940; (e) Rumania - October 9, 1940; (f) any other foreign country -

, 194 .

- 6 -

B. The term "transactions" \* \* \* involving property in which any foreign country or any national thereof has \* \* \* any interest" shall include, but not by way of limitation, (i) any payment or transfer to such foreign country or any national thereof, (ii) any export or withdrawal from the United States to such foreign country and (iii) any transfer of credit expressed in terms of the currency of such foreign country.

C. The term "United States" means the United States and any place subject to the jurisdiction thereof; the term "continental United States" means the States of the United States, the District of Columbia, and the Territory of Alaska, and the term "person" means an individual, partnership, association, corporation, or other organization.

D. The term "foreign country" shall include, but not by way of limitation, the state and the government thereof on the effective date of this Order as well as any political subdivision, agency or instrumentality thereof or any territory, dependency, colony, protectorate, mandate, dominion, possession or place subject to the jurisdiction thereof; and shall also include any other government (including any political subdivision, agency, or instrumentality thereof) to the extent and only to the extent that such government exercises or claims to exercise de jure or de facto

- 7 -

sovereignty over the area which on such effective date constituted such foreign country; and shall further include any person who is, or has been, or who there is reasonable cause to believe is, or has been, acting or purporting to act directly or indirectly for the benefit or on behalf of any of the foregoing. Any place which is subject to the jurisdiction of the United States and which is outside of the continental United States shall not, except as otherwise provided by the Secretary of the Treasury, be deemed to be included within the term "foreign country".

E. The term "national" shall include any person who has been domiciled in, or a subject, citizen or resident of a foreign country at any time on or since the effective date of this Order, but shall not include any individual domiciled and residing in the United States at all times on and since such effective date, and shall also include any partnership, association, corporation or other organization organized under the laws of, or which on such effective date had its principal place of business in such foreign country, or which on or after such date was or has been controlled by, or a substantial part of the stock, shares, bonds, debentures, or other securities or obligations of which was or has been owned or controlled by, directly or indirectly, such foreign country and/or one or more nationals thereof as herein defined; and shall

- 8 -

further include: any person who is, or has been, acting or purporting to act directly or indirectly for the benefit or on behalf of such foreign country or national thereof; and shall further include, any other person who there is reasonable cause to believe is a "national" as herein defined. In any case in which by virtue of the foregoing definition a person is a national of more than one of the foreign countries designated in this Order, such person shall be deemed to be a national of each of such foreign countries. The Secretary of the Treasury shall have full power to determine who is or shall be deemed to be a "national" within the meaning of this definition.

F. The term "banking institution" shall include any person engaged primarily or incidentally in the business of banking, of granting or transferring credits, or of purchasing or selling foreign exchange or procuring purchasers and sellers thereof, as principal or agent, or any person holding credits for others as a direct or incidental part of his business, or brokers; and, each principal, agent, home office, branch or correspondent of any person so engaged shall be regarded as a separate "banking institution".

Section 5. The Regulations of November 12, 1934, and the general license therein granted, are hereby revoked. All licenses, rulings, and instructions issued pursuant to



Executive Order No. 8389, as amended, which were in effect as of the date of this Order, are hereby continued in full force and effect, subject to amendment, modification or revocation pursuant to the provisions of this Order.

### TITLE III

Section 1. Securization of Foreign Buying. Pursuant to the policies formulated by the Board, and in accordance with the provisions of Title II hereof, the Secretary of the Treasury shall coordinate the buying, or other acquisition, by or on behalf of any foreign country or national thereof, of all defense materials, including all military equipment and munitions, component parts thereof, and machinery, tools, and material and supplies necessary for the manufacture, servicing or operation thereof, and shall prescribe the procedure for the negotiation and execution of contracts for the foregoing, in such a manner as will most effectively further the interests of national defense. For such purpose the Secretary of the Treasury shall serve as the exclusive liaison officer between this Government and foreign countries and nationals thereof, and, in accordance with policies formulated by the Board, the Secretary shall give consideration to the requirements of such foreign countries and nationals thereof for the aforementioned materials in relation to (a) availability of the desired articles; (b) priorities, and (c) prices. The Secretary of the Treasury shall keep the Board currently and fully informed of his activities in connection herewith.

- 10 -

**Section 2. Export Licenses.** The Proclamations, Orders and Regulations heretofore issued under section 6 of the Act of July 2, 1940 (54 Stat. 714) shall, except as herein or otherwise amended, remain in full force and effect and the administration thereof by the Administrator of Export Control and his staff shall be subject to the supervision and control of the Secretary of the Treasury acting in accordance with the policies determined by the Board.

**Section 3. Requisitioning of Materials Denied Export.** The Executive Order and Regulations heretofore issued by me under the Act of October 10, 1940 (54 Stat. 1090) shall, except as herein or otherwise amended, remain in full force and effect, except that the powers therein vested in the Secretary of War and the Secretary of the Navy, acting jointly through the Army and Navy Munitions Board, are hereby transferred to the Economic Defense Board and the administration thereof shall hereafter be exercised by the Administrator of Export Control under the supervision and control of the Secretary of the Treasury acting in conformity with the policies of the Board.

**Section 4. Control of Ship Movements.** The Proclamation and the regulations issued under the Act of June 15, 1917 (40 Stat. 220) shall remain in full force and effect, except that the powers conferred upon the Secretary of the Treasury shall hereafter be exercised by him in accordance with the policies formulated by the Board.

- 11 -

**Section 5. Recommendations by the Board.** The Board shall engage in such studies and shall make such recommendations to the President, to the Congress and to the appropriate departments and agencies of the Government as the Board deems in the interests of the economic defense of the United States.

**Section 6. Continued Validity of Prior Actions.** All regulations, licenses, rulings, instructions and other actions issued or taken pursuant to any Proclamation, Order or Regulations hereinbefore referred to which were in effect as of the date of this Order, are hereby continued in full force and effect subject to amendment, modification or revocation pursuant to the provisions of this Order.

**Section 7. Regulations.** The Secretary of the Treasury is authorized and empowered to prescribe from time to time regulations, rulings, and instructions to carry out the purposes of this Order, and to provide therein or otherwise the conditions under which licenses may be granted by or through such officers or agencies as the Secretary of the Treasury may designate. In so far as possible in administering this Order, the Secretary of the Treasury shall limit the number of applications and licenses required for the performance of acts covered by this Order. The decision of the Secretary of the Treasury with respect to the approval or disapproval of any application for a license shall be final.

- 12 -

**Section 8. Duration.** This Executive Order and any regulations, rulings, licenses or instructions issued hereunder may be amended, modified or revoked at any time.

**THE WHITE HOUSE,**

194 \*

Secretary Morgenthau

December 27, 1948

E. H. Foley, Jr.

If this memorandum summarizing the proposed Executive Order establishing an Economic Defense Board is satisfactory, please initial it and return it to me, and I shall see that it is delivered to Secretary Hall.

EHFJr/Sa  
Typed 12/27/48

(Initialed) E.H.F.Jr.

Sent out to the Secretary's office by hand <sup>by hand</sup> on Foley's request at 6:45 p.m.

Attachments (2)

Memo addressed to Secretary of State  
Executive Order  
Economic Defense Policy Board

**MEMORANDUM FOR THE SECRETARY OF STATE**

41

Assumed in the proposed Executive Order which I discussed with you this morning and which I would like to talk to you about at the conference in your office on Monday morning at 9:30 A.M.

Briefly summarized, the proposed Order provides the following:

- (1) Creation of an Economic Defense Board. This board is to consist of the Secretary of State, the Secretary of the Treasury, the Secretary of War, the Secretary of the Navy, the Secretary of Commerce, and the Director of the Office of Production Management. The Secretary of State is to be chairman of the board. The chairman and the board are to formulate all the policies relating to the administration of the order by the Secretary of the Treasury.
- (2) Extension of Freezing Controls. The order proposes to extend freezing control to all foreign countries and nationals. As you know, the Treasury organization is now controlling the property in this country belonging to listed countries and their nationals. Such organization can be readily expanded to handle the increased work of an extended control.
- (3) Coordination of Tariffs, Duties and Sales Control Instruments. These functions are, as you know, already carried on by the Treasury Department through the medium of the President's Liaison Committee and through the Coast Guard. The order combines such administration in the Treasury, but subject to the policy determinations made by the Economic Defense Board. The proposal does not cut across the contemplated functions of the Office of Production Management.
- (4) Export, Imports and Regulations. These functions are now being administered by Colonel Maxwell as Administrator of Export Control. The order transfers such functions to the Treasury and Colonel Maxwell will administer the powers under the supervision and control of the Secretary of the Treasury. Here again the administration will be subject to the policy formulations of the Economic Defense Board. At the present time the policy on regulating of defense materials is determined by the Secretary of War and Secretary of the Navy acting through the Army and Navy Regulations Board. Under the proposed order such policies

-2-

would be determined by the Economic Defense Board of which both the Secretary of War and the Secretary of the Navy as well as the Director of Production Management would be members.

I believe that the proposed Order offers two primary and over-all advantages. It meets the need of a coordinated formulation of this Administration's policy on problems of economic defense. The proposed six-member board, acting under your chairmanship, would be the cabinet officers most directly concerned with this problem and the Director of Production Management. They would meet periodically and consider jointly current problems against a background of our whole picture of economic defense.

The coordination of the administration of these problems as envisaged by the order would eliminate a vast amount of the red tape and "running around" now required of Americans as well as foreign governments and foreign nationals who desire to purchase or sell materials, etc., in this country. For example, today an American manufacturer selling defense materials to a country covered by the foreign exchange control would have to go through the following cumbersome procedure: (1) file an application for a license with the foreign exchange authorities to make it possible for him to be paid out of blocked funds and to be able to transfer bills of lading and other shipping documents to the purchasers; (2) obtain a clearance from the President's Liaison Committee to negotiate the contract with the foreign country; (3) secure a license from the Administrator of Export Control; (4) obtain a license under the Neutrality Act from the Division of Controls of the State Department; and, finally, (5) assuming that the manufacturer has obtained these four licenses from four different sources and has put his goods on a boat destined for the purchaser, the Treasury would have to determine whether the ship would be permitted to sail.

Inevitably, public criticism will be directed at such uncoordinated activities by the Government in such closely related fields. In these days, when our export trade has dwindled appreciably, we should endeavor to make it as simple, not as difficult, as possible for a manufacturer to sell his goods abroad.

The proposed Order would make it possible for an American manufacturer to go to one place, such as the Customs House in his district, for an appropriate application and thereby ascertain at one time whether he will be permitted to take all of the necessary steps to consummate a sale of the goods abroad. The advantages both to the Government as well as the public from such a more simplified and speedy procedure are obvious.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE December 28, 1940

TO Secretary Morgenthau

FROM Mr. Klaus

## FBI reports:

December 21. The German Consul General of New Orleans has stated that the crews aboard German and Italian ships in American ports have received instructions to scuttle their vessels in the event of positive indication that the American Government intends seizure.

December 23. Ambassador Henri-Haye asked the Havas Agency not to report the American reaction to Laval's dismissal in order not to give the impression to the French Government that the American people consider the ousting as dishonorable to France.

December 26. Soviet balances at the Chase show \$12,643,000.00 in the U.S.S.R. State Bank account, and \$14,421,000.00 in special collateral accounts for letters of credit issued in behalf of Amtorg.

Among the signers of the telegram to President Roosevelt urging full aid to Britain, as printed in the New York Times December 27, 1940, was Frank Altschul.





TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE December 28, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

## CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£70,000
Purchased from commercial concerns	£33,000

Open market sterling was quiet all day at 4.03-3/4. Transactions of the reporting banks were as follows:

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

Closing quotations for the other currencies were:

Canadian dollar	13-5/8% discount
Swiss franc	.2321-1/2
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2360
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	8-11/16% discount
Chinese yuan	.05-9/16

There were no gold transactions consummated by us today.

No new gold engagements were reported.

The Bombay gold price was equivalent to \$33.93, up 3¢. Silver was 3/16¢ lower at the equivalent of 43.86¢.

DEPARTMENT OF STATE  
WASHINGTON

December 28, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses 8 copies of paraphrase of telegrams as follows, with regard to a report that a German bank is about to acquire certain stock which is held by the Schneider Creusot Munitions Corporation in the Credit Bank of Hungary:

No. 342 of December 19, from the American Legation, Budapest, Hungary

No. 285 of December 23 to the American Legation, Budapest

The Department transmitted to the American Embassy at Vichy (in telegram No. 877 dated December 23, 1940) a paraphrase of certain parts of telegram No. 342 of December 19 from Budapest, and requested the Embassy's comment on the above-mentioned report.

Enclosures:  
As listed above.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Budapest, Hungary

DATE: December 19, 1940, 6 p.m.

NO. : 342

Yesterday I was told by an official of the Credit Bank of Hungary that the Dresdner Bank was about to acquire the relatively small percentage of stock which the Schneider Creusot Munitions Corporation holds in the Credit Bank. The latter has ramifications throughout Hungary, and it is said that approximately 45 percent of Hungarian industry is controlled by the Credit Bank.

My informant said that the stock involved is held as a bloc in the face of scattered majority shares, some of which are owned in Great Britain and are now controlled as a unit by a Hungarian agent but not in sufficient number to prevent Germany from assuming control of the activities of the Credit Bank unless the Hungarian shareholders could be influenced by the Hungarian Government to vote with the British.

The report continues that the managing director of the Schneider Creusot Munitions Corporation is held in German custody and that he has been induced to sign a bill of sale against French occupation marks for the Credit Bank stock, but that Petain has refused to acknowledge the transaction and therefore the shares remain undelivered.

The suggestion was made by my informant that the United States Government might see fit to strengthen Petain's hand initially perhaps by discussion with the Hungarian Minister at Vichy. It is not possible for the Credit Bank to communicate directly with the latter. I said that I did not know what attitude the United States Government might take in this case, and that unless a high official source should transmit the request for assistance, I could not forward it to the Department.

MONTGOMERY.

KA:LNF

COPY

## PARAPHRASE OF TELEGRAM SENT

TO: American Legation, Budapest, Hungary

DATE: December 23, 1940, 7 p.m.

NO.: 285

Reference is made to telegram of December 19, 6 p.m., no. 342 from the Legation.

The American Embassy at Vichy has been informed by the Department of the report submitted in the telegram under reference, without disclosing the source of the report. The Embassy at Vichy has been asked to comment on it.

HULL  
(SW)

EA:FL:LWW    Ea

EA:LWW

Copy:alm

BJS

GRAY

Montevideo

Dated December 28, 1940

Rec'd 9:56 a.m.

Secretary of State,

Washington.

322, December 28, 11 a.m.

Bank of the Republic announced December 26th a quota of one hundred thousand dollars of free exchange for imports of automobiles from the United States to be charged against 1941 quota.

WILSON

HFD

TO THE SECRETARY  
TECHNICAL ASSISTANT  
OFFICE OF THE

Copy:bj

940 DEC 21 6W 3 02

THE SECRETARY OF THE  
RECEIVED

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Vichy

DATE: December 28, 1940, 4 p.m.

NO.: 1190

Reference is made to telegram of December 14, 5 p.m., No. 846 from the Department, and to telegram of December 20 9 p.m., No. 1164 from the Embassy.

I have been furnished the following information by Radigues, the former Counselor of the Belgian Embassy at Paris. He states that a prominent Belgian banker recently secured this information from a high official of the Bank of France at Paris:

The French authorities, under the terms of an agreement which was reached at Wiesbaden, consented to turn over to the Germans the Belgian gold which was being held at Dakar provided the transaction was approved by the National Bank of Belgium; the latter, however, refused to give its sanction. A new agreement was therefore signed at Wiesbaden - under German pressure - under which the French consented to deliver the Belgian gold at Dakar without the Bank of Belgium's agreement. The military Governor of Belgium, General von Falkenhausen, thereupon issued an ordinance which gives the German authorities the right to sign receipts for the gold on behalf of the Belgian National Bank. The Germans have already received part of the gold, and during the first

two

- 2 -

two weeks of January the remainder is to be handed over to them at Marseille.

According to my informant, the Belgian gold which had been sent to Dakar represented all the gold stock which was in Brussels at the time Germany invaded Belgium. He did not know what the value of the gold was, but believed that it amounted to about seven billion francs (Belgian). He did not know how it was being moved from Africa but presumed that air transport was being used.

Radigues asks that Theunis and Gutt be informed of the substance of the foregoing.

I trust that Radigues' name will be carefully guarded as the source of this information in view of the fact that under present circumstances his position here is a delicate one.

END OF MESSAGE.

MATTHEWS.

RECEIVED  
GENERAL INVESTIGATIVE  
DIVISION

DEC 30 11 22 AM '42

TO THE DIRECTOR  
FEDERAL BUREAU OF INVESTIGATION  
U. S. DEPARTMENT OF JUSTICE

EA:LWV



DEPARTMENT OF STATE  
WASHINGTON

December 30, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses 3 copies of paraphrase of telegram No. 1190 of December 28 from Vichy.

*telegram filed  
under date of 12/28/40*

TO THE SECRETARY  
RECEIVED  
DEC 30 1940  
11 22  
DEPARTMENT OF STATE  
RECEIVED



McC

GRAY

Berlin

Dated December 28, 1940

Rec'd. 12:28 p.m. 29th.

Secretary of State,  
Washington.

5186, December 28, 1 p.m.

My 5009, December 12, noon.

The list of goods which cannot be shipped to Germany from the occupied Netherlands without special permission from the foreign exchange authorities has been considerably reduced according to the press reports based on a new circular decree issued by the Reich-Minister of Economics. Furthermore the decree is said to make possible without special permission from the foreign exchange authorities the transfer of profits and interest payments from Germany to persons who have immigrated to the occupied Dutch territory. Certain other payments it is stated may be made to these persons as formerly within the limits of the appropriate regulations and with the (\*) foreign exchange authorities.

MORRIS

GW

(\*) Apparent omission.

eh:copy

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Vichy (Paris) France

DATE: December 28, 1940, 5 p.m.

NO.: 1191

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.

I have been told by Valensi, who is the Assistant Director of the Foreign Finance Section of the Finance Ministry at Vichy, that increasing concern is felt by the French Government over the efforts which Germans are making to buy into French industries and to purchase the French holdings in foreign concerns. The French exchange control regulations have as a result been changed recently so as to prohibit, without the Finance Minister's special authorization, the sale abroad of foreign securities which are owned by Frenchmen, the sale of such securities in France to a foreigner who resides in France, and all purchases and sales of French securities which are effected otherwise than on a French bourse.

The foregoing measures, my informant admitted, could not stop all sales to the Germans of French securities or foreign securities which are French-owned, because as he said their instructions are not always obeyed in the territory occupied by Germany. Nevertheless, in view of the indirect pressure which may be brought to bear on stock exchange brokers, Valensi believes that in the future the number of sales may be cut down.

MATTHEWS.

EA:LWV

BRITISH EMBASSY,  
WASHINGTON, D. C.

PERSONAL AND  
SECRET.

28th December, 1940.

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,

*Avril Bell*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London  
dated December 26th, 1940.

Naval.

At 9.42 on December 25th about 700 miles west of Finisterre an enemy 8 inch cruiser sighted by H.M.S. "Berwick" which was escorting a convoy together with other cruisers and other naval units. One of the latter reported that she was engaging the enemy raider and that our cruisers were chasing. The convoy scattered and H.M.S. "Berwick" sighted enemy 8 inch cruiser which she engaged and drove off in poor visibility. The enemy cruiser was hit abaft the funnel and possibly other hits were obtained. H.M.S. "Berwick" had five casualties and some damage. Certain protective dispositions have been taken for the Atlantic convoys.

2. The town class destroyer "Richmond" on passage from Halifax to the United Kingdom with two others returned to St. Johns, Newfoundland, with minor engine defects on the 24th.

3. Motor gunboat 50 struck mine south west of Race Head a.m. 25th receiving minor damage.

4. On December 21st naval aircraft from the "Illustrious" attacked Italian convoy 120 degrees northwest of Tripoli, one 3000 ton merchant vessel blew up and one 6000 ton merchant vessel was sunk.

Telegram from London  
dated December 25th, 1940.

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4. On December 21st naval aircraft from the "Illustrious" attacked Italian convoy 120 degrees northwest of Tripoli, one 3000 ton merchant vessel blew up and one 6000 ton merchant vessel was sunk.

56

BRITISH EMBASSY,  
WASHINGTON, D. C.

December 28th, 1940.

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*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated December 27th.

Naval.

German merchant vessel intercepted a.m. 26th in North Atlantic was "Baden" 8200 tons crew set her on fire. Weather conditions prevented boarding. Cruiser torpedoed her. 39 survivors.

2. East Coast convey unsuccessfully attacked by aircraft off Scotland p.m. 25th.

3. Reconnaissances 24th showed at Naples 1 Littorio, 1 Cavour, 1 Zara, 5 destroyers. 1 enemy aircraft was shot down in the Bay.

4. 26th at Taranto. 1 Littorio, 2 Cavour, 4 cruisers, 9 destroyers, 29 flying boats. 26th at Brindisi, 4 cruisers.

5. Paddle mine-sweeper "Mercury" mined and sunk off French coast p.m. 25th.

6. Military. Reference summary 24 paragraph 2. Latest estimates of strength of Bardia garrison are much smaller. It is thought that personnel comprising regular and frontier guard troops numbers 13,400 with 78 field and 45 medium guns and 30 medium and 20 light tanks. This includes about 1500 men of 64th division which was previously considered entirely eliminated. Tobruk garrison is believed to number 21,740 men comprising regular black shirt and frontier guard troops with 114 field and 16 medium guns and 21 tanks.

7. Royal Air Force.

Night of 26th/27th. 12 aircraft were sent to bomb submarine base and aerodrome at Bordeaux. Reports not yet available.

8. German Air Force.

No enemy operations reported.

-2-

**9. Yugoslavia.**

Partly as a result of severe weather, which makes farther work on defences impossible and an attack by land unlikely, and partly due to changed conditions in Albania, total number of men with the colours will probably shortly be reduced to 500,000 and will be maintained at this figure throughout the winter.



G-2/2657-220

RESTRICTEDM.I.D., W.D.  
December 28, 1940.  
12:00 M.

No. 279

SITUATION REPORT

This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

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I. Western Theater of War.

The German High Command announced that a heavy 4-hour raid was made on London the night of 27-28 December. The British Air Ministry admitted that the raid was the most punishing since 8 December.

The British operated over Norway and French coastal ports.

II. Greek Theater of War.

Only local ground operations were reported.

The Italian communique reported bomber and pursuit formations attacking Greek troops and road junctions.

III. Mediterranean and African Theaters of War.

There has been no appreciable change in the Bardia area. Patrol activity is again reported in East Africa on the Sudanese frontier. The Italians claim the sinking of a British light cruiser in the central Mediterranean.

RESTRICTED

**CONFIDENTIAL**

60

**Paraphrase of Code Radiogram Received  
at the War Department 10:40 A.M.,  
December 28, 1940**

**London, filed, 14:10, December 28, 1940.**

1. During daylight hours of Friday, December 27, 15 offensive patrols and 19 special and routine patrols were operated by the Coastal Command. On the same day 64 planes of the Fighter Command were active. The airdrome and submarine base at Bordeaux were bombed by 12 British planes, and two other patrols were operated by the Fighter Command.

2. During daylight hours of December 27, 50 German planes on reconnaissance missions were over the coasts.

3. The estimated number of Italian soldiers within the Bardia defenses is now placed at 13,000 men.

**LHE**

**Distributions:**

**Military Aide to the President  
Secretary of War  
State Department  
Secretary of Treasury  
Asst. Secretary of War  
Chief of Staff  
WFD  
ONI  
AG  
G-3**

**CONFIDENTIAL**

# CONFIDENTIAL

61

Transcripts of Code Radiograms Received  
at the War Department 6:28 A.M.,  
December 23, 1940.

London, filed 11:54, December 23, 1940.

1. During the night of December 21-22 a 12-hour attack on Manchester destroyed the Royal Hospital, the Royal Exchange and did considerable damage to the Exchange and Victoria Stations and to the Cathedral. Other public buildings were severely damaged and the railway lines were blocked. The working class districts of Struttford suffered severe damage and a large section was burned.

2. Extensive damage was inflicted on Liverpool by attacks on the nights of December 20-21, 21-22, and 22-23. Railroad lines north of the city were completely blocked and the Liverpool-Lancs Canal was damaged. All types of private and public buildings were damaged, as were lumber yards and an oil cannery and refinery. Several warehouses, docks, and five ships suffered extensive damage. All over the area traffic was completely disorganized and the Wallasey and Birkenhead sections were hard hit.

3. The reported damage from these raids is much greater than that inflicted in Sheffield. As is the case in other cities the lack of a dependable water supply is causing considerable difficulty.

4. In these raids the Germans start with incendiary bombs. Then land mines and bombs are dropped by waves of German bombers. The land mines are particularly destructive. In those areas where carelessly constructed buildings exist, buildings are destroyed whether or not they are hit.

CONFIDENTIAL

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5. In addition to confirming the above reports a Mr. Holland, who is the director of the Holland Mills, reports that a large cotton-meal warehouse, two large feed depots and the Westinghouse factory were set on fire.

**LEE****Distributions:**

**Military Aide to the President  
Secretary of War  
State Department  
Secretary of Treasury  
Asst. Secretary of War  
Chief of Staff  
WPD  
ONI  
AG  
G-1**

**CONFIDENTIAL**

CONFIDENTIAL

63

Paragraphs of Code Intelligence Received  
at the War Department 8:17 A.M.  
December 29, 1940

London, filed 13:45, December 29, 1940.

1. On Saturday, December 28, and during the night before, the usual patrols were operated by the Coastal Command. These included four offensive patrols. During the night of December 27-28 mines were planted along the western coast of France and off the northern German coast. Heavy bombing attacks were directed at airfields in Belgium and France and heavy British bombers were active over Atlantic and Channel parts. A railway junction in northern Germany was hit and severe attacks were made on an oil refining plant and the airfield at Bordeaux. During the night of December 28-29, 50 patrols were dispatched by the Fighter Command.

2. During daylight hours of December 28 the Germans made about 25 reconnaissance flights over the estuary of the Thames and over the southeast coast of Britain. The previous night 15 German bombers were active and about 90 bombers attacked London. These are the Air Ministry estimates and do not entirely agree with the press reports of severe and extensive attacks against London on that night. During the one and one-half hours beginning at 8:30 P.M. on the night of December 28-29 a total of about 30 German planes were plotted, principally in the area surrounding Plymouth.

LIE

**Distributions:**

Military Aide to the President  
Secretary of War  
State Department  
Secretary of Treasury  
Asst. Secretary of War

Chief of Staff  
WPD  
ONI  
AS  
G-3

CONFIDENTIAL

December 30, 1940.

MEMORANDUM

TO: Secretary Morgenthau  
FROM: Mr. Gaston

*MSG*

Antonio Raul Acosta Rendueles (Tony Acosta), Chairman of the Cuban Alcohol Commission, came to see me Friday, December 27, with Elmer Irely, Tom Gorman and W. R. Johnson. He has been in Washington since November 13 and says he came as a personal representative of President Batista. He has been trying to arrange for a quota, or other concession, under which Cuba could ship twenty million gallons of industrial alcohol annually to the United States. He has not been getting to first base since he has been blocked by Ambassador Martinez Fraga and snubbed by minor officers in the State Department. Ambassador Martinez Fraga was lately recalled to Cuba and Acosta says his recall was the result of a personal letter the Ambassador wrote to a friend in Cuba boasting that he had thwarted Acosta's efforts.

Irely and Tom Gorman know Tony Acosta quite well. He was appointed head of the Alcohol Commission in 1934 by President Carlos Mendieta and was continued in office by Laredo Bru. He was the only Cuban official who cooperated sincerely and honestly with the United States in trying to stop the flood of Cuban alcohol into this country and he did a good job. Batista has now apparently put up to him the problem of finding some business for the distillers and his continuance in the Cuban political picture undoubtedly depends on this. It doesn't appear that his chances of accomplishing anything are very good, but he intimates that we are likely to see a large scale renewal of Cuban smuggling if he is not successful, as well as serious damage to Cuban-American relations.

Acosta says that Batista gave him a personal message for you and he hopes that you can give him an appointment so that he can deliver it. ||

The attached memorandum was dictated by him.

ANTONIO RAUL ACOSTA RENDONES

Born in Pinar del Rio, March 27, 1904. (Cuba)

Son of: Miguel Acosta Rodriguez and Matilde Raduales Pabot.

Schools: Cuban schools and private tutoring.  
Special course on commerce and economy.  
Experience in banking and sugar industry and  
made surveys on Cuban products in general,  
for government as well as private industries.

In 1934 he was appointed by President Carlos Mendieta  
his personal representative with the tital of:

Personal Representative of the National Executive  
and Chairman of Comision Investigadora De Exportacion  
De Alcohol Y Aranceles Prohibitivos Extranjeros

Mr. Acosta has been holding a position in which he  
has been maintained by all subsequent Administrations,  
due to his probity and rectitude in the international  
mission entrusted to him.

Mr. Acosta's duties under Laredo Bru ceased on September 13,  
1940. Reinstated by President Batista early in November of  
this year.

His work from then on was of the highest importance in  
promoting and maintaining the good feeling between his  
native country and the U. S. A.

The existing treaties for the purpose of preventing and  
repressing of smuggling of alcohol, drugs and immigrants  
were violated constantly and only due to Mr. Acostas'  
energetic and able activities were they finally suppressed  
to a point where the United States Government through  
important officials declared their open and unrestricted  
appreciation for Acostas' valuable and most effective  
cooperation.

On November 13th Mr. Acosta arrived in Washington as the  
personal representative of President Batista and had  
numerous conferences with important officials of the  
United States Government.

Mr. Acosta is considered one of the most important  
individuals and factors in the international pre-  
vention and suppression of crime in all its illegal  
phases between the U. S. A. and Cuba.

December 30, 1940  
10:45 a.m.

RE FOREIGN EXCHANGE CONTROL

Present: Mr. Kuhn  
Mr. Young  
Mr. Gaston  
Mr. White  
Mr. Bell  
Mr. Foley  
Mrs. Klotz

H.M.Jr: Harry, you got the wrong letter Saturday.

White: Unfortunately, I just learned about it.

H.M.Jr: Anybody else?

White: No, it was in the safe over the weekend.

H.M.Jr: Well, there is another one from Lothian to me which is only on shipping. It is not your fault.

White: This one dealt mostly with shipping.

H.M.Jr: No, there is another one, the selected part of which has to do with shipping.

White: That is why it was misleading. When she called up and said I had the wrong one, I said I didn't think it was possible.

H.M.Jr: Well, it came out all right.

White: I haven't seen him since he spoke to you, but I will see him again.

H.M.Jr: They just took the shipping part out of this other letter, you see.



- 2 -

White: I see.

H.M.Jr: Let me say in the confines of this room, I went over to see Mr. Hull, which was one of the most difficult missions I ever had, to get something that belongs to Treasury, and then have him pull this Kintner and Alsop story on me was about as bad an experience as I have had. I would like to know who saw Kintner and Alsop about this shipping. Who did they see?

Foley: I haven't seen or talked to Kintner or Alsop in a couple of weeks.

H.M.Jr: "The debate has been most bitter between the Treasury and the State Department. The Treasury lawyers were brought into the picture." The whole thing was on the legal side. Can anybody in this room tell me?

White: Kintner called me up a few days ago just to ask who gave the President that idea on the loans.

H.M.Jr: Well, he checked with everybody on that. No, this is the thing as to the taking of ships.

Gaston: That stuff has been leaking out piece-meal in different publications over the last week or ten days. I don't know where it comes from.

Kuhn: Is that an AP story?

H.M.Jr: It is all on the lawyers.

Foley: I read it.

H.M.Jr: Well, will you ask in your shop whether anybody has, and will you tell them if this happens again the person - I am very sorry, we will have to sever his connections with the Treasury. I can't work under circumstances like that. I can't go to see Mr. Hull - I will say this for Mr. Hull.

- 3 -

He was really lovely about it. I would have been simply furious. He couldn't have been nicer about it. But to go over there on the mission I went this morning and then have him flash that on me. I am not going to have it. Now, I don't know whether--

Gaston: I think that you are assuming and perhaps Mr. Hull assumed that it came out of the Treasury. I wouldn't assume that. I wouldn't be certain of that at all. Since the first leak on that story, we know, came out of the State Department, I would be inclined to think that that stuff came out of the State Department, too. I wouldn't assume it came out of the Treasury.

H.M.Jr: Well, I would like Ed to satisfy me. Just ask your boys, see, and simply tell them I can't work under those conditions. It is impossible. I mean, if I want to tell Kintner and Alsop something, that is my responsibility, but I reserve that right. Now, that still goes that they shouldn't be shut out of the Treasury. They went around and saw everybody before they saw me on whether the President did or didn't have this idea, you see, the lending of the stuff. And then they come in and they have enough to make it extra difficult, but it worked out all right because it was the President's idea, but they called Gaston and they called you (White) and I don't know who else they called, but I mean this is as good a point as I know, and I can't work this way because, actually, it puts the State Department in a bad light, and Mr. Hull doesn't like it, and I don't blame him. Maybe Gaston is right, it didn't come out of here, but I would like to be satisfied on that.

Foley: Well, I will ask my fellows.

H.M.Jr: Well, you know in your office who knows Kintner and Alsop.

- 4 -

Foley: Yes, I will ask them. But Kintner has been in to see me once since the time we had this talk.

H.M.Jr: You don't have to explain. Everybody says--

Foley: That was a couple of weeks ago.

H.M.Jr: Put yourself - supposing you walked into my office, and you want to sell me that the General Counsel's office should take over the lawyers of the Comptroller of the Currency, and in the paper this morning I find that there is a great scrap on between the General Counsel's office and the Secretary of the Treasury but giving the attitude that you are right and I am wrong, and you have got to come in and say that you want to take over those lawyers.

Foley: Sure.

H.M.Jr: How would you feel? I mean, when you were innocent and had nothing to do with it. You came in and said, "Now, Mr. Morgenthau, I think that day has come when I should take over the lawyers in the Comptroller of the Currency's office," but in the paper is a story how you out-smarted me and how you are right and I am wrong. Well, I am human.

Foley: Sure.

H.M.Jr: Now, what happened over there, the first thing I want to clear, is to my amazement on this memorandum Hull is practically ready to go along. I think everybody who hasn't seen it can get a copy from the General Counsel. Have you got my copy for the President?

(Memorandum to Mr. Hull dated December 28.)

And he is ready to say that the President that - he is almost on the fence, but he is a little

- 5 -

bit disinclined to do it. He is sending me over some stuff that Berle and other people have written why we should go slow. He doesn't want to be chairman. He wants us to run the show. He is perfectly willing to advise me any time I want to. Then I dropped in to see Welles, because he asked me to see him, and I asked Welles how he felt about it, and Welles has read the whole thing, and Welles said, "I have changed, and I am for it if you will explain what we will do about South America and England and Canada." I said, "They will all be excepted," and then he said, "I am for it a hundred percent."

Gaston: That is frozen funds?

H.M.Jr: Yes, the whole program.

But he said, "I think Knudsen should be chairman," Welles said that, and I said, "Well, I disagree with you entirely, but what I would like to do is have the first couple of meetings in Hull's office, and if it isn't too much for him, I would like him to continue." I said, "We had this meeting about planes, and if anybody had told me that when they divide up three hundred planes and South America gets none, I would have said they were crazy." Welles said, "By God, I should have been here." I said, "Let's take the question of food to Europe which Mr. Hull raised." I wouldn't be satisfied on any decision that was made unless he sat in on it, and I said, "It is things like that that I want him to sit in on." So Welles said, "Now that you have told me that you are willing to exempt South America and England, I will go along. I was opposed to it before, but I am with you one hundred percent." And he said it is absolutely necessary that we continue to handle the English Purchasing Mission. But I am amazed. Hull's only objection to the thing was the extra work which would be thrown on him.

- 6 -

- White: On him? Well, of course, the matter is of such high policy that I don't think the State Department could avoid the responsibility.
- H.M.Jr: Well, I have got it now. I am amazed. I have got it so that I can tell the President how Hull feels and ask Hull to have the first meeting at his office.
- White: They didn't raise any question about putting the export control under him?
- H.M.Jr: No. It belongs to Treasury. It is Treasury business. The only thing that Welles raised is, "What about American ships?" I said, "They are not in it." He said, "Well, I think American flag ships should be."
- Foley: Should be?
- H.M.Jr: Should be. I said, "Well, we can take it up," but I am dumbfounded. Now, of course, maybe they are kidding me; but, anyway, there it is.
- Now, if everybody hasn't gotten a copy of that, they can get one.
- Gaston: I haven't seen it yet.
- H.M.Jr: Well, all right. Now the other thing. Welles tackled me as you (Bell) thought he would. He has changed the thing regarding the Columbian Government. Now, while we are doing a little trading, Welles is very keen about this thing. He says originally it was his idea, and so forth, and so on, and he is more interested in this other thing than he is in that, and you "scratch my back and I scratch yours." So I told him I was just interested in the thing - and he is tremendously interested in that, so I think I am going to call him up and say I will go along on the statement, but as to what is in it, I don't care. I also want Kuhn on this as to the

- 7 -

final wording on the statement, you see. Columbia.

White: Swapping one rabbit for an elephant.

H.M.Jr: Which is the rabbit?

White: I think he is getting the rabbit, if he can get what you want on that.

Bell: Well, they have taken out two of the things that I objected to, and they have softened the other one. I would prefer if they would say, "Constitutes -- or the offer of the Columbian Government is entitled to consideration by the bondholders." That is what I prefer.

H.M.Jr: I don't care about the wording.

Bell: They don't want that.

H.M.Jr: You can write it. I only told them that I was only interested in whether there would be a statement or not.

Bell: The Columbians won't make the offer unless there is some "pat on the back" from this Government, as I understand it.

H.M.Jr: Well, I am willing to go along, but I am certainly in very good humor on this other stuff and so is Sumner.

White: It is surprising. When you said you exempted England, I take it you had in mind that you would do that by a general license.

H.M.Jr: Twenty-four hours in advance we tell them by word of mouth, South America, England, and Canada is exempt.

White: By the general license, but not exempt. The difference is, Mr. Secretary, that they have to

make an inventory of all their assets.

H.M.Jr: You bring them in and then let them out.

White: Through a general license?

H.M.Jr: Yes. I am amazed. I don't believe it. (Laughter)

White: Well, it is so obviously the thing to do, I think, that they couldn't very well have any kind of a good argument against it.

(Conversation with Sumner Welles follows.)

Page 8  
Telephone conversation with  
Sumner Welles.

*No conversation  
with Welles on  
12/30/40 -  
80  
8-8*

- 9 -

- H.M.Jr: But as to the language and so forth, let Kuhn help you, but I wish--
- Bell: Kuhn went over the one that I had Saturday, but this is the one that I got on Sunday.
- H.M.Jr: Well, I wish that everybody would examine - I mean, there is nobody else except somebody - two or three fellows in your (Foley's) office that are on a personal basis with Alsop and Kintner, and I would ask them, please.
- Foley: Yes.
- H.M.Jr: There is no use asking them, because I have been all through that again, and they always say, "Well, that is our stock in trade. We can't say who."
- White: Well, I think it is quite possible for anyone to require of his subordinates that they not talk to them. It is a very different thing when they come to us. We are not in a position to do that, but I think that with respect to any subordinate, I mean any one less down on the scale, they can well "pass the buck" to the chief, and say, "We can't discuss these things." Don't you think so, Ed, and take the heat off them? We can't do that, but they can.
- H.M.Jr: And you can go a step further. You talk to them and go to their house for dinner, as I said before, by all means, but if something gets tough, you say, "I am terribly sorry, but the only person that can discuss that is Mr. Morgenthau. I know the answer to what you are asking me, but I am not at liberty to discuss it." You can say it with a smile.
- Foley: I have said that lots of times.
- H.M.Jr: You can say, "Now, Joe, don't get ugly. Don't



- 10 -

pound the desk. It is no use going into a tantrum, Joe, because you are not going to get any where.

White: You may be sure they always ask the questions, and the fact they don't get the answers is because something of that kind is told them.

H.M.Jr: You can say, "Joe, don't put on any tantrums. Don't jump up as if you are going to leave the room or anything else. You are not going to get the answer."

Bell: Do you think we ought to see them? I have refused to see them.

H.M.Jr: Well, Dan, we are living under a democracy, and you have got to make up your own mind.

Bell: I have made up my mind. I think they are just a couple of gossips.

Gaston: There have been more than one occasion when the State Department have deliberately fed out a story, and then tried to hang it on the Treasury Department. They did that on the frozen funds. We know that the break on this ship story came from the State Department. They had practically the whole story on the ships. My suspicion would be very strongly that that story came out of the State Department.

H.M.Jr: Herbert, you may be right, and that may account for the fact why Mr. Hull was so soft about it, but I just want to tighten up once more in my own shop and make sure.

Gaston: I know that the AP boy has been getting some stuff on this story. He was around to me twice, and tried to get me to confirm stuff that he had got on the outside on this, as to the Treasury's position. I didn't give him a thing. But he had

- 11 -

been getting it from some other source.

H.M.Jr: O.K. All right, and I will - that is that. He wants that, you know, today.

Bell: He said so.

H.M.Jr: I am going to see Purvis alone at first. I'll give you a ring a little later, Philip.

December 30, 1940

My dear Mr. President:

I thought you would be interested in the inclosed article in the New Republic entitled "The Halifax Blunder".

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,  
The White House.

Enclosure. ✓

Clipping from The New Republic  
for Dec. 30, 1940

By Messenger 545

December 30, 1940

My dear Mr. President:

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The President,  
The White House.

Enclosure.

Clipping from The New Republic  
for Dec. 30, 1940

By Message

## The Halifax Blunder

THE KINDEST COMMENT that could be made on the appointment of Lord Halifax as Britain's Ambassador to the United States would be to say that it is a hideous mistake. It may be much worse. It may be a signal, a wink, to certain agitated old ladies of Wall Street and their journalistic confessors not to take Ernest Bevin too seriously. Did not the Minister of Labor a few weeks ago, strenuously declare that labor and the common people generally must be given a place in the British diplomatic service as well as in other departments of government? A whole section of American appeasement is built on the fear that labor is gaining "too much power" in England; Mr. Kennedy's famous Boston interview was largely concerned with this hand-made nightmare.

The appointment of Lord Halifax will reassure the American appeasement circle. What reassures them will disturb the mass of Americans who must do the work and pay the taxes on which our policy of help to England rests. They will do so willingly to serve democracy; it is an affront for the voice of that democracy to be one of the chief appeasers, the father of the Runciman mission to Czecho-Slovakia, the opponent of strong English-French alliance in the years before the war, the author of a smug introduction to Lord Lloyd's wicked book, "The British Case," which, two months after the war began, impudently praised Benito Mussolini's concept of government.

We are not yet prepared to believe that the Halifax appointment represents a crystallization of British policy in the wrong direction. It may be only another sign that British policy is still in a state of transition, from the trusted horrors of the last few years, to something fit to express the hopes of decent men for a fair and free world. But one of those trusted horrors, Captain Margesson, the Conservative whip, who has indiscriminately given his all to every marplot who has managed to wangle the premiership, is the new War Secretary; a party hack leads, at least nominally, the effort on which the hopes of mankind rest. Some of that dullness and edgelessness which marked the "bilge-water" days of Conservative rule seems to have returned.

We are for England, but are compelled to be remorselessly candid because the world is not playing at a game; it is inventing its future. We hope our candor will be of assistance to those in England who are also fighting for the right kind of future. We are impressed, to a certain extent, by the ingenious argument that the "inner council" of appeasement has now been scattered; Halifax to Washington, Hoare to Madrid, Lord Simon to the judiciary apparatus. Eden, once replaced by Halifax as Foreign Secretary, now replaces him; and Viscount Cranborne dons a peerage to carry his hatred of

Hitlerism into the House of Lords. It is also hinted that Sir Gerald Campbell, the able former British Consul General in New York City, will go to Washington as a Minister with Halifax, and this is good. But we still hold that America deserves to be something more than a pocket in which to store old appeasers; many Americans want to know what kind of war this is; the answer now given them is a poor one. Halifax will be watched. It is a high democratic duty to place upon him the burden of proving himself.

December 30, 1940  
11:00 a.m.

H.M.Jr: Hello.

Operator: Mr. Welles.

H.M.Jr: Hello.

Sumner  
Welles: Hello, Henry.

H.M.Jr: Sumner, you soften me up so as usual .....

W: (Laughs).

H.M.Jr: ..... and I go along and as to a statement as  
to what's in it, Bell will get in touch with you.

W: All right.

H.M.Jr: See?

W: Well, I'm very grateful to you, Henry. That's  
very helpful.

H.M.Jr: All right.

W: Thanks.

H.M.Jr: You're welcome.

W: Good-bye.

December 30, 1940  
11:00 a.m.

H.M.Jr: Hello.

Operator: Mr. Welles.

H.M.Jr: Hello.

Sumner Welles: Hello, Henry.

H.M.Jr: Sumner, you soften me up so as usual .....

W: (Laughs).

H.M.Jr: ..... and I go along and as to a statement as to what's in it, Bell will get in touch with you.

W: All right.

H.M.Jr: See?

W: Well, I'm very grateful to you, Henry. That's very helpful.

H.M.Jr: All right.

W: Thanks.

H.M.Jr: You're welcome.

W: Good-bye.

December 30, 1940  
11:34 a.m.

H.M.Jr: Hello.

Operator: Chairman Frank.

H.M.Jr: Jerome.

Jerome Frank: Yes, Henry.

H.M.Jr: These investment trust fellows are coming down to see me representing the industry - whether they could be helpful on some of the direct investments the British have in this country.

F: Yes.

H.M.Jr: And what I wanted was somebody from the S.E.C. to be here in case you're busy.

F: Well, I've got a public hearing on and it's going to be pretty hard for me to get out but I certainly can have someone there.

H.M.Jr: Well, who would it be, Jerome?

F: Schenker, he's the head of the Division and knows all about it.

H.M.Jr: All right. Will you have him here?

F: Yes, I'll have him - there might be some other fellow, too, that knows a little of the other part of it.

H.M.Jr: I'd like them there to advise me and see that I'm not getting into any trouble.

F: Sure. By the way, did you see Reuther yesterday?

H.M.Jr: Yes, I did.

F: Isn't he impressive?

H.M.Jr: Tremendously.



- 2 -

- F: Well, I think he's got something that the Boss just ought to consider carefully.
- H.M.Jr: Well, I'm going to give him the memorandum when I have lunch with him and I'm going to do all I can to push it there.
- F: Well, I tell you what I did. Harry White probably told you - a lot of us had breakfast with him. I sent a note to the President this morning saying everybody present had asked me to advise him that we thought it was very important and he ought to see this fellow soon and give him an hour.
- H.M.Jr: Yeah.
- F: And then, having in mind the constitution of the 4-man board, I think he ought to - if they buck, he ought to ask them to appoint a committee for a public hearing on it and put, say, John Carmody or Ed McGrady on it and let's say Paul McNutt or some other fellow that's a lawyer and an engineer and let them tell their stuff in public.
- H.M.Jr: They ought to.
- F: I don't think that industry can stand up if that story is told.
- H.M.Jr: They've got to do it.
- F: It's just insane. Here it's the one thing that America boasts about - it's an amazing story, isn't it.
- H.M.Jr: I read his memorandum very carefully and I saw him besides.
- F: Well, I hope you do push it with the Boss.
- H.M.Jr: I'm going to.
- F: Fine. Well, I'll see that someone's over there.
- H.M.Jr: Thank you.

December 30, 1940  
11:55 a.m.

H.M.Jr: Hello.

Operator: Secretary Stimson has a large meeting in his office and he'd like to call you back. Mr. Schott is on the line.

H.M.Jr: Who?

Operator: Mr. Schott.

H.M.Jr: Schott? Who is Mr. Schott?

Operator: He's in Mr. Stimson's office.

H.M.Jr: No, what I mean - is Schott there?

Operator: Just a minute. (Pause). He's one of Mr. Stimson's secretaries.

H.M.Jr: Well, I just - (talks aside - what's the name of that attorney?) See whether they can get McCloy out of the meeting to come to the phone.

Operator: McCloy.

H.M.Jr: McCloy, will you. Tell them to get McCloy out of the meeting and ask him to come to the phone.

Operator: Right.

11:56 a.m.

H.M.Jr: Hello.

John J.  
McCloy: Hello.

H.M.Jr: McCloy.

M: How are you, Mr. Secretary?

H.M.Jr: I'm all right. I wonder if you couldn't help out Mr. Stimson and myself.

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- M: Yeah.
- H.M.Jr: A week ago Friday Mr. Stimson gave the President a memorandum where he recommended that the Army go ahead and spend \$200 or \$300 millions for that divisions for the English.
- M: Yes.
- H.M.Jr: And the President initialed it. I asked Mr. Stimson Friday a week ago whether I could have a photostat copy of it. He said yes. I then had tea at his house two days later, Sunday, at 5:00 o'clock and I said where is that memorandum, is there any reason why I can't have it.
- M: Yes.
- H.M.Jr: He said, well, you'll find it in your office. when you get there. Now, I haven't got it.
- M: Well, I guess it slipped his mind. I know the one you mean.
- H.M.Jr: And he promised it to me. If for some reason he doesn't want me to have it .....
- M: Oh, no, I'm sure - no, because he told - I heard him say that - by the way, he says, Secretary Morgenthau wants a copy of that and I must get it to him.
- H.M.Jr: Well, what I think is, he's got it in his inside pocket.
- M: (Laughs). Well, I think that's just what has happened. I don't know that I can locate the one with the O.K., F.D.R., on it, but suppose I give you a carbon copy of it. Will that be satisfactory?
- H.M.Jr: Yeah and then later the one with the President's O. K. on it.
- M: Well, later on when I can locate the other one. I know he's had it very definitely in mind because he just said I've got to get a photostat of that and get it over to Morgenthau and I think it has just slipped his mind if you haven't got it already.

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H.M.Jr: No, nobody has got it.

M: O. K. Well, I'll see - I'll make that my .....

H.M.Jr: Do you think I can get it before 1:00 o'clock when I'm having lunch with the President? I mean the carbon.

M: The carbon, yes. I can get you that.

H.M.Jr: What?

M: I can get you that. I'll get hold of that right off the bat and where shall I send it to you.

H.M.Jr: The man in my outer office is Lieutenant Commander McKay.

M: McKay.

H.M.Jr: M-c-K-a-y.

M: Lieutenant Commander McKay.

H.M.Jr: Yes.

M: O. K.

H.M.Jr: He's in my outer office.

M: Right. I'll send it in his charge.

H.M.Jr: Yeah, and then subsequently if you could get me the other. I imagine it's just .....

M: I think it's stuffed in some suit somewhere.

H.M.Jr: Right.

M: O. K.

H.M.Jr: Thank you.

M: Good-bye.

TO:

Miss Chauncey

12/31'40



The Secretary took this

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over to the White House at luncheon on  
12/30'40.

McGuire

See entry of 12/28/40  
" " 1/3/41

MR. FOLEY

December 30, 1940.

**MEMORANDUM FOR THE PRESIDENT:**

Annexed is a proposed Executive Order to establish an Economic Defense Board, extend the freeze control to all property in which any foreign country or any national thereof has an interest, control the export and other dealings in defense materials, the requisitioning of such materials and ship movements.

Briefly summarized, the proposed Order provides the following:

- (1) Creation of an Economic Defense Board. This board is to consist of the Secretary of State, the Secretary of the Treasury, the Secretary of War, the Secretary of the Navy, the Secretary of Commerce, and the Director of the Office of Production Management. The Secretary of State is to be chairman of the board. The chairman and the board are to formulate all the policies relating to the administration of the order by the Secretary of the Treasury.
- (2) Extension of Freeze Controls. The order proposes to extend freezing control to all foreign countries and nationals. As you know, the Treasury organization is now controlling the property in this country belonging to invaded countries and their nationals. Such organization can be readily expanded to handle the increased work of an extended control.
- (3) Coordination of Foreign Flying and Ship Control Movements. These functions are, as you know, already carried on by the Treasury Department through the medium of the President's Liaison Committee and through the Coast Guard. The order continues such administration in the Treasury, but subject to the policy determinations made by the Economic Defense Board. The proposal does not cut across the contemplated functions of the Office of Production Management.
- (4) Export Embargo and Requisitioning. These functions are now being administered by Colonel Maxwell as Administrator of Export Control. The order transfers such functions to the Treasury and Colonel Maxwell will administer the powers under the supervision and control of the Secretary of the Treasury. Here again the administration will be subject to the policy formulations of the Economic Defense Board. At the present time the policy on requisitioning of defense materials is determined by the Secretary of War and Secretary of the Navy acting through the Army and Navy Munitions Board. Under the proposed order such policies

would be determined by the Economic Defense Board of which both the Secretary of War and the Secretary of the Navy as well as the Director of Production Management would be members.

I believe that the proposed Order offers two primary and overall advantages. It meets the need of a coordinated formulation of War Administration's policy on problems of economic defense. The proposed six-member board, acting under the chairmanship of the Secretary of State would be the cabinet officers most directly concerned with this problem and the Director of Production Management. They would meet periodically and consider jointly current problems against a background of our whole picture of economic defenses.

The coordination of the administration of these problems as envisaged by the order would eliminate a vast amount of the red tape and "rumorings around" now required of Americans as well as foreign governments and foreign nationals who desire to purchase or sell materials, etc., in this country. For example, today an American manufacturer selling defense materials to a country covered by the foreign exchange control would have to go through the following cumbersome procedure: (1) file an application for a license with the foreign exchange authorities to make it possible for him to be paid out of bonded funds and to be able to transfer bills of lading and other shipping documents to the purchaser; (2) obtain a clearance from the President's Liaison Committee to negotiate the contract with the foreign country; (3) secure a license from the Administrator of Export Controls; (4) obtain a license under the Neutrality Act from the Division of Controls of the State Department; and, finally, (5) assuming that the manufacturer has obtained those four licenses from four different sources and has put his goods on a boat destined for the purchaser, the Treasury would have to determine whether the ship would be permitted to sail.

Inevitably, public criticism will be directed at such uncoordinated activities by the Government in such closely related fields. In these days, when our export trade has declined appreciably, we should endeavor to make it as simple, not as difficult, as possible for a manufacturer to sell his goods abroad.

The proposed Order would make it possible for an American manufacturer to go to one place, such as the Customs House in his district, for an appropriate application and thereby ascertain at one time whether he will be permitted to take all of the necessary steps to consummate a sale of his goods abroad. The advantages both to the Government as well as the public from such a more simplified and speedy procedure are obvious.

would be determined by the Economic Defense Board of which both the Secretary of War and the Secretary of the Navy as well as the Director of Production Management would be members.

I believe that the proposed Order offers two primary and overall advantages. It meets the need of a coordinated formulation of this Administration's policy on problems of economic defense. The proposed six-member board, acting under the chairmanship of the Secretary of State would be the highest officers most directly concerned with this problem and the Director of Production Management. They would meet periodically and consider jointly current problems against a background of our whole picture of economic defense.

The coordination of the administration of these problems as envisaged by the order would eliminate a vast amount of the red tape and "rumor ground" now required of Americans as well as foreign governments and foreign nationals who desire to purchase or sell materials, etc., in this country. For example, today an American manufacturer selling defense materials to a country covered by the foreign exchange control would have to go through the following cumbersome procedure: (1) file an application for a license with the foreign exchange authorities to make it possible for him to be paid out of bonded funds and to be able to transfer bills of lading and other shipping documents to the purchaser; (2) obtain a clearance from the President's Economic Committee to negotiate the contract with the foreign country; (3) secure a license from the administrator of Export Controls; (4) obtain a license under the Neutrality Act from the Division of Controls of the State Department; and, finally, (5) assuming that the manufacturer has obtained these four licenses from four different sources and has put his goods on a boat destined for the purchaser, the Treasury would have to determine whether the ship would be permitted to sail.

Inevitably, public criticism will be directed at such uncoordinated activities by the Government in such closely related fields. In these days when our export trade has detailed accountability, we should endeavor to make it as simple, not as difficult, as possible for a manufacturer to sell his goods abroad.

The proposed Order would make it possible for an American manufacturer to go to one place, such as the Customs House in his district, for an appropriate application and thereby ascertain at one time whether he will be permitted to take all of the necessary steps to consummate a sale of the goods abroad. The advantages both to the Government as well as the public from such a more simplified and speedy procedure are obvious.



**EXECUTIVE ORDER**

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**ESTABLISHING AN ECONOMIC DEFENSE BOARD,  
REGULATING TRANSACTIONS IN FOREIGN EXCHANGE,  
FOREIGN PROPERTY AND FOREIGN DEBTS, CONTROL-  
LING THE EXPORT AND OTHER DEALINGS IN DEFENSE  
MATERIALS, THE REQUISITIONING THEORY, SHIP  
MOVEMENTS, AND RELATED MATTERS.**

By virtue of and pursuant to the authority vested in me by the Constitution, by section 1 of Title II of the Act of June 15, 1917 (40 Stat. 220), by section 5(b) of the Act of October 6, 1917 (40 Stat. 411, as amended, by section 2(a) of the Act of June 28, 1940 (54 Stat. 676), by section 6 of the Act of July 2, 1940 (54 Stat. 714), by the Act of October 10, 1940 (54 Stat. 1090), and by virtue of all other authority vested in me, and by virtue of the continued existence of a period of national emergency, it is hereby ordered as follows:

**TITLE I**

**Section 1.** There is hereby established an Economic Defense Board (hereinafter referred to as the "Board"). The Board shall consist of the Secretary of State, who shall be Chairman, the Secretary of the Treasury, the Secretary of War, the Secretary of the Navy, the Secretary of Commerce and the Director of the Office of Production Management. The Board shall formulate and determine all questions of policy relating to the carrying out of the purposes of this Order.

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Section 2. The administration of the Order shall be vested in the Secretary of the Treasury acting in accordance with the policies formulated by the President and the Board.

## TITLE II

Executive Order No. 6366 of January 15, 1934, as amended, is amended to read as follows:

Section 1. All of the following transactions are prohibited, except as specifically authorized by the Secretary of the Treasury by means of regulations, rulings, instructions, licenses, or otherwise, if involving property in which any foreign country or any national thereof has at any time on or since the effective date of this Order had any interest of any nature whatsoever, direct or indirect:

A. All transfers of credit between any banking institutions within the United States; and all transfers of credit between any banking institution within the United States and any banking institution outside the United States (including any principal, agent, home office, branch, or correspondent outside of the United States, of a banking institution within the United States);

B. All payments by or to any banking institution within the United States;

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C. All transactions in foreign exchange by any person within the United States;

D. The export or withdrawal from the United States, or the exporting of gold or silver coin or bullion or currency by any person within the United States;

E. All transfers, withdrawals or exportations of, or dealings in, any evidences of indebtedness or evidences of ownership of property by any person within the United States; and

F. Any transaction for the purpose or which has the effect of evading or avoiding the foregoing prohibitions.

Section 2.

A. All of the following transactions are prohibited, except as specifically authorized by the Secretary of the Treasury by means of regulations, rulings, instructions, licenses, or otherwise:

(1) The acquisition, disposition or transfer of, or other dealing in, or with respect to, any security or evidence thereof on which there is stamped or imprinted, or to which there is affixed or otherwise attached, a tax stamp or other stamp of a foreign country designated in this Order or a notarial or similar seal which by its contents indicates that it was stamped,

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imprinted, affixed or attached within such foreign country, or where the attendant circumstances disclose or indicate that such stamp or seal may, at any time, have been stamped, imprinted, affixed or attached thereto; and

(2) The acquisition by, or transfer to, any person within the United States of any interest in any security or evidence thereof if the attendant circumstances disclose or indicate that the security or evidence thereof is not physically situated within the United States.

B. The Secretary of the Treasury may investigate, regulate, or prohibit under such regulations, rulings, or instructions as he may prescribe, by means of licenses or otherwise, the sending, mailing, importing or otherwise bringing, directly or indirectly, into the United States, from any foreign country, of any securities or evidences thereof or the receiving or holding in the United States of any securities or evidences thereof so brought into the United States.

Section 3.

A. The Secretary of the Treasury may require any person to furnish under oath, in the form of reports or otherwise, from time to time and at such time or times as he may designate, complete information relative to any transaction referred to in

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subdivision (b) of section 5 of the Act of October 6, 1917 (40 Stat. 411), as amended, or with respect to any property in which any foreign country designated in this Order or any national thereof has any interest, including the production of any books of account, contracts, letters, or other papers, in connection therewith, in the custody or control of such person, either before or after such transaction is completed.

B. Every person engaging in any of the transactions referred to in sections 1 and 2 of this Order shall keep a full record of each such transaction engaged in by him, regardless of whether such transaction is effected pursuant to license or otherwise, and such record shall be available for examination by a representative of the Treasury Department for at least one year after the date of such transaction.

Section 4.

A. The term "effective date" means with respect to any foreign country or any national thereof, the date specified in the following schedule: (a) Norway and Denmark - April 6, 1940; (b) the Netherlands, Belgium and Luxembourg - May 10, 1940; (c) France - June 17, 1940; (d) Latvia, Estonia and Lithuania - July 10, 1940; (e) Rumania - October 9, 1940; (f) any other foreign country -

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5. The term "transactions" \* \* \* involving property in which any foreign country or any national thereof has \* \* \* any interest\* shall include, but not by way of limitation, (i) any payment or transfer to such foreign country or any national thereof, (ii) any export or withdrawal from the United States to such foreign country and (iii) any transfer of credit expressed in terms of the currency of such foreign country.

6. The term "United States" means the United States and any place subject to the jurisdiction thereof; the term "continental United States" means the States of the United States, the District of Columbia, and the Territory of Alaska, and the term "person" means an individual, partnership, association, corporation, or other organization.

7. The term "foreign country" shall include, but not by way of limitation, the state and the government thereof on the effective date of this Order as well as any political subdivision, agency or instrumentality thereof or any territory, dependency, colony, protectorate, mandate, dominion, possession or place subject to the jurisdiction thereof; and shall also include any other government (including any political subdivision, agency, or instrumentality thereof) to the extent and only to the extent that such government exercises or claims to exercise de jure or de facto:

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sovereignty over the area which on such effective date constituted such foreign country; and shall further include any person who is, or has been, or who there is reasonable cause to believe is, or has been, acting or purporting to act directly or indirectly for the benefit or on behalf of any of the foregoing.

E. The term "national" shall include any person who has been domiciled in, or a subject, citizen or resident of a foreign country at any time on or since the effective date of this Order, but shall not include any individual domiciled and residing in the United States at all times on and since such effective date, and shall also include any partnership, association, corporation or other organization organized under the laws of, or which on such effective date had its principal place of business in such foreign country, or which on or after such date was or has been controlled by, or a substantial part of the stock, shares, bonds, debentures, or other securities or obligations of which was or has been owned or controlled by, directly or indirectly, such foreign country and/or one or more nationals thereof as herein defined; and shall

- 2 -

further include any person who is, or has been, acting or purporting to act directly or indirectly for the benefit or on behalf of such foreign country or national thereof; and shall further include, any other person who there is reasonable cause to believe is a "national" as herein defined. In any case in which by virtue of the foregoing definition a person is a national of more than one of the foreign countries designated in this Order, such person shall be deemed to be a national of each of such foreign countries. The Secretary of the Treasury shall have full power to determine who is or shall be deemed to be a "national" within the meaning of this definition.

7. The term "banking institution" shall include any person engaged primarily or incidentally in the business of banking, of granting or transferring credits, or of purchasing or selling foreign exchange or procuring purchasers and sellers thereof, as principal or agent, or any person holding credits for others as a direct or incidental part of his business, or brokers; and, each principal, agent, home office, branch or correspondent of any person so engaged shall be regarded as a separate "banking institution".

Section 5. The Regulations of November 12, 1914, and the general license therein granted, are hereby revoked. All licenses, rulings, and instructions issued pursuant to



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Executive Order No. 6309, as amended, which were in effect as of the date of this Order, are hereby continued in full force and effect, subject to amendment, modification or revocation pursuant to the provisions of this Order.

### TITLE III

Section 1. Specification of Foreign Buying. Pursuant to the policies formulated by the Board, and in accordance with the provisions of Title II hereof, the Secretary of the Treasury shall coordinate the buying, or other acquisition, by or on behalf of any foreign country or national thereof, of all defense materials, including all military equipment and munitions, component parts thereof, and machinery, tools, and material and supplies necessary for the manufacture, servicing or operation thereof, and shall prescribe the procedure for the negotiation and execution of contracts for the foregoing, in such a manner as will most effectively further the interests of national defense. For such purpose the Secretary of the Treasury shall serve as the exclusive liaison officer between this Government and foreign countries and nationals thereof, and, in accordance with policies formulated by the Board, the Secretary shall give consideration to the requirements of such foreign countries and nationals thereof for the aforementioned materials in relation to (a) availability of the desired articles; (b) priorities, and (c) prices. The Secretary of the Treasury shall keep the Board currently and fully informed of his activities in connection herewith.

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**Section 2. Export Licenses.** The Proclamations, Orders and Regulations heretofore issued under section 5 of the Act of July 2, 1940 (54 Stat. 744) shall, except as herein or otherwise amended, remain in full force and effect and the administration thereof by the Administrator of Export Control and his staff shall be subject to the supervision and control of the Secretary of the Treasury acting in accordance with the policies determined by the Board.

**Section 3. Restrictions of Materials Export Board.** The Executive Order and Regulations heretofore issued by us under the Act of October 10, 1940 (54 Stat. 1994) shall, except as herein or otherwise amended, remain in full force and effect, except that the powers therein vested in the Secretary of War and the Secretary of the Navy, acting jointly through the Army and Navy Exemption Board, are hereby transferred to the Economic Defense Board and the administration thereof shall hereafter be exercised by the Administrator of Export Control under the supervision and control of the Secretary of the Treasury acting in accordance with the policies determined by the Board.

**Section 4. Control of Ship Movement.** The Proclamation and the regulations issued under the Act of June 15, 1947 (40 Stat. 228) shall remain in full force and effect, except that the powers conferred upon the Secretary of the Treasury shall hereafter be exercised by him in accordance with the policies determined by the Board.

**Section 5. Recommendations by the Board.** The Board shall engage in such studies and shall make such recommendations to the President, to the Congress and to the appropriate departments and agencies of the Government as the Board deems in the interests of the economic defense of the United States.

**Section 6. Continued Validity of Prior Actions.** Except as otherwise provided herein, all regulations, licenses, rulings, instructions and other actions issued or taken pursuant to any Proclamation, Order or Regulations heretofore referred to which were in effect as of the date of this Order, are hereby continued in full force and effect subject to amendment, modification or revocation pursuant to the provisions of this Order.

**Section 7. Regulations.** The Secretary of the Treasury is authorized and empowered to prescribe from time to time regulations, rulings, and instructions to carry out the purposes of this Order, and to provide therein or otherwise the conditions under which licenses may be granted by or through such officers or agencies as the Secretary of the Treasury may designate. In so far as possible in administering this Order, the Secretary of the Treasury shall limit the number of applications and licenses required for the performance of acts covered by this Order. The decision of the Secretary of the Treasury with respect to the approval or disapproval of any application for a license shall be final.

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**Section 8. Revocation.** This Executive Order and any regulations, rulings, licenses or instructions issued hereunder may be amended, modified or revoked at any time.

**THE WHITE HOUSE,**

**194 .**

December 30, 1940  
3:00 p.m.

RE DISPOSITION OF BRITISH ASSETS

Present: Mr. Cochran  
Mr. Purcell  
Mr. Schenker  
Mr. White  
Mr. Quinn  
Mrs. Klotz

Quinn: Mr. Morgenthau, shall I start on my story back where we started before?

H.M. Jr: Please.

Quinn: Perhaps that is the easiest way. I came down to see the Secretary, it is about ten days ago now, and I said that we had been turning over in our mind one possible way in which we might be helpful in some of the problems that were being presented here and that was in connection with the possible assistance in the liquidation of some of the British wholly owned investments in this country, that we had not been able to attend the meeting of the SEC at which the question of participating in financing for National Defense had been discussed; but it seemed to us that in this connection, with those British holdings, there was a possibility where the investment companies might be helpful and I mentioned it to the Secretary and he asked me if I would see whether it might be arranged as a sort of co-operative effort, in other words, more than our single group would be interested in it, and I told him I would go back and try to find out.

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I have had the interruptions of the holidays which makes it difficult to reach some of the people, but I have talked to twelve of the companies. I have not yet been able to get an answer from the Lehman Corporation because Mr. Bunker is away over the holidays, and I have not talked to General American because Mr. McGrath is away over the holidays; and I preferred for reasons of policy to discuss it with the men who are acting heads of those companies. I have discussed it, however, with the heads of these twelve companies and they have said that in principle they are interested in the thing and have said they would authorize me to explore it somewhat further. I understood, Mr. Secretary, that I was not at liberty to mention any conversation with you in that connection; and therefore I did not do so. For that reason, I have discussed it as a question of principle, would they be interested in the possibility of acquiring, if the British desire to dispose of them, some of these wholly owned assets here with the general theory being that the investment companies would operate as a group, that they would then try to dispose of enough of the securities so that they would then have the kind of investment they wish to keep; and if I can just outline their reaction to it, I would like to do that.

H.M. Jr:

May I just interrupt? The point that I was making, I didn't want to put Mr. Quinn and the company he represented in contact with the British unless the investment trust group as a whole was back of it, you see. That was the point. If the investment trust group as a whole, as an industry said, "Well now we are banding together as an industry," and if the British would say to us, "Here is a list of our direct holdings, can you buy or merchandise these for us --"

Schenker:

Can I make one observation, Mr. Secretary?

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H.M.Jr: Please. And the reason I wanted you people here is when I do anything like this, I don't in any way want to cross up anything that SEC is doing.

Schenker: You may have some problems in connection with a joint enterprise, whether that joint enterprise won't ask at this time an investment company which would be required to register under the act. Some provision would have to be made for some sort of exemption. That is a technical problem we can take care of. It seems to me unless it is done on a cooperative basis, the amount of money you can raise for that is negligible, you see. I remember when we talked in connection with the financing there was some doubt - well, the present situation is different. There is some expression that they might, if the thing was propitious and so forth, raise 50 to 75 million. Unless you do get a group, you just won't have enough money.

Quinn: Let me just explain what I have done, and I would also like to bring up some of their observations that were made in the course of that investigation. I have gone, Mr. Secretary, to the larger companies because unless you talk to the largest amount of money, the smaller ones - their contribution is very much smaller. The people that have said they are interested in principle, their total assets aggregate about 496 million. That is the group that have said they are interested in principle.

We have a committee, as you know, I think, Mr. Secretary, of the investment companies to cooperate with the SEC in connection with the Act, but we did not feel --

H.M.Jr: I might know it but I mean --

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- Quinn: That committee, I think, represents practically everybody in the industry.
- Schenker: It represents a hundred companies with about a billion and a half of assets.
- Quinn: So the people I have talked to own roughly half those assets. Now, I didn't feel that I progressed far enough, Mr. Secretary, to go to the smaller companies, because I thought this thing had to be kept within certain limits until you could go further.
- H.M.Jr: Well now, SEC is in a much better position to say that this is all right, and this is something that we can work in a group or not. What do you think?
- Schenker: Well, it all depends, Mr. Secretary. If the assets consist of marketable securities and so forth, that is one problem. If it consists of real estate and stuff like that, then of course --
- White: It is a combination.
- H.M.Jr: Well, I will give you a good example. There is no reason why I shouldn't. Do you see any reason why I shouldn't give one?
- Cochran: No.
- H.M.Jr: The one they said they had the most difficulty with is the Manila Railroad, amounting to around 11 million dollars. I don't know what it is.
- Cochran: I think it is described on the last page.
- H.M.Jr: I mean there are 13 million dollars of 5 per cent refunding mortgages, an old railroad company, and so forth and so on. I mean --



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Schenker: Well --

H.M.Jr: That kind of thing. Here is one I recognize. This is real estate. Delta and Pine Land Company of Mississippi, which is a tremendous cotton plantation.

White: They always have --

H.M.Jr: But I am just giving - well, I have asked them for some. Here is a brewery in Rochester, New York.

Quinn: Let me mention some of the assets which are wholly owned, Mr. Secretary, which seem to me to be feasible, because the companies have this difficulty, which is a very practical difficulty, and that is, if they bought, they don't want to be locked up indefinitely, because there are certain difficulties under the Act with non-marketable securities and also from their point of view they think that the sensible way to do would be to make the purchase, distribute the securities that you thought that there are distributed enough to make a market, and then you would have a situation which is manageable. Now, I know one or two situations that they have of that kind that we would regard as a situation - which is the soap business. There is Brown and Williamson Tobacco Company. There are various items of that kind, probably the most sizable of the investments they have, and then there are others which would seem to me to be almost too difficult for the investment companies because of the frozen nature of them.

White: For an illustration, do you have one in mind?

Quinn: I was thinking of this Delta Land Company as an example. I don't know it, but I would imagine that an agricultural enterprise of that kind would

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be very difficult, because the investment companies, Mr. Secretary, make this comment to me. They say, "all I can say to you," because of the nature of my talk to them, is that "yes, in principle we are interested, but it ought to be a situation in which it is possible to establish a market so that in the future if we want to dispose of them, we have an opportunity."

H.M.Jr: Well, I would say that goes without saying.

Quinn: I would like, Mr. Secretary, also in frankness to make one point - to bring up one problem also and I think Dave will recognize this problem, which I had to meet head on because it is a problem that is bound to come up in connection with the distribution because some of the people say, "Well, yes, but who is going to do this, if it is going to be done," and I said to them quite frankly that I would hope that Union Securities could do the distribution because Union Securities, I think, is in a position where being owned by two investment companies it is still in essence an investment company operation.

H.M.Jr: You mean do it exclusively?

Quinn: Not exclusively, because somebody has to do the light work and investigate and has to head up some place, Mr. Secretary. Now, if you were going to do a distribution of this kind, you would have to bring a great many people into it, because there would - an operation of well, let's say the size of Brown and Williamson, would be a very large operation.

(Mr. Foley entered the conference.)

Quinn: My guess would be, sir --

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H.M.Jr: Well, I hate to see any one crowd do the distribution.

Schenker: Cy, what I can't understand is, the act makes provisions for independent distributing companies owned wholly by investment companies. Why can't the distribution agency be an adjunct to the investment company which is going to acquire these securities, and therefore the whole enterprise be a cooperative - the acquisition and the distribution.

H.M.Jr: You mean you would use a different crowd to distribute it?

Schenker: No, that same crowd can.

H.M.Jr: You mean all of them?

Schenker: Yes.

Quinn: As a practical matter, Dave, you have to have somebody who knows the business, as a practical matter of distribution. Now --

H.M.Jr: Now look, do you mind? You are getting into something that doesn't particularly interest me. Let me just get this thing --

Quinn: May I make one other - I am sorry --

H.M.Jr: You are talking about stuff that really doesn't interest me. That is the SEC's responsibility and not mine. It is like when I got in the English and they started talking about whether they would pay a dollar and a half or a dollar thirty commission to these national distributing organizations, I told them, "Well, we are talking about winning the war, and I am not interested in how much commission you are paying." Here is the point. If SEC will tell me that you fellows

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are all right, and that this thing is a cooperative thing, that everybody gets a chance equally to get in on this thing so there is no favoritism and it is the whole crowd and that this is a good method, then and only then I would be glad to have either Mr. Frank or myself put them in touch with the English Treasury, but I - I want to know that this is something that the SEC says is all right. I am thinking in terms - if this group wants a crack at this stuff, it ought to be everybody who gets a chance. Is that right?

Schenker: Yes, that is right, Mr. Secretary.

H.M.Jr: Now, when it gets down to who distributes it, what the commission is, or all the rest of the stuff, it is something that I don't know about and I am not interested in.

Schenker: And I think we can work out the mechanics to make it a cooperative basis so that everybody can contribute an allocated portion of its assets in the enterprise.

White: Why can't they confine themselves at least in the beginning to the large undertakings without going into small matters. They can take two or three or four of the big companies which involve the large sums and in which - lend themselves to the type of marketing which you say, not try to take the whole business.

Quinn: I envisaged, Mr. Secretary, this method of operation, that you would have to start with something which was a workable one, following Mr. White's view there, that when you were at a point where you knew that you were discussing a specific thing, then you would say to all the investment companies, "You are entitled to

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participate in this purchase in proportion to your assets, and here is an invitation to do so." In other words, not restrict the purchase group to any one group of companies but anybody who wishes to come in on the same basis.

H.V.Jr: Well let me just ask --

Quinn: Don't you think that is the logical way?

H.M.Jr: Well, I am going to leave that to SEC, as long as they say that anybody who wants to come in gets a chance. We are not going to start now to show any favoritism. Let me ask you (Schenker) this, in your setup. I mean, supposing this type of investment people go in. I mean, is there any reason why people who are interested in the business of - I mean, the English have sold large blocks recently, as you know, to groups who have distributed them nationally over night. I mean, those are stock exchange houses, aren't they?

Schenker: That is right, investment banking houses.

Purcell: They were, though, Dave, they were largely stock exchange houses.

H.M.Jr: I mean the fact that one group who goes in has the capital is no reason why stock exchange houses shouldn't have the distributing of it. I mean, if they want to use that machinery. I mean, does for instance, an investment trust have a marketing organization?

Schenker: No, most of them haven't, but there are some organizations in the investment trust field which have.

H.M.Jr: But I am just getting at this. Let's say these

people buy 50 million or a hundred million dollars worth of these securities. In order to get as many people interested as possible, I mean, if they are brought in on the selling end, a whole group of stock exchange houses, wouldn't that get many more people interested?

Schenker: Oh sure, sure, they would have to do it. They don't have the distribution facilities.

H.M.Jr: Wouldn't that give it national distribution and the thing would go over night and so forth?

Purcell: Yes, and you wouldn't want the stuff to stick either.

H.M.Jr: No, but I am thinking that these people have the capital but they are not, I take it, in the business of selling securities in this way.

Schenker: That is right, they are not geared up for that.

H.M.Jr: And you get twice as many people interested.

Schenker: That is right.

H.M.Jr: And I think, perfectly frankly, that these people would be a little patriotic and not worry too much how much they make out of it as long as they make something, but - you know, get this stuff over because every dollar that you sell is a dollar invested back again into this country. I mean --

Quinn: I think the only test, Mr. Secretary, which I think we would agree would be the logical test on the part of the purchasing group, is to sell a security for them to buy at that price.

H.M.Jr: That is something you would have to decide. When he talks cooperative, I think in terms of Cooperative Law of the State of New York, which

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limits you to 6% profit. (Laughter) - I know that isn't the case, but I am trying to get over to Mr. Quinn that I am thinking of a minimum profit, bringing in the greatest number of people at the greatest amount of interest so that they can handle the greatest amount of securities in the shortest time.

Schenker: Let me say just one more word. The places where you can be the most helpful, of course, are in these liquid situations which may be perfectly good investments which don't have any sales appeal and which you on a cooperative basis, small, see, would be perfectly willing to carry along on a joint basis as a permanent investment.

White: Don't have an immediate sale. They may have a sale within a few years.

Schenker: That is the one thing that is really bothersome, as I see it.

H.M.Jr: If this stuff is the kind of stuff that has been selling, they don't need this crowd.

Schenker: That is right.

H.M.Jr: They don't need this crowd. I was thinking in terms of a couple of years, but they might have to hold it three to six months, but the other stuff that they can buy, I don't - the X Y Z Company, U. S. Steel or American Telephone & Telegraph, they don't need you (Quinn), but where they need you - you mentioned a ship building company down at Norfolk or something like that, which is a little slow.

Schenker: There is where they can do the job.

Quinn: In Newport News, it is largely parallel.

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Mr. Secretary, except in that case we bought the Huntington estate and carried it through a period during which it was registered and then a portion of that stock was sold to the public through a distributing corporation. Some of the companies retained their investments and some retained it all, but you end up with the operation completed.

Now, it seems to me that at least in the initial instance you would have to start on some operation of that kind because they would have to feel that there was a possibility within a reasonable time to market those securities and which have no market at the present time.

White: Some of these cases, Mr. Secretary, the corporations at large are so closely held that they would probably have to take a refinancing of some character which would be ideal from your (Quinn's) point of view and might involve a year or even two to get it going.

H.M.Jr: Well, could I suggest this? If you could go with these two gentlemen from the SEC and if they will tell you that you can say the Administration is interested, I mean if you (Schenker) would give them some kind of a lead and how far you can go so that he can go further, you see - I didn't want him to quote me because I had no authority, and I didn't want to be brought into the thing; but if they can say the SEC is willing that we explore this, you see. That gives you something.

Quinn: Something, sir.

H.M.Jr: But just to say I am interested means nothing, but if these fellows will say to you, "We will -" then if you get your thing lined up, the SEC and myself can send for the representative of



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the British Treasury and say, "Now look, if you want to sell it, here is an organization." What do you think?

Schenker: Perfect.

White: Do they know enough - I suppose you know enough about what the British important holdings are here so that you can --

Quinn: No, I just happen to know those three which are sort of general knowledge.

H.M.Jr: Well, there is no harm in mentioning them. Can you think of a half dozen?

White: Well, we can give him a list of the ten largest and tell him a little about each one of them, if you like.

Purcell: Some of those largest ones, though, are pretty liquid.

White: Some are very liquid. Some have portions which are very liquid. Take American Viscose, for example, has 50 million in cash in United States Governments, but the rest of it is very different.

H.M.Jr: Can you see any objection?

Cochran: I wouldn't pick out the 10 largest. I would go at random and mention one or half a dozen.

White: Supposing I give you some, Mr. Secretary, and you can send some to the SEC.

H.M.Jr: Give some that just come to your head.

White: Well, there is the American Viscose. They have got something in the Allied Chemical and Dye, but I don't know how much; and then there is the

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Shell interests and - I can't think of them at the moment but I can get a --

H.M.Jr: Well, they give me here --

Quinn: There is Brown & Williamson, I think.

White: There are a number of others.

H.M.Jr: Well, the one they seem most interested in and had the greatest difficulty with is the Manila Railroad. There is a Costa Rica Railway Company, the Jones --

Schenker: I can tell you something on that Manila Railroad. It is really good. I remember we had that way back in the Pecora days.

H.M.Jr: I think we ought to wait before we give him anything more until we ask the English, because we don't even know they want to sell that stuff; but I think what Mr. Quinn ought to get is some kind of a word from the SEC that he can go back and talk to this group and say you are satisfied that this is a cooperative group of capital, you see, and that everybody that wants to get in can get a piece of the business.

Schenker: I think we can work something out, Mr. Secretary.

H.M.Jr: If you work that out, then you will have all the authority to go back to these fellows and say, "Well, the SEC says this is all right," and so forth. So I don't think your trip has been wasted.

Schenker: Possibly he could phrase it this way, that after we work the mechanics out, he could go back and tell these people, "If you are interested in this type of approach, I think the SEC might be able to put you in contact with the English interests." Just leave it like that.

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- Quinn: You don't think I could have something more definite than that, Dave? Because I have gone to them with an idea, in view of my limitations.
- H.M.Jr: You can't go because there is nobody here to talk for the English, as a matter of fact. They haven't yet appointed a man to sell this stuff. They have got a man, Gifford, to sell the other stuff, but they haven't yet got a fellow here who is authorized to sell this stuff. But I think this, that if the SEC would say, "Mr. Morgenthau, here is a group representing 500 million or a billion dollars worth of capital, and they are ready," then I can take that and go to the English and say, "Now listen, if you want to do business, here is a crowd that is ready to do business, and now quit stalling." I mean, this is in the room here. I haven't got them drinking out of the trough yet. I haven't even got them up to the trough, so it isn't a question of your telling them, it is for me to get them. I haven't even got them half way to the trough, but if I go and say, "Here is a crowd that the SEC says is all right; they have got the capital and want to do business, here is their assets and so forth and so on, they are all right; now, do you want to sell or don't you?" So I have got my problems, too. So I think - but I want the SEC to tell me who these people are in toto, not by name, and that you have got so many, and the distributor thing and so forth and so on, and I can go to the English and see whether I can get them to drink.
- Purcell: I think the Commission, probably, Dave, would go to the extent of saying that the matter has been discussed with them and there are a crowd that would be described so and so and that the Commission sees no possible objection to their

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program and that is for you (Secretary) and for Mr. Quinn. He can go back and say, "I have discussed this with the SEC and they see no objections." I don't know, of course.

H.M.Jr:

Well, you can try it, and all the rest of how it is distributed and so forth is something else again.

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE December 30, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

*W. H. C.*  
**CONFIDENTIAL**

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns.....£81,000  
Purchased from commercial concerns.....£ 6,000

Open market sterling remained at 4.03-3/4, and there were no reported transactions. The other currencies closed as follows:

Canadian dollar	13-7/8% discount
Swiss franc	.2321
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2360
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	8-3/4% discount
Chinese yuan	.05-5/8

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$1,671,000 in gold from Canada to the Federal for account of the Government of Canada, for sale to the New York Assay Office.

No gold or silver quotations were received from Bombay today.

In London, the prices fixed for spot and forward silver both advanced 1/16d, to 23-3/16d and 23-1/8d respectively. The dollar equivalents were 42.10¢ and 41.99¢.

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

We purchased 225,000 ounces of silver from the Bank of Canada under our regular monthly agreement.

The Federal Reserve Bank's report of December 24, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled \$102,999,000, an increase of \$4,244,000 since December 18. Most of the change in deposits took place on the books of the Yokohama Specie Bank's New York agency. The latter's principal dollar liabilities to and dollar claims on Japanese banks in Asia stood as follows on December 24:

	<u>December 31</u>	<u>Change from Dec. 18</u>
Liabilities: Deposits for Japan & Manchuria.....	\$54,970,000	+ \$4,477,000
Deposits for China.....	35,643,000	- 460,000
: U.S. Treas. bills, comm. paper, etc.	32,183,000	+ 268,000
Claims : Loans.....	\$36,535,000	+ \$1,353,000
: Other - mainly Jap. import bills....	11,881,000	- 2,367,000

The last three categories refer mainly to Japanese banks in Japan and Manchuria. The increase in deposits of such banks apparently reflects receipt of the San Francisco Mint's advance payment on \$3,110,000 worth of gold imported from Japan, as well as the \$1,353,000 rise in the Yokohama agency's loans.

*J. M. R.*

CONFIDENTIAL

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE December 30, 1940.

For Miss Chauncey  
 TO Secretary Morgenthau  
 FROM Mr. Cochran

**STRICTLY CONFIDENTIAL**

The Federal Reserve Bank of New York reported the following transactions in the accounts of the Central Corporation of Banking Companies, Budapest, maintained with the Guaranty Trust Company, New York, and the National City Bank.

Guaranty Trust Company

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>
Dec. 30	\$ 100,000	Central Corporation of Banking Companies, Budapest	Guaranty Trust Co., N.Y., by order of Skandinaviska Banken, Stockholm

National City Bank

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>
Dec. 30	\$ 60,000	Central Corporation of Banking Companies, Budapest	National City Bank, N.Y., by order of Skandinaviska Banken, Stockholm, by order of Allwechsel

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

DATE December 30, 1940.

For Miss Channing  
TO Secretary Morgenthau  
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following transaction in the account of the Credito Italiana, New York, maintained with the Chase National Bank.

<u>Date</u>	<u>Amount Credited</u>	<u>Account Credited</u>	<u>Received From</u>
Dec. 30	\$ 455,931.32	Credito Italiano, N.Y.	Credito Italiano, N.Y. Check drawn by Post & Flagg on Bank of the Manhattan Company, N.Y.





## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE December 30, 1940

TO Secretary Morgenthau  
FROM Mr. Klaus

FBI reports:

December 20. The Bank of America International Department is entirely run by a German-American who is a personal friend of Fritz Wiedemann and a German-Chilean who is an intense pro-Nazi; they hold many very important foreign accounts and have a monopoly of Japanese business (Mitsubishi, Yokohama Specie Bank, and Japanese diplomatic accounts from which transfers are made to consulates and embassies throughout the world). The report states that the Bank of America is serving the Axis cause in the extension of German-South American trade and in the extension of credit to the Japanese.

JH

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE December 30, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

## STRICTLY CONFIDENTIAL

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

	No. of Shares Sold	\$ Proceeds of Shares Sold	Nominal Value of Bonds Sold	\$ Proceeds of Bonds Sold
December 16	46,322	1,103,816	67,000	47,663
17	18,528	818,236	27,000	20,213
18	40,900	1,757,878	4,000	1,509
19	111,107	3,345,162	3,000	1,661
20	81,975	1,572,514	2,000	1,110
21	<u>6,350</u>	<u>204,469</u>	<u>Nil</u>	<u>Nil</u>
	305,182	8,802,075	103,000	72,156
Sales from February 22 to December 14	<u>2,426,164</u>	<u>84,228,650</u>	<u>5,794,500</u>	<u>4,443,166</u>
TOTAL FEBRUARY 22 TO DECEMBER 21	2,731,346	93,030,725	5,897,500	4,515,322

Mr. Opie reported additional sales of non-vested securities for the week ended November 30 of \$1,500,000.

Miss Poate reported sales of non-vested securities for the week ended December 14 totaled \$900,000.



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

Week ended December 26, 1940

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
<b>PETROLEUM PRODUCTS</b>				
Fuel and Gas Oil (including Diesel Oil)	53,200 Bbls.	—	—	—
Crude -				
Blended or California High Octane Crude*	113,273 Bbls.	—	—	—
All Other Crude	—	—	—	—
Gasoline -				
Gasoline A**	—	—	—	100,000 Bbls.
Gasoline B*	186,148 Bbls.	97,000 Bbls.	—	10,000 Bbls.
All Other Gasoline	56,548 Bbls.	—	—	—
Lubricating Oil -				
Aviation Lubricating Oil***	1,306 Bbls.	—	—	—
All Other Lubricating Oil	—	—	—	1,104 Bbls.
Tetraethyl Lead***	—	—	—	—
*Boosters*, such as Iso-Octane, Iso-Hexane, or Iso-Pentane	—	—	—	—
<b>SCRAP IRON AND SCRAP STEEL</b>				
Number 1 Heavy Melting Scrap	—	—	—	2,894 Tons
All Other Scrap	—	—	—	7,490 Tons

Office of the Secretary of the Treasury, Division of Research and Statistics.  
December 30, 1940.

Source: Office of Merchant Ship Control, Treasury Department.

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

\*\* Aviation Gasoline.

\*\*\* As defined in the President's regulations of July 26, 1940.

ALLISON ENGINEERING COMPANY

Deliveries of Airplane Engines

	: Actual : deliveries :	: Estimated deliveries : on existing orders
<u>1940</u>		
January.....	10	
May 1 - June 1.....	15	
June 2 - 29.....	31	
June 30 - July 27.....	50	
July 28 - August 31.....	91	
September 1 - 28.....	221	
September 29 - October 5.....	49	
October 6 - 12.....	73	
October 13 - 19.....	61	
October 20 - 26.....	48	
October 27 - November 2.....	80	
November 3 - 9.....	44	
November 10 - 16.....	49	
November 17 - 23.....	19	
November 24 - 30.....	56	
December 1 - 7.....	30	
December 8 - 14.....	86	
December 15 - 21.....	78	
December 22 - 28.....	52	
<u>1941</u>		
January.....		303
February.....		427
March.....		515
April.....		592
May.....		603
June.....		669
July.....		645
August.....		710
September.....		786
October.....		897
November.....		623
December.....		504
<u>1942</u>		
January.....		320
February.....		142
March.....		90
April.....		71
May.....		40
June.....		4

## ALLISON SHIPMENTS

	:Oct. 27: :-Nov. 2:	Nov.: 3-9	Nov.: 10-16:	Nov.: 17-23:	Nov.: 24-30:	Dec.: 1-7	Dec.: 8-14:	Dec.: 15-21:	Dec.: 22-28:	Total
British	69	41	49	16	53	29	82	60	46	445
Army	11	3	-	3	3	1	4	18	6	49
Total	80	44	49	19	56	30	86	78	52	494

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

December 30, 1940.


## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE December 30, 1940

TO Secretary Morgenthau  
FROM Mr. Wiley




The Rueckwanderer or "re-migrant" mark account in America now totals \$5,000,000. The Germans have accumulated this money in the United States on promises to open mark credits in Germany for the eventual use of German "Aryans" in the United States who intend to return to the Reich at some future time. The question has been informally studied in the Treasury and the consensus is that it is a violation of existing laws.

The question of prosecuting is hanging fire. Justice has been examining the matter since we first raised the question several months ago, but so far has not come to a decision. It would be desirable for Justice to expedite things.

One Ritter, who has been selling Rueckwanderer marks in Chicago, is due to sail from San Francisco on January 8. If Justice made up its mind quickly there would still be time to serve appropriate process on him.

It appears that some of the German consuls have also been involved in the Rueckwanderer mark traffic.



December 30, 1940

To: The Secretary

From: Mr. Young

The Greek Minister and Mr. Koundouriotis were in this afternoon and talked with me and Mr. Williams. The conversation centered around the following three items:

## 1. Shells:

In the recently filed short list of requirements, three of the six items, namely, 75 mm., 105 mm., and 155 mm. shells are United States Army type. I indicated that there was apparently some question as to whether the Army could make any of these available to the Greek Government, in view of the shortness of our own supplies. The Minister said that he appreciated this point and is writing Mr. Hull a letter, asking for special consideration on these shells, pointing out that he has reduced his request to what he considers a rock bottom minimum. While he was in the office he made an appointment with Mr. Sumner Welles for 3 o'clock Tuesday afternoon, at which time he plans to present this letter.

## 2. Planes:

As regards to the 30 pursuit planes which have been under discussion, the Minister said that he has been instructed by his Government to accept delivery of any modern American pursuit plane--not necessarily the Curtiss P-40. He pointed out, in this connection, that the Greek Government had originally been interested in Vultees and had shifted their attention to P-40s only because we had indicated that they might be more promptly attainable. In response to my suggestion, he said he had no instructions from his Government in regard to accepting any British planes, even though they might be of a type superior to those which had been offered them.

3. Continental Engines:

Mr. Koundouriotis wanted to know what the procedure should be if he now wanted to order a specific number of Continental engines for training purposes. I told him to write me a letter, giving the details, and suggested that with this type of engine they should have a minimum of difficulty in clearance.

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## TREASURY DEPARTMENT

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## INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE December 30, 1940

TO Secretary Morgenthau  
Mr. Kuhn  
FROM Mr. Wiley Mr. Young  
Mr. Gaston

Attached is a cutting from the New York Herald Tribune, containing a front page story contributed by Wilfrid Fleisher, "diplomatic correspondent" of that paper in Washington.

The information on the 105 'planes at Martinique was given Fleisher by Baron James Baeyens, French First Secretary, at a cocktail party. Fleisher carefully queried him as to whether the information was for his confidential background only, or whether he could use it. Baeyens assured him that he could use it. I understand Henry-Haye is now asking to have Baeyens dismissed for revealing the contents of his most confidential telegrams to a foreign correspondent. In fact, Henry-Haye is described as having almost lost his mind over this leak, which he thinks will prevent the 'planes in question from reaching Indo-China. The French Ambassador had previously been sanguine that his plans in this respect would be successful.

Baron Baeyens is a son-in-law of the Tobin Clarkes of San Francisco and has a German brother-in-law in California, who is under investigation by FBI for espionage.

*File*

## Vichy Tells U.S. Martinique Is Nothing to Fear

Henry-Haye Conveys French  
Assurances to Welles and  
Explains Cabinet Shuffle

By Wilfrid Fleisher

WASHINGTON, Dec. 26.—French Ambassador Gaston Henry-Haye conveyed new assurances to Under Secretary of State Sumner Welles today that the United States had "nothing to fear from Martinique." The ambassador's renewed assurances today were understood to have been made against the background of the recent reshuffle in the French government, which he took occasion at the same time to explain to the State Department.

It was not clear today what had caused any renewed anxiety on the part of the Administration with regard to Martinique, which seems to prompt the ambassador's call at the State Department. The French Ambassador explained to newspaper men, on leaving the department, that there was no cause to worry about the French possessions in the Western Hemisphere, including besides Martinique, St. Pierre and Miquelon, Guadeloupe.

The question of the disposal of 105 airplanes landed at Fort de

(Continued on page 2, column 4)

## Vichy Tells U.S. Martinique Is Nothing to Fear

(Continued from page one)

landed from the French aircraft carrier Bearn last June is still under discussion, and it was learned in a reliable quarter today that three alternative schemes are under consideration. The planes might be returned to the American manufacturers, they might be shipped to Indo-China to aid the French there in resisting either the Japanese or the Siamese or they might be turned over to South American countries as a good-will gesture. It is understood that President Roosevelt favors the latter course.

The obstacle in these discussions, however, is the provision in the Compiegne Armistice which prohibits sending any airplanes or war materials out of French territories. Thus the question must be adjusted ultimately by the Vichy government in negotiations with the Germans. A similar adjustment was made between the Japanese and the Vichy government last summer regarding the passage of Japanese airplanes over Indo-China on the commercial air route from Japan to Siam. Such passage over French territory was forbidden under the Franco-German armistice terms, but special permission was obtained by the Vichy government from the Germans to permit the Japanese to fly over Indo-China.

Admiral William D. Leahy, who is now on his way to Lisbon aboard the

United States cruiser Tuscaloosa to assume his post as ambassador to the Vichy government, is regarded as in a particularly good position to negotiate an arrangement with the French government both with regard to the disposition of the airplanes and the question of obtaining an air base in the Island of Martinique for use by the United States in the American defense scheme. As former Governor of Puerto Rico, Admiral Leahy is considered an expert on the Caribbean and the problems of defense in Central America.

While American naval leaders are said to be insistent upon obtaining rights to a naval base in the Island of Martinique it is thought likely here that the French will persist in their refusal to grant such a request. Considering the position of the Vichy government, it would be extremely difficult for the French to grant base rights to the United States, which Germany would look upon with evident disfavor.

Awaits Leahy's Arrival

VICHY, Dec. 26 (UP).—French forces on the Island of Martinique would resist if any power tried to put troops ashore there, a government spokesman said today in response to questions of any American bid for the right to build a naval base on the island.

"But obviously the forces would be too weak to resist any serious attempt, if the United States really tried," the spokesman added.

He said the government had no knowledge of any negotiations or American bid in connection with the subject. However, he refused to make any categorical statement pending the arrival of Admiral William D. Leahy, new ambassador to Vichy.

Otherwise the spokesman merely any right to establish permanent bases anywhere in the empire.

TREASURY DEPARTMENT

131

INTER OFFICE COMMUNICATION

DATE December 30, 1940

TO Secretary Morgenthau  
FROM Mr. Cochran

**STRICTLY CONFIDENTIAL**

At 11:15 Saturday morning, December 28, Mr. Pincent, Financial Counselor of the British Embassy, called on me and told me that his Embassy had received a cablegram from London approving the publication of a list on January 1 of securities vested by the British Treasury which shall have been sold out by that date, except for small remnants which may still come in. A list of such securities was provided the Secretary under date of December 26. Pincent added that effort would be made to add a few more securities to that list before the year closes. I gave this information to the Secretary by telephone at 12:45 Saturday noon.

*J. M. R.*

December 30, 1940.

MEMORANDUM

TO: Secretary Morgenthau  
 FROM: Mr. Gaston

Deacon Parker called me up today to say that he was leaving on a vacation, which he needed very badly, that he hoped you wouldn't think he was running out on us and that he thought the Lucey series was going to turn out to be of value.

Jack Knost called Mrs. Blots this mornin' and at her request I called him back. He had some figures on airplane engine capacity, which Lucey had asked of him, but he thought it would be better for them to come from us. They were that in early 1939, before the French and British orders took effect, the capacity of American plants for the warplane type of engine, that is engines of 1200 horsepower or better, was 400 per month and that in the spring of 1940, before the new National Defense program got under way, this capacity had been brought up to 2,000 per month, which showed clearly that the British and French orders had been directly responsible for multiplying by five the capacity of American engine plants for producing the war type of airplane motor. He also told me that he had told Lucey that from the very beginning you had stressed two considerations: (1) the necessity for strengthening the defenses in the United States by increasing our capacity for producing war materials; (2) that contrary to Woodring's position you pointed out that only by producing for the French and the British the very latest types of airplanes and other material would we equip ourselves for meeting our own defense needs. He added that the delaying factors were the slowness of authorization of orders from the other side and the difficulties placed in the way of the program by Woodring and his associates on this side. I told him that we had asked Lucey to leave Woodring's name out of the discussion and he agreed that this was good judgment. He said that Lucey had assured him that we would be permitted to see anything he wrote and it was on that basis that he had talked freely to Lucey. He said that if he could be helpful in checking anything that was written, he would be glad to do so.

I gave Lucey the above figures over the telephone. He said the desk on the Daily News cut out the paragraph which I had caused him to insert about the inevitable delays in converting our industrial plants for maximum production of war materials. He hoped the New York World Telegram and other papers would treat the stories better, both as to editing and display. He said he would gather some clippings for us.

BRITISH EMBASSY,  
WASHINGTON, D.C.

Personal and Secret

December 30th, 1940.

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*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram received from London  
dated December 28th, 1940.

Naval

1. On December 27th an anti-aircraft drifter engaged and damaged a Junker 88 off Bouyth.
2. Early a.m. December 27th long range batteries shelled convoy in Dover Straits. Over 200 rounds were fired, no hits and no casualties.
3. December 26th, when Sollum raided by 10 bombers (words undecypherable) was attacked without suffering damage or casualties. Sollum has been bombed and shelled intermittently but shipping being unloaded satisfactorily.
4. A.M. on December 27th enemy aircraft attacked convoy near the Thames estuary. Only one ship was damaged but she was able to proceed.
5. Naval aircraft attacked Haugesund a.m. on December 27th one 4,000 ton merchant vessel was set on fire and warehouses and jetty alongside received direct hits.
6. December 27th aircraft made five attacks on shipping at sea. One 4,000 ton vessel received three hits; one small vessel received a hit; the results of three attacks were not seen.
7. A.M. December 27th. O.B.V. Maron intercepted and sent into Gibraltar French trawler "Joseph Bahamel".
8. Enemy raider shelled Esuru on the morning of December 27th. Considerable damage was done to phosphate loading equipment. No casualties. Raider carried/

-2-

carried Nazi colours but had Japanese name on the hull.

9. Expt. Libra. Sollum has been bombed shelled intermittently but unloading of shipping is proceeding satisfactorily. Naval units at Sollum unsuccessfully attacked by 10 bombers on December 26th.

10. Gladiators of the Royal Australian Air Force shot down two Italian fighters on December 26th (confirmed) and a further four (unconfirmed) and one damaged without loss to themselves.

11. Four Italian coast defence guns have been found in area cleared by our advance on South side of Sollum Bay.

12. Troops from Siwa have attacked and destroyed an Italian frontier post, the garrison of which escaped in rough country.

13. Eight Blenheims successfully attacked Velona harbour on December 26th. Five aircraft damaged in combat with nine Italian fighters but several of the latter also believed to have been damaged.

14. Royal Air Force. Hits obtained on the edge of Bordeaux aerodrome and adjacent buildings in attack on the night of December 26th/27th. One aircraft missing.

15. On December 27th four coastal command aircraft dropped one and a half tons of high explosive bombs on Lorient U-boat base. All aircraft returned safely.

16. On the night of December 27th/28th 74 aircraft despatched to attack aircraft assembly

aerodrome/

-3-

aerodrome at Bordeaux, U-boat bases at Lorient, docks and shipping at Havre and Boulogne and certain other aerodromes. Mine laying also carried out. Reports not yet received. One medium and one heavy bomber missing.

17. German Air Force. Only very slight enemy activity during December 27th. Only bombs dropped were hospital at Epsom causing eight minor casualties, one enemy aircraft probably destroyed by our fighters.

18. Estimated that 90 aircraft were operating over South Eastern Counties with London as main objective during the night of December 27th/28th, and other aircraft minelaying. No serious damage caused but preliminary reports of casualties in London area appear rather heavy. Many bombs also dropped in Essex and Kent mostly near the Thames Estuary but damage was only slight. Isolated incidents also reported from Eastern counties.

19. Aircraft casualties in operations over and from the British Isles: One enemy aircraft probably destroyed. 3 British bombers missing (one on the night of December 26th/27th).

20. Reports just received that during December 27th a Hudson aircraft obtained at least three hits on an enemy merchant ship in Egersund harbour, and four naval aircraft set on fire an enemy supply ship in Haugesund area where direct hits were also scored on warehouses and jetty.



This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

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I. Western Theater of War.

The R.A.F. on the night of 28 December operated over Rotterdam, Antwerp, Boulogne and Cherbourg. The Germans engaged only in minor reconnaissance flights on the 28th. Daylight raids were made over Suffolk and Kent and in Northwest England on the 29th. On the night of 29 December the financial district of London was subjected to a heavy bombing attack, which started many fires and caused considerable damage.

II. Greek Theater of War.

Situation unchanged. Activities were of a local character.

III. Mediterranean and African Theaters of War.

No change in the Bardia area. On the night of 29 December the British bombed Naples.

Paraphrase of Code Radiogram  
Received at the War Department  
at 3:49 p.m., December 30, 1940.

## CONFIDENTIAL

London, filed December 30, 1940.

1. On Sunday, December 29, there were no important results of the routine flights of Coastal Command planes. During the night before a railroad junction in North Germany was attacked and mines were planted off the coast in this area. British heavy bombers attacked Lorient and the Channel ports and bombed installations in Holland and Belgium. Due to poor visibility, results were not definitely determined.

2. During daylight hours of December 29, a total of 91 German fighter planes, largely on reconnaissance missions and on patrols, were plotted but only six of them crossed the coast line. Two German planes were damaged and one was destroyed. In the four-hour period beginning at 6:00 p.m. on the night of December 29-30, a severe attack was inflicted on London by German bombers. The "City" suffered heavy damage and at many points fires were set. The Guild Hall was damaged. The German planes were engaged by night fighter planes of the R.A.F.

3. While no definite figures are available, it is known that six British bombers have been destroyed during the last three nights and it is believed that more have been lost.

LEE

Distribution:

Military Aide to the President  
Secretary of War  
State Department  
Secretary of Treasury  
Asst. Secretary of War  
Chief of Staff  
War Plans Division

Office of Naval Intelligence  
Air Corps - 2  
G-3

CONFIDENTIAL

CONFIDENTIAL

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**Foreignness of Goto Kaidogun  
Received at the War Department  
at 11:48 A.M., December 30, 1940.**

**Form, filed 11:50, December 30, 1940.**

**Front Bannock-Balfort has 12 German Divisions accord-  
ing to information from G-2, Swiss Army.**

**LEAD**

**Distributions**

**Military Aide to the President  
Secretary of War  
State Department  
Secretary of Treasury  
Asst. Secretary of War  
Chief of Staff  
War Plans Division  
Office of Naval Intelligence**

CONFIDENTIAL

## TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE December 30, 1940

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: The Business Situation,  
Week ending December 28, 1940.

Summary

(1) While holiday influences tend to obscure the current business trend, there is little doubt that business activity is continuing to advance. The New York Times index rose 0.6 to 115.7 in the week ended December 21, with a notable increase in the index of cotton mill activity to an all-time high. Barron's index likewise showed a further advance.

(2) In basic commodity prices, some indications appeared last week that the price rise is being resumed after the recent levelling-out period. Prices of 12 foodstuffs rose to a new high since May. Prices of 16 industrial materials declined slightly, largely because of a sharp drop in shellac, though futures prices for certain industrial materials were higher.

(3) The steel industry shows increasing inability to keep up with current orders. Unfilled orders are continuing to expand, and delivery periods are lengthening. New steel orders in December will probably exceed the November volume, despite the holiday influences. U. S. Steel orders in the week ended December 19 rose to 148 per cent of capacity, the highest level since July.

(4) Increased wages and income payments are becoming a more important strengthening factor in industrial activity. National income payments in November rose to an annual rate of \$76.7 billions from \$75.9 billions in October. Department store sales and rural retail sales, after seasonal adjustment, increased sharply in November. Record levels of activity in the production of refrigerators, washing machines, and other household equipment has brought a strong demand for sheet steel.

(5) Our index of new orders in the third week of December rose to the second highest figure of the year, due to sharply increased orders for woolen goods and steel.

- - - - -

### The general situation

While the holiday season tends to obscure the current business trend, weekly business data show no evidence of any slackening in the business rise that has been in progress for some months. (See Chart 1.) Both the New York Times index and Barron's index, seasonally-adjusted, made further advances during the week ended December 21.

Of particular interest in recent weeks has been a very sharp increase in cotton mill activity, an important component of the FRB index. (See Chart 2.) As estimated by the New York Times, the seasonally-adjusted index of cotton mill activity rose 10.3 points in the week ended December 21 to an all-time high of 181.8. Army orders, of course, largely account for the increase, but civilian demand appears also to be increasing.

### Rising income payments stimulate consumer buying

National income payments are rising more rapidly, and are beginning to have a greater influence on industrial activity. In November, national income payments rose to an annual rate of \$76.7 billions, the highest since April 1930. This compares with a rate of \$75.9 billions in October, and with the year's low of \$72.4 billions last April.

Reflecting the increased consumer incomes, department store sales and rural retail sales rose sharply in November, after seasonal adjustment, following a previous slackening. (See Chart 3.) Sales by variety stores, shown on the chart, followed about the usual seasonal trend. Christmas sales of department stores this year apparently did not quite come up to previous trade expectations, though showing a gain of about 5 per cent over 1939. Nevertheless, this represents, in physical volume, a new high sales record.

The improved outlook for the consumers' goods industries has begun to affect the demand for steel. Record-breaking activity by manufacturers of refrigerators, washing machines, and other household appliances has brought a strong demand for sheet steel, particularly in the Chicago district.

Retail sales of new passenger cars and trucks in November set new records for that month, according to the Automobile Manufacturers' Association. Sales of passenger cars in November were 30 per cent higher than in the same month last year, and sales of trucks were 25 per cent higher.

Prices show some evidence of rising trend

Following a five-week period of levelling out, basic commodity prices during the last week of December showed some indication of resuming their previous rise. (See Chart 4.) The ELS price index of 12 basic foodstuffs rose to a new high since last May, with only two of the group (butter and cocoa) showing declines. The price index of 16 industrial materials was somewhat lower, owing to a sharp drop in the price of shellac. With that commodity omitted, the index would have advanced slightly. In the futures markets, prices of important foodstuffs such as wheat, lard, cottonseed oil, and coffee rose rather sharply, and some industrial materials -- notably cotton and hides -- also advanced.

The drop in shellac prices last week amounting to 11 per cent, was initiated by a sharp reaction in the Calcutta market, following a previous extensive rise. Consumers in this country rushed into the market last month to purchase large quantities of shellac at rising prices, hence the demand is light now when prices are declining.

Steel scrap prices advanced somewhat further during the week, while spot prices of other industrial materials shown in the lower section of Chart 4 (except shellac) showed little or no change. The decision of the Metals Reserve Company to import 100,000 tons of copper from Latin America has doubtless tended to stabilize copper prices but futures prices of both copper and lead advanced slightly last week.

Among the food products, greatest advances last week were recorded by hog and steer prices. This reflects (1) a bullish report from the Department of Agriculture, indicating that the 1941 spring pig crop will be 14 per cent smaller than in 1940, and (2) lighter marketings of beef cattle. The Secretary of Agriculture recommended last week that farmers increase their production of hogs next year to take advantage of expected higher prices, and to market more cattle at present prices instead of holding them to increase their farm herds.

Butter prices have again declined, with selling pressure more noticeable and demand relatively light, apparently reflecting over-buying on the previous upturn.

General moderate advances have been made by grain prices. Prices of various fats and oils, including lard, tallow, cottonseed oil and soy bean oil, improved after publication of the bullish Government hog report.

### Steel output falls further behind orders

While steel output this week will rebound to 95.9 per cent of capacity, which compares with 96.8 per cent in the week before the holiday, recent data continue to demonstrate the inability of steel producers to meet the current volume of demand. New orders of the U. S. Steel Corporation have increased further during November, while shipments have fallen off, thus raising the indicated volume of unfilled orders above its 1939 peak. (See Chart 5.)

During December it appears that the steel mills have fallen behind still further in their attempts to keep up with incoming orders. The U. S. Steel Corporation orders during the week ended December 19 rose to 148 per cent of capacity, the highest since July. The Iron Age reports that incoming business this month in the Pittsburgh district has run well above both production and shipments, with new orders equaling or exceeding the November volume despite holiday influences. At Cleveland, new business this month has exceeded production by 20 to 30 per cent, and unfilled orders are at the highest peak in history. At Chicago, unfilled orders have increased further, although new orders in December may be slightly under the November total.

It is thought in the steel trade that ice breakers may have to be employed next spring to make an early start in ore shipments, in view of the prospect that stocks of ore at lower lake ports and furnaces will be seriously reduced by spring. Ore stocks on December 1 are estimated at approximately 41,700,000 tons. With blast furnace consumption running at about 6,000,000 tons a month, stocks by May 1 would be reduced to between 11,000,000 and 12,000,000 tons, as compared with normal stocks on that date of about 20,000,000 tons.

The machine tool industry is reported to be meeting more formidable obstacles in attempting to expand production, owing to increasing costs, constantly lengthening deliveries on materials and parts, difficulties in obtaining skilled labor, and increasing difficulties in finding suitable subcontractors. In the important Cincinnati district, it is feared that the new Wright Aeronautical Corporation plant, which may employ 15,000 men (more than the total employed by machine tool companies in that district) will attract from the machine tool industry many of its badly-needed skilled workers.

### New orders again at year's high

The increase in steel orders, together with a sharp rise in orders for woolen textiles on defense contracts, has raised our new orders index to approximately the previous high reached at the end of October. (See Chart 6.)

### Weekly business indexes

A sharp contra-seasonal gain in cotton mill activity, and another rise to a new record high in electric power production, were the principal factors in bringing about a further advance of the New York Times index of business activity during the week ended December 21. The gain amounted to .6 point, and carried the index to 115.7 from 115.1 (revised) in the previous week.

In addition to the gains in the components above mentioned, the adjusted indexes of lumber and automobile production each showed a rise of around 3 points. On the other hand, the adjusted indexes of freight carloadings and steel ingot production were moderately lower.

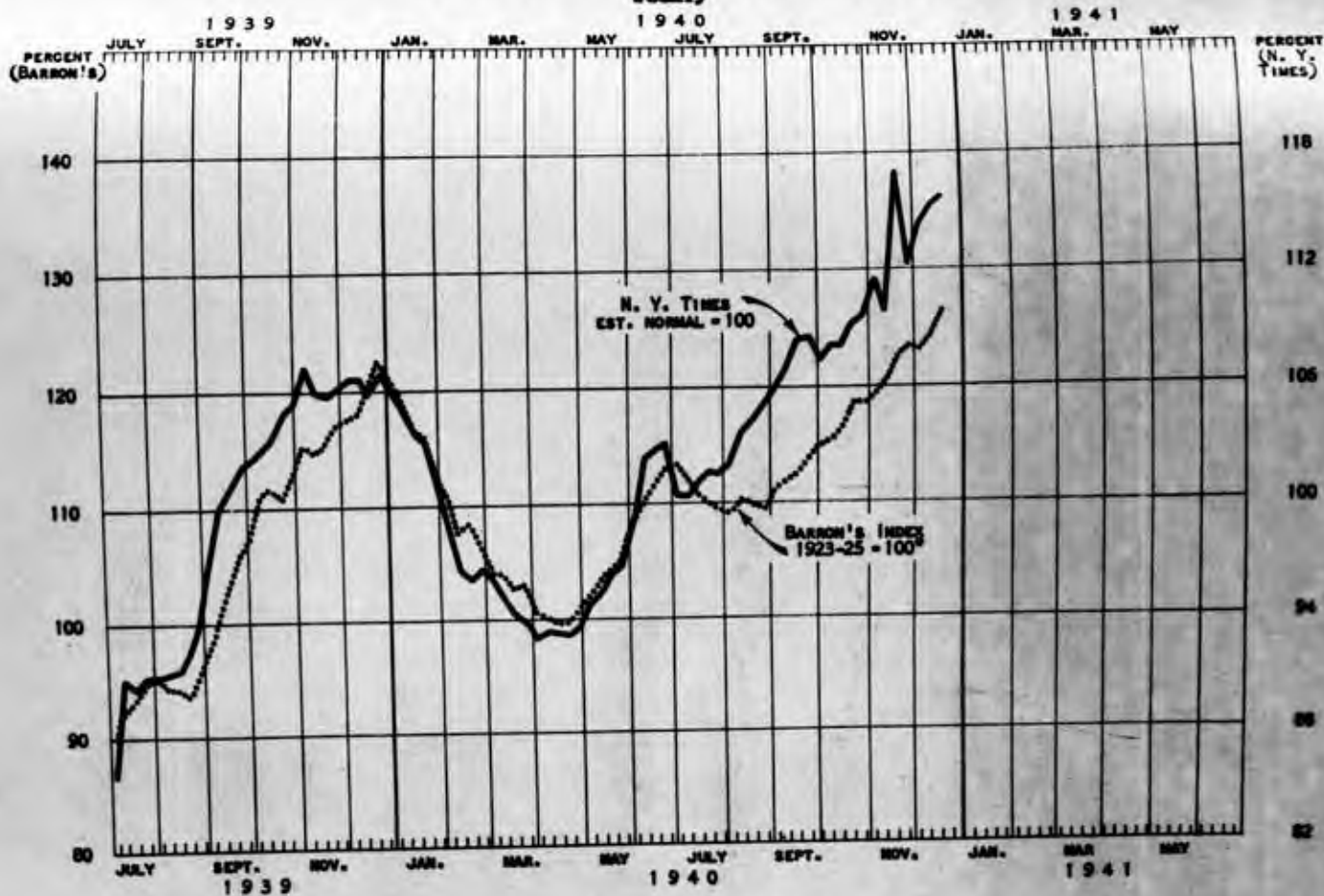
Barron's index of business activity rose at a faster pace than the Times index, reaching a new high for the year at 126.4 as compared with 124.4 in the previous week.

Preliminary data for the week ended December 28 reveal a drop of 44,000 units in automobile production, and a decline of about 18 per cent in steel ingot production. While these reflected Christmas holiday shutdowns, the decline in automobile production was apparently of greater than seasonal proportions.



# INDEXES OF BUSINESS ACTIVITY

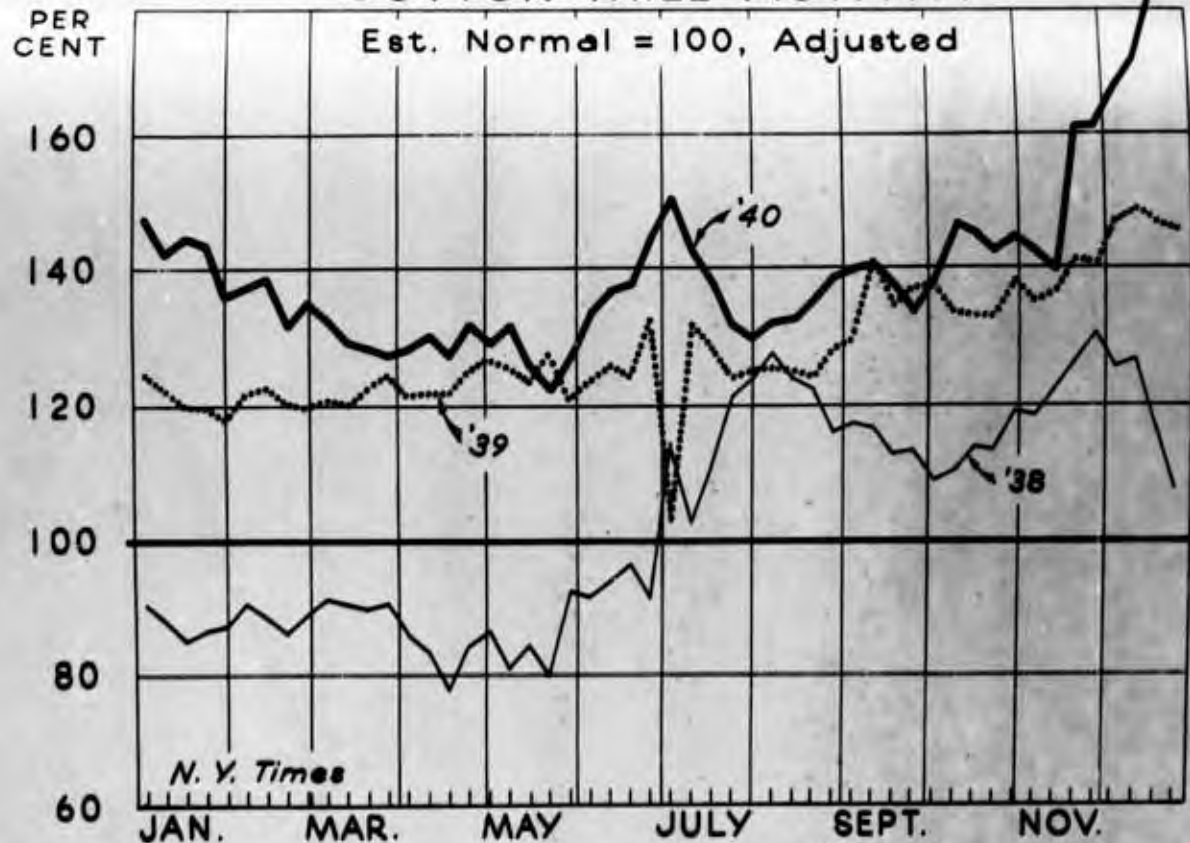
Weekly



\* ADJUSTED FOR SEASONAL, NOT FOR TREND

# COTTON MILL ACTIVITY

Est. Normal = 100, Adjusted



N. Y. Times

Note: Recent Figures subject to revision

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

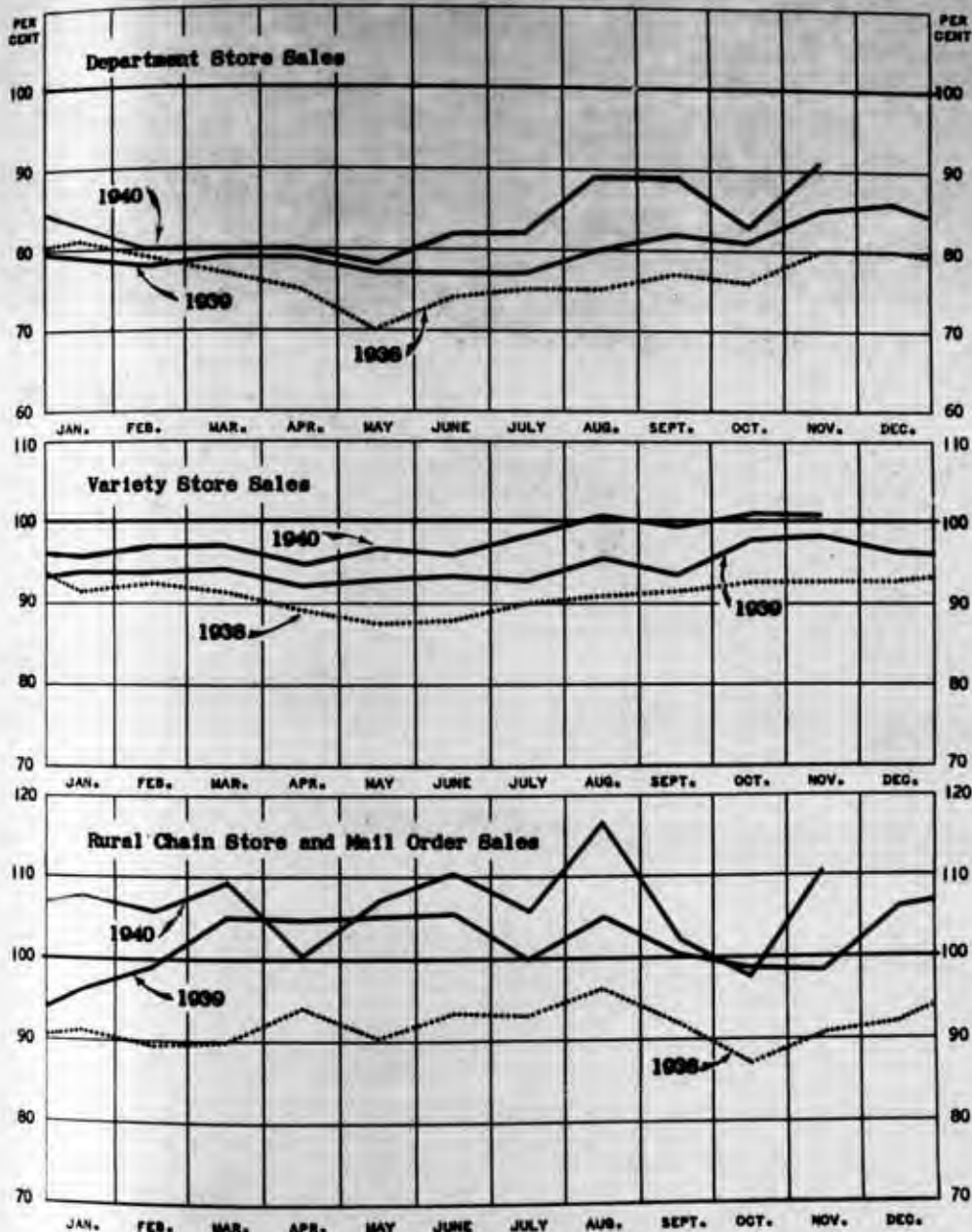
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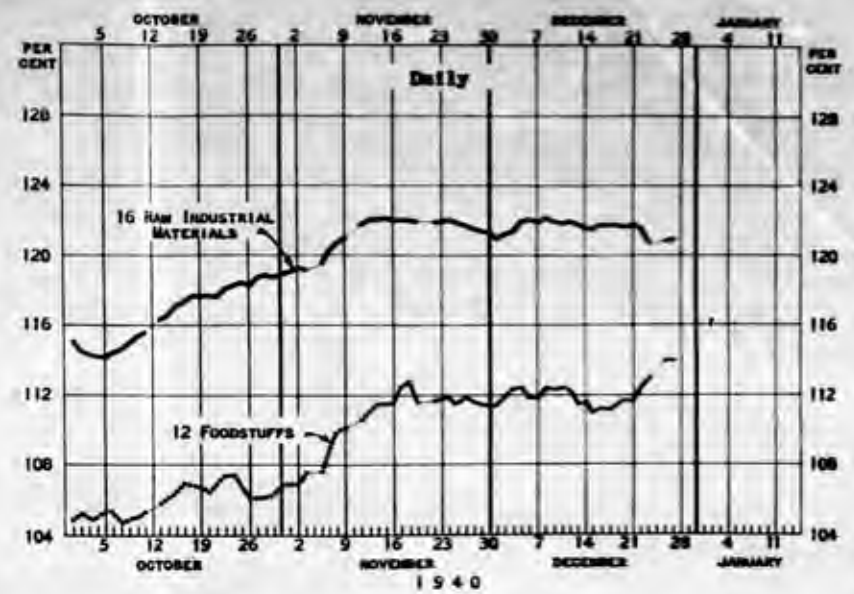
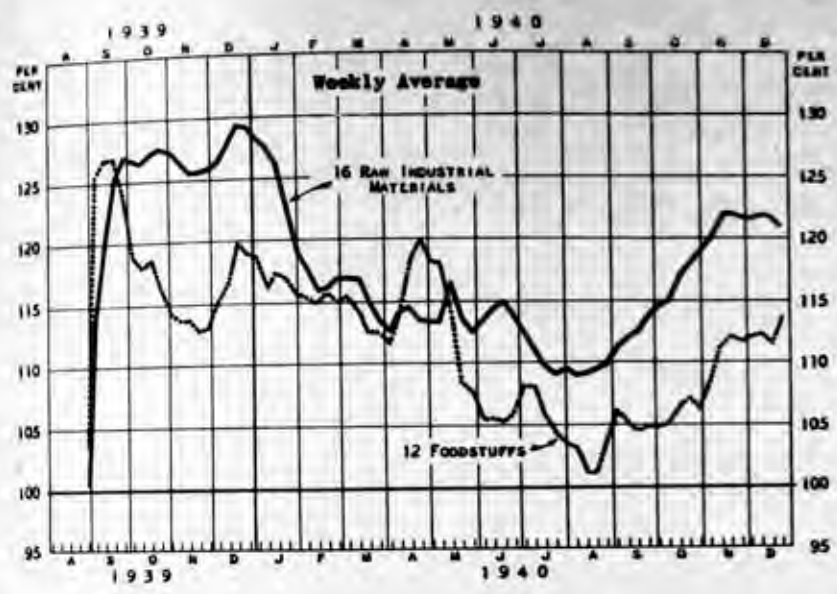
Chart 2

Regraded Unclassified

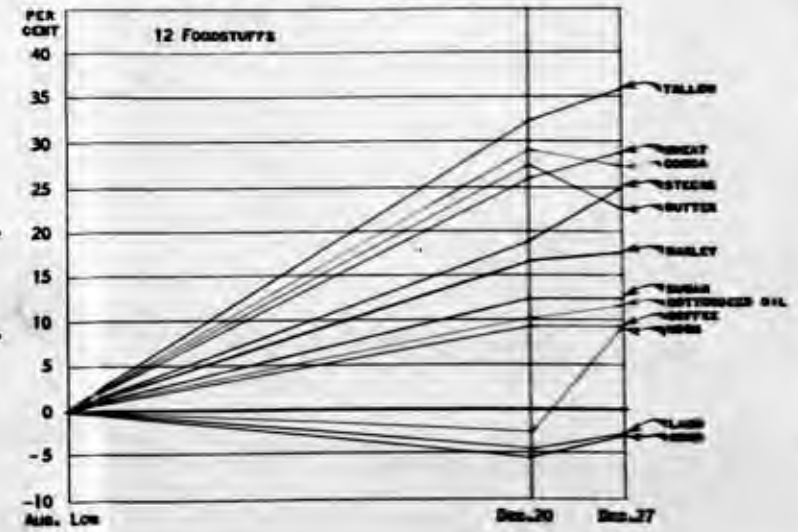
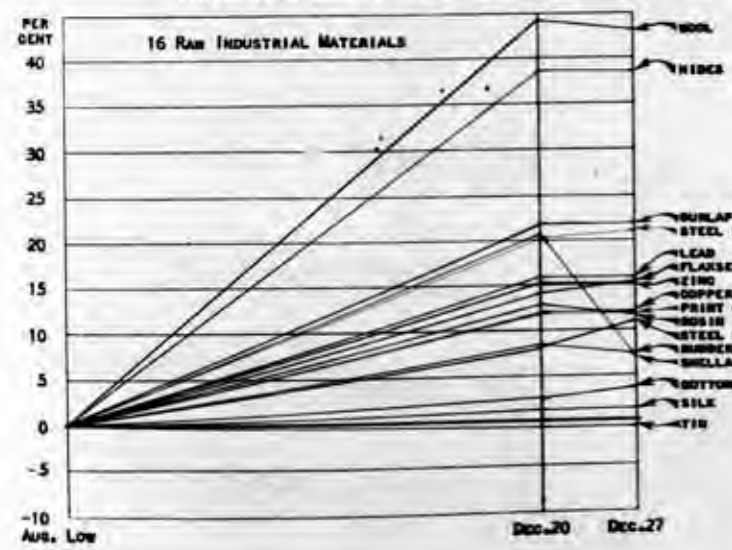
**RETAIL TRADE**  
 Urban and Rural Sales of General Merchandise  
 1929 = 100, Adjusted



MOVEMENT OF BASIC COMMODITY PRICES  
 AUGUST 1939 = 100

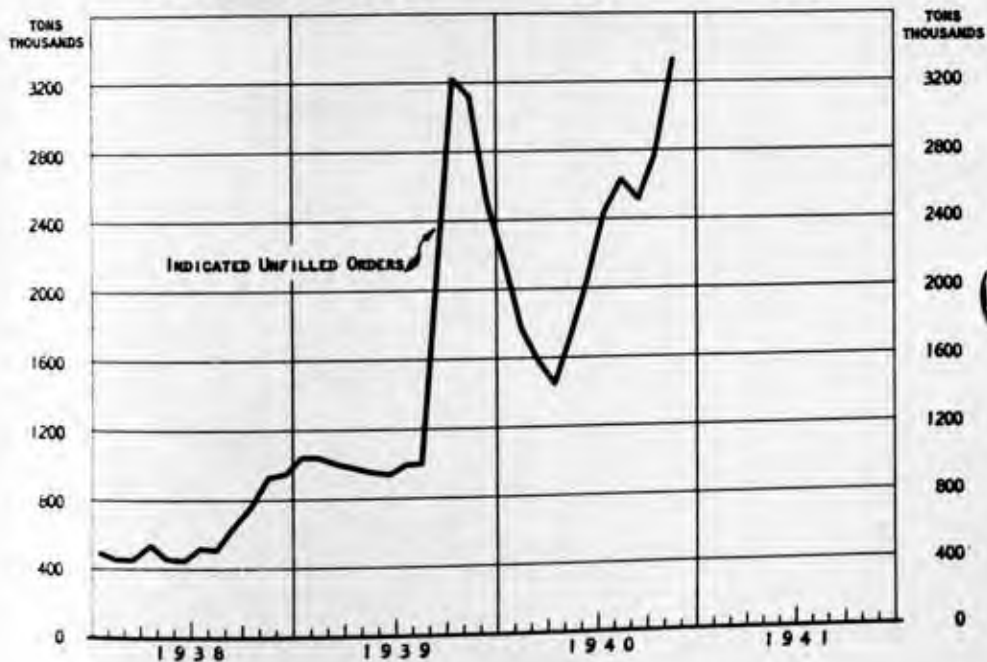
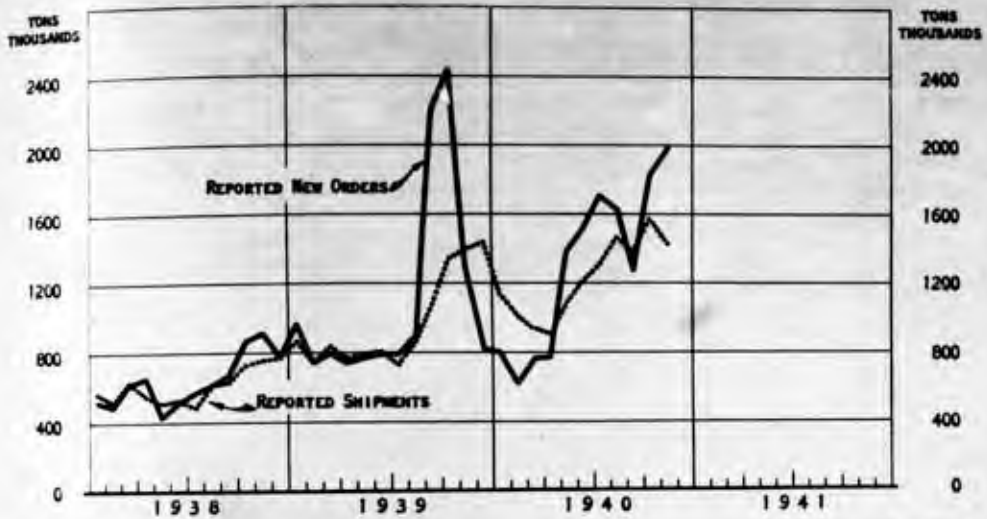


Percentage Change for Individual Commodities, August Low to December 20, and to December 27, 1940



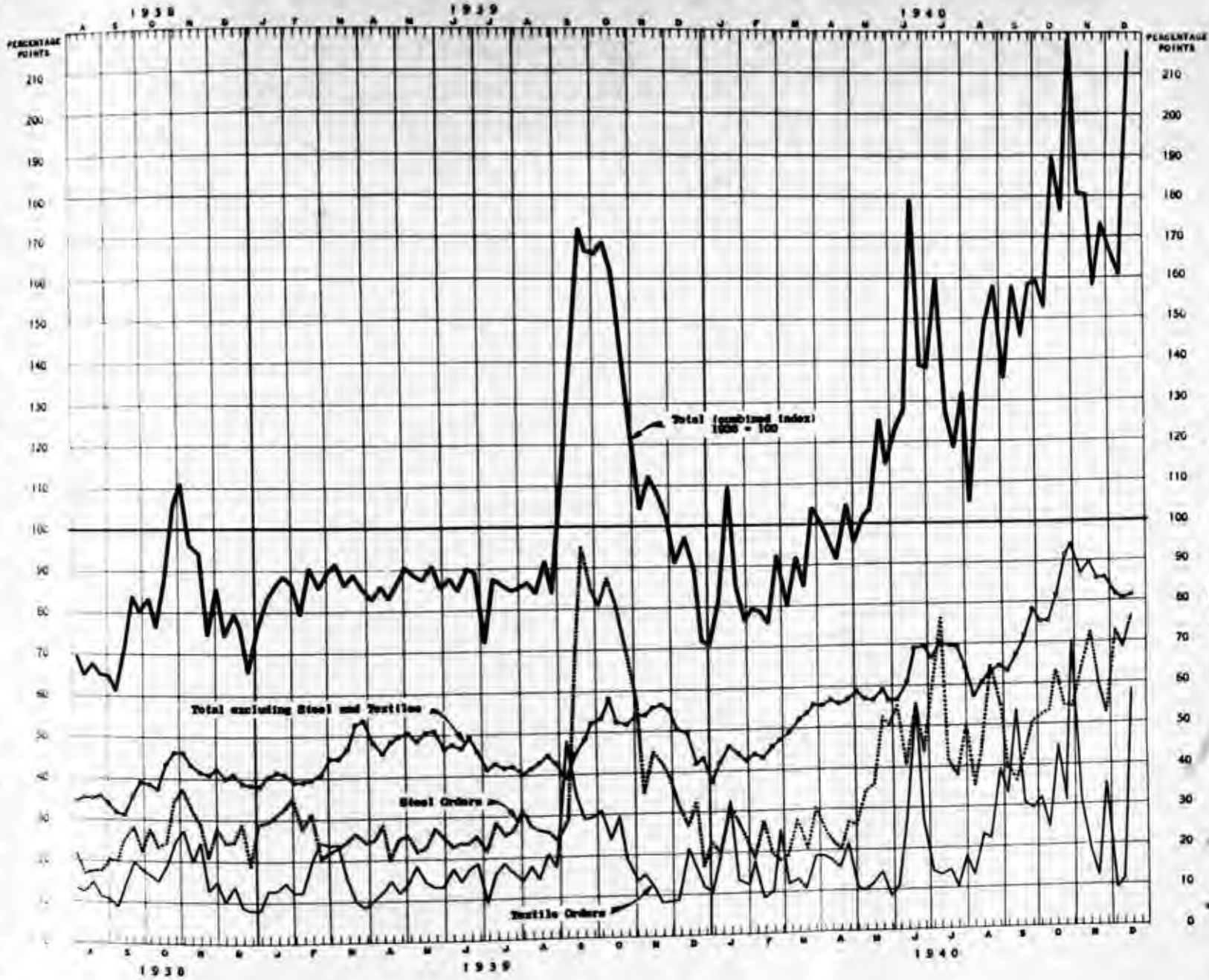
REPORTED NEW ORDERS, SHIPMENTS, AND INDICATED UNFILLED ORDERS OF THE U.S. STEEL CORPORATION

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### INDICES OF NEW ORDERS

Combined Index of New Orders and Selected Components



U.S. Department of the Treasury  
Bureau of Economic Warfare

## PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London

DATE: December 30, 1940, 3 p.m.

NO.: 3963

Reference is made to telegram of December 25, 3 p.m., from the Embassy.

The talks with Sir Frederick Phillips have comprised a presentation by him of the requirements of the British Government in materials from this country, by months to the first of September, 1941, and general totals for periods after that date. No final figures have as yet been decided on and the subject is being pursued, including discussion of programs which have not been fully developed as yet. The subject of British assets which might be converted into dollars is also included in the conversations. It is the belief of the Treasury Department that the figures under discussion are not sufficiently final at this time for any communication.

HULL  
(HF)

EA:FL:LWV

EU

EA:LWV

JT

PLAIN

LONDON

Dated December 30, 1940

Rec'd 4:35 p.m.

Secretary of State,  
Washington.

4251, thirtieth.

FOR TREASURY.

The announcement of two new Government security issues to be on sale from Thursday, January 2 has been well received. The  $2\frac{1}{2}$  percent "on tap" national war bonds 1945-47 issued on June 25 (reported in telegram No. 1704 of June 22 and despatch No. 5499 of June 27) having been subscribed to the amount of sterling 429 million is now discontinued and replaced by a similar issue 1946-48. The "on tap" principle proved as the best method of drawing off savings as they occur is extended in the new issue of 3 per cent savings bonds 1955-65. This issue represents terms more favorable to the Exchequer than those of the 3 per cent war loan 1955-59 issued in March (see telegram No. 552, March 5, paragraph 2) in that the final maturity date is over five years later. The interest rate being the same both issues will be issued and repaid at par, full payment being required at date of subscription and





EH

GRAY

Berlin

Dated December 30, 1940

Rec'd 8:27 p.m.

Secretary of State,  
Washington.

5207, December 30, 5 p.m.

FROM WOODS IN ABSENCE OF HEALTH FOR TREASURY.

According to a statement of the Minister of Finance which appeared in the German Press yesterday, on January 2, 1941, the Reich will offer the first series of new  $3\frac{1}{2}\%$  treasury notes which will mature on September 16, 1955. Compared with the last series of  $4\%$  treasury notes, the interest rate has been reduced by  $\frac{1}{2}$  of  $1\%$ , the term shortened from 20 to 15 years, and the price of issue fixed at  $98\frac{3}{4}$ .

The decision to lower the interest rate for the new issue from 4 to  $3\frac{1}{2}\%$  is considered an indication that the Reich will continue its drive for a general lowering of interest rates. The fact that neither a definite amount nor a time limit has been fixed for the new issue seems to be in accordance with the "flexible" policy of war time borrowing heretofore followed by the Minister of Finance. It is believed, however, in financial circles that

-2-JR #5207, December 30, 5 p.m., from Berlin.

that heavy coupon maturities on January 1 coupled with the continued extremely liquid state of the money and capital market will guarantee the success of the new issue.

According to the latest published statement of the Reich debt, the total amount of 4% treasury notes sold from March to the end of September 1940 was 5,132,000,000 marks. As, however, sales of the sixth series of these notes were not closed on October 1, 1940 and as the amount of the seventh and last series, sales of which closed December 10, 1940, has been semi-officially estimated at 2,000,000,000 marks, the total of 4% treasury notes floated from March to December 1940 is believed in informed circles to approximate 7,500,000,000 marks.

MORRIS

NK

KH

PLAIN

✓  
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Stockholm

Dated December 30, 1940

Rec'd 11:47 p.m.

Secretary of State,

Washington.

1136, Thirtieth.

Riksbank statement December 23 in million crowns gold holdings 672, foreign exchange reserves 749, note circulation 1455, loans and discounts 678.

New clearing agreement with Germany signed effective January 1, 1941, principal change being that a mark account shall be established with the clearing institute in Berlin into which all Swedish claims payable in marks shall be paid.

Tentative agreement reached between employers and labor unions regarding sliding wage scale 1941 which is understood to afford some increase in pay and must be ratified before January 9 next.

Butter and other edible fats for household purposes rationed effective December 29 with weekly ration of 250 grams per person trade in butter margarine and other kinds of edible fats and consumption of such fats for most industrial purposes simultaneously placed under government control.

Hot water for household use previously allowed two days weekly discontinued after January first because of insufficient coal supplies. Hotels boarding houses previously permitted to furnish hot water at all times are also affected by this total prohibition.

Inform Treasury, Commerce.

STERLING

NK

*Dr. Haas saw this  
& held it 1/17-41*

**CONFIDENTIAL**

Price Stabilization Division  
Leon Henderson, Commissioner

**157**

*12/30/41*

**"BONUS" SCHEMES AND "TARGET PRICE" MECHANISMS EMPLOYED  
IN BRITISH ARMAMENT PROCUREMENT CONTRACTS**

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December 4, 1940

"BONUS" SCHEMES AND "TARGET PRICE" MECHANISMS EMPLOYED IN BRITISH  
ARMAMENT PROCUREMENT CONTRACTS

This memorandum has been prepared almost entirely on the basis of conversations with British Air Ministry officials and British Ordnance officials now in the United States; in less important particulars it is based on the Reports of the Select Committee on National Expenditure, which are identified below.

The memorandum surveys the use of "target price" mechanisms and "bonus" schemes in British contracts for the production and procurement of armament. Because these devices are used almost exclusively in contract procedures for the production of aircraft, the procedures in that industry have been treated at considerable length in Section I. The lesser extent to which "target price" and "bonus" schemes have been used in the procurement of armaments other than aircraft has been discussed briefly in Section II.

SECTION I

"Target Price" and "Bonus" Schemes  
in British Aircraft Procurement Contracts

1. Basic Principles and Procedure

"Bonus" schemes to encourage economical production of the aircraft requirements of the British Air Ministry have been used in almost all Air Ministry contracts since the rearmament program was initiated. Their use has been necessitated by the peculiar conditions of the aircraft industry and the peculiar nature of Air Force needs. The permanent British aircraft industry consists of a small number of firms, each producing special types of planes and engines and each controlling most of its own patents and designs. Hence reasonable prices and efficient production could not be sought by the use of competitive tender. Nor could they be secured by direct negotiation at the time contracts were let. Pressure of time was always acute, and the specifications for aircraft requirements were almost always subject to change during the duration of a contract.

For these reasons it has been necessary to determine prices by actual experience with each contract, and to make special provision to insure that contractors' costs be kept as low as possible. These objectives have been sought by the use of several forms of combined "target" price setting and bonus schemes. The basic principles underlying the methods of price setting used by the Air Ministry in recent years, and the bonus schemes which supplemented them, will be enumerated below. The evolution of the plans, and the variants employed to meet special circumstances, will be described later.

- (a) The actual cost of production of the article is determined by tests after "straight-line" production is attained. These tests are conducted under government oversight (but without detriment to the contractors' responsibility) and the cost accounting methods employed require governmental approval, and all accounts are subjected to governmental audit. Certain elements are mutually agreed upon as constituting cost for the purpose of the test and all subsequent cost computations. Fixed cost items are included only when the contractor owns capital equipment.
- (b) On the basis of this actual test a so-called "target cost" is agreed upon between the Air Ministry and the contractor. This "target cost" adjusts the actual cost of producing the test batch for increases and decreases which may be expected to accompany the production of the remaining output under the contract with reasonably efficient management by the contractor. It provides the point of reference for both the basic price to be paid the contractor for subsequent production and for the determination of his "bonus", as described below.
- (c) The "target price", which is the base price promised the contractor for his output under the contract, is determined by adding to the "target cost" a fixed sum per unit for profit determined as an agreed percentage on the estimated "target cost" per unit; it is designed to insure that total profits do not exceed what is considered an adequate and equitable profit on turnover. In practice, the Air Ministry usually takes into consideration, when fixing this price, the remuneration which the reasonably efficient contractor is likely to receive on account of the bonus described below, so that the total remuneration including the bonus should represent a fair return. This rate of return on turnover is calculated to yield a fair and adequate return on the capital investment of the contractor, or to represent a reasonable reward for economical management, where the assets are government-owned.
- (d) The "savings bonus" is a percentage of any reduction below "target cost" which the contractor achieves on subsequent output. Actual cost is computed in the same manner as the cost of the test "batch." The contractor receives percentages of any reduction of actual costs below "target costs" according to a prearranged schedule of progressively increasing bonuses. Complementing the bonus schedule is another, used in commercial contracts, by which the Air Ministry and

the contractor share any amounts by which actual costs exceed "target costs."

- (a) Virtually all Air Ministry contracts provide for revision of the "target costs" and of "target prices" should changed conditions make such revision appropriate. In fact, revisions based upon subsequent tests of straight-line production costs are almost universal in large contracts. In certain cases revision is made at stated intervals of time but a more typical practice is to revise the "target price" at appropriate "batch" stages corresponding to production schedules. The principle of a "moving target" to keep both prices and profits in line and to make bonus payments depend on efficiency alone is thus an essential feature of British aircraft "bonus" contracts.

A hypothetical illustration of the operation of a typical bonus scheme follows: If the actual unit cost of the test "batch" were £100, and straight-line production indicated reasonable prospects of cost reductions, the "target cost" for the next batch might be left at £100, in order to make it possible for the contractor to effect some savings without great difficulty. But the contractor's share of savings in this "easy" region would be limited to 10%. As savings become more difficult, the sharing would be stepped up to 20% and ultimately to 30%. The "target price" might then be set at £106 which would yield £6 for fixed profit. If the contractor's actual cost for a subsequent "batch" were £90, and the bonus schedule provided for his receiving 10% of the first 5% savings, 20% of the next 5% and 30% of all further savings, below "target cost", his share of savings would amount to £1½. (The actual price he receives would be £97½ the "target price" of £106 minus £8½ which is the Government's share of the savings.) On an actual cost of £90, therefore, the contractor receives a profit of £7½ which equals 7.7% on his turnover. Had his actual cost equalled the "target cost" at £100, he would have received the "target price" of £106, but his profit would have been only £6, or about 5.66% on turnover. Had his actual cost been £105, he would have received nevertheless only the "target price" of £106 plus two-thirds of the excess cost of £5 i.e. £3-1/3. His total receipts would thus be £109-1/3 and he would reap a profit of only £4-1/3, roughly 4% of his turnover. (In this case, as typically, the contractor bears one-third of the first 5% excess, two-thirds of the next 5%, and the whole of any excess beyond 10% of the "target cost.")

2. "Target" Price Setting and Bonus Provisions in Ordinary Commercial Contracts

The first tentative step towards the adoption of bonus schemes



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in aircraft contracts with private firms was taken about 1927, for the purpose of securing for the Air Ministry any savings made in production, and to insure that the contractor would not reap exorbitant profits. Although the simple arrangement adopted at that time did not in itself constitute a bonus scheme, it is described in this memorandum because it provided the Air Ministry with the basic procedures upon which bonus schemes were subsequently developed.

This scheme simply prescribed a maximum price to be paid to the contractor set so as to yield, according to Air Ministry estimates, about 10% on turnover. The contractor was required to refund to the Air Ministry in their entirety all savings achieved below this maximum price as compared to actual costs plus 10%. The contractor, however, bore all risks of exceeding the estimated cost and received nothing in excess of the maximum price. Since the scheme provided the contractor no incentive to minimize cost, the objectives of securing efficiency and minimizing air procurement cost were not fully assured.

The first true "bonus scheme" was adopted in 1935. That scheme provided that savings, determined in the manner described above, should not be returned entirely to the Air Ministry, but be shared with the contractor according to a formula related to the facts of the particular case. A typical instance would be: Of the first 5% reduction below "target cost", the contractor would receive 10%; of the next 5% reduction, 20%; whilst of savings in excess of 10% below "target cost" the contractor would receive 30%. If the contractor's cost exceeded the "target cost" he suffered the entire loss beyond an excess of 10% with a scaled sharing of excesses up to that limit as indicated above. In this as in later bonus schemes "target costs" were fixed to permit some savings at the 10% sharing level, but in order to earn bonuses at the higher rates a contractor had to be exceptionally efficient.

The foregoing represents the developed practice as it emerged in 1938 but since, as in the earlier period, 1935-1937, the primary concern of the Air Ministry was to insure profitability of aircraft production despite small turnover, the maximum price was so fixed that when the bonus was added the contractor would earn about 10% on turnover. But at that time the contractor carried all excesses of cost beyond the maximum target price.

About 1938 the greatly increased turnover of the contracting

aircraft firms made it possible and desirable to reduce basic rates of profit on aircraft contracts. Prices and bonuses though determined on the same principles as earlier, were not fixed so as to yield, with reasonably efficient management, about 6% on turnover. The "target price" was set at about 4% above "target cost." The latter was so fixed as to make it fairly easy for the contractor to realize savings sufficient to yield him an additional 2%. Only by exceptionally efficient operation could he make savings sufficient to bring his profit much above 6%.

By the time the war began the turnover of aircraft firms was so large as to make even a 6% profit on turnover unnecessarily high. By the spring of 1939 the efforts of the Air Ministry resulted in a system fixing "target costs", "target prices" and bonus schedules so as to yield a maximum of 5% on turnover in excess of normal yearly earnings, but this only resulted where exceptional efficiency operated and the contractor owned the capital assets. The fixed profit element of the "target price" was scaled down to 3%.

As explained above, "target costs" were adjustable by agreement should changed cost conditions make them obsolete. Furthermore, except on small contracts, the Air Ministry early adopted the policy of adjusting "target costs" rather frequently to insure that prices, bonuses, and the total profits of contractors remain reasonable. In large contracts revisions were often made about every 300 units of output; in some cases the revision was almost a continuous process due to frequent changes in specifications. No formal arrangement for periodic revision was, however, incorporated in contracts with British firms. The Air Ministry and the aircraft firms had sufficient experience with, and confidence in, each other so that informal procedures were considered sufficient.

In a very recent contract between the British Air Ministry and an American firm, the Houdaille Company, for the procurement of aircraft guns, a formal arrangement for adjustable target price setting and bonus determination on a somewhat different principle, is employed. This arrangement is considered especially appropriate to cases in which the procurement agency and the contractor have had limited experience with each other's methods.

The Houdaille contract provides that the actual price paid the Company be set for each quarter-year as follows, subject to the proviso that in no circumstances will a price of more than \$350 per gun be paid: The maximum price which will be paid the company during each quarterly period is equal to the actual cost of the previous quarter year, plus a fixed manufacturing fee of \$34 per gun, plus a fixed royalty payable to the Colt Company for the use of design. Should the company's

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cost plus the fixed fee plus the royalty in any current period be below this maximum price, it receives its actual cost plus fee plus royalty—except for any adjustment on account of the bonus described below. Should, however, its cost plus fixed fee plus royalty rise above its maximum price for the current quarterly period, it receives, nevertheless, only the maximum price—plus bonus, if any. Its actual cost plus fee plus royalty for the current period thereupon becomes the maximum price for the ensuing period, and the same procedures obtain for determination of the price paid the company during that period.

The above procedure by which basic prices are determined is supplemented in the Houdaille contract by the following bonus scheme: The base for the bonus is the fixed maximum price of \$350, regardless of subsequent costs of production. The contractor receives one-quarter of any amount by which his actual cost of production plus fee plus royalty in any quarter falls below this \$350 maximum price; the remaining three-quarters of these savings are retained by the British Government.

The company, therefore, has two continuing incentives towards economy: First, its 25% share of any savings made by producing a gun at a cost below \$350, and second, the fact that should its costs during any period rise above those for the previous period, its base profit during that quarter will be correspondingly reduced.

### 3. Target Price Setting and Bonus Schemes in "Aircraft Shadow Factories" 1/

The typical system described in the previous section was applied without fundamental alteration to production in the so-called "shadow factories", government plants constructed and operated by contractors as government agents.

The original shadow factory agreements called for construction of the plants and a stipulated output of engine components, engines, or airframes. Later contracts covered further production by these factories. No bonus features were included in the construction contracts, which simply provided for payment of fixed construction fees, roughly proportioned to the size of the plant. With respect to production, however, a basic fixed fee, proportioned roughly to the expected cost of output—originally to the costs of private firms which produced identical aircraft products, but later to costs as revealed by shadow factor experience—was supplemented in all shadow factory contracts by bonus schemes.

As in the schemes used in commercial contracts, the bonus for efficient management was based on the relation between a "target cost"

1/ For a fuller description of the British "Shadow Factory" scheme, see "The British Shadow Factory Plan", Lincoln Gordon, September 4, 1940; also "The British Program for Arms Plant Expansion, 1935-1939", J. S. Earley and W. S. B. Lacy, October 21, 1940.

(called in these contracts a "basic price") and actual cost of production. This "target cost" did not include, as did "target price" in commercial contracts, a profit item, since the government owned all capital and the contractor received his basic remuneration in the fixed fee mentioned above. For the same reason "target" and actual costs did not include fixed cost elements; they did, however, include costs of labor, materials, insurance, maintenance and other operating expenses.

Procedure for the determination of the "target cost" was set forth precisely in the contract. If there was no difficulty in obtaining agreement, "target cost" was to be based on the actual cost of the first "batch" of twenty-five planes or engines produced as soon as straight-line production was reached. Should the Air Ministry and the contractor be unable to agree, successive "batches" of twenty-five units, up to five, were to be run off, the fifth "batch" to be adopted for target cost setting if prior agreement had not been obtained. Should no agreement be reached on the basis of the fifth "batch", there was resort to arbitration. The arbitrator was one person agreed upon between the Air Ministry and the company, or, in default of agreement, a person to be appointed by the Lord Chief Justice of England.

The actual cost of production was thereafter obtained for the output of each four-week period. The contractor was given credit in a special "bonus account" for agreed percentages of any amounts by which his actual cost during that period fell below "target cost" for the units produced. Conversely, the contractor was debited the same percentages of any excess of actual cost over "target cost." At the end of the contract any net amount standing to the credit of the contractor in the bonus account was paid to him as a reward for efficient and economical operation. The contractor suffered no loss of revenue should his actual costs over the life of the contract exceed "target cost". The fixed fee was thus a minimum guarantee to the contractor.

The contractor was paid increasing percentages of "savings" as his savings relative to "target cost" increased. In the original shadow factory agreements the contractor received  $12\frac{1}{2}\%$  of the savings up to an amount which, in the case of airframes, represented about 5 or 6% of their originally estimated actual cost, and  $17\frac{1}{2}\%$  of all further savings. These percentages, as well as the basic operation fees, were readjusted downward in later shadow factory contracts, but the principle of progression remained the same. Although the original shadow agreements contained no arrangement for periodic

revision of the "target cost", it was agreed that if changes in the cost of materials or wages, or other factors not related to the contractor's efficiency of operation, should make the "target cost" appear unfair to either party, it should be varied by agreement to give effect to such changes. If agreement upon such readjustment proved impossible, resort to arbitration was provided. In later shadow contracts the "target cost" was re-set from time to time, often after each 300 units of production, by new tests of the cost of producing additional "batches."

The only essential differences, then, between the bonus schemes used in commercial contracts and those used in shadow factory agreement were: (1) In the shadow factory schemes the basis remuneration of the contractors was not fixed by determining a "target price" as in commercial contracts, but was a negotiated fee proportioned to estimated cost of production--originally to the costs of similar products produced by private firms, but later to the costs as revealed by shadow factory experience. The sole use of the "target cost" device was to help determine the amount of bonus which would supplement the fixed fee; (2) The determination of cost was simplified by the exclusion of overhead cost items; (3) The amounts by which actual costs exceeded "target cost" was debited against earned bonus, but the contractor suffered no loss of income if, over the life of the contract, actual costs were higher than "target cost"; (4) Provision for arbitration was formally agreed upon; (5) The schedule for the sharing of savings was less elaborate.

The importance of the bonus provision to the net income of the contractor is indicated by the fact that, in the original contract for the production of Bristol Blenheim bombers, a reduction in actual cost of even 5% below "target cost" raised the contractor's profit on turnover from about 3.7% to 4.6%. Should costs be cut by 10% the profit on turnover would be 5.8%.

The above method of "target" cost setting and bonus payments has continued in operation in shadow factory contracts since the original agreements, although the fixed fees have been greatly reduced and the "target costs" have been successively readjusted downward. The total remuneration of the contractor, which in the original agreement amounted to about 5 to 7%, has been reduced to about 2% on turnover.

#### 4. Outstanding Lessons of British Experience

In the opinion of British Air Ministry officials the following

important lessons have been learned from their experience with "target price" and "bonus" schemes;

- (a) Bonus schemes applied to the production of air force requirements are highly useful in encouraging economy and reducing Air Ministry costs. They have not been found useful in connection with the construction of aircraft plants on government account because of the impossibility of using actual experience as a test to determine costs of construction under normally efficient management;
- (b) Negotiation of contracts and the commencement of actual production are accelerated by the knowledge that prices will later be determined at a reasonable level by the target system. The addition of bonus schemes further facilitate negotiation by assuring the contractor that he will benefit from all increases in efficiency which he may subsequently develop;
- (c) The British Air Ministry considers the use of bonus schemes to encourage speed inadvisable. They feel that contractors can be relied upon to speed production under the stimulus of sharing of savings and that to pay pure bonuses for early deliveries to profit-making corporations would lead to labor unrest;
- (d) Bonuses for reducing costs need not be complemented by penalties for failure to attain economy, other than liability for sharing of excess costs beyond the "target cost", if prices are determined, as in the target system, in such a way that contractors' profits decline as their costs rise;
- (e) No bonus scheme designed to encourage economy is an adequate substitute for a sound method of fixing basic prices on government procurement contracts. In fact, British Air Ministry experience indicates that the efficacy of bonus schemes designed to promote economy and to prevent unjustified profits or undeserved losses to contractors requires a method of fixing base prices which accurately predicts the actual cost of straight-line production under reasonably efficient conditions.
- (f) In the absence of adequate cost precedents, the "target cost" and "target price" system, under which actual cost experienced in producing the contracted article is obtained, is the best method by which prices and bonuses on aircraft procurement can be determined. The advantages of its use may be summarized as follows:-

- (1) By basing prices upon actual costs of production and by providing for their periodic or continuous revision, it insures that the basic profit paid the contractor is closely related to his actual cost of production;
- (2) When combined with a bonus scheme, it insures that this cost of production will be as low as diligent management can make it;
- (3) Because the bonus, which is an integral part of the total remuneration, is based upon an accurate test of his cost conditions, the contractor's total remuneration will depend upon his efficiency and not upon fortuitous circumstances beyond his control;
- (g) To reap full benefit from a bonus or "target price" system, the government must include in its contract practical provisions for revision of "target prices" at frequent intervals of time or production. Definite revision provisions are particularly advisable when the government procurement agency has limited experience with such systems or with the firm under contract;
- (h) The success of any bonus scheme, as well as of the "target price" system, requires an adequate system of accounting prescribed by the Government;
- (i) Governmental oversight (but without detriment to the contractor's responsibility) of the production of the test batches, upon which target cost is based, and adequate auditing of contractors' accounts, are essential to the success of any bonus or "target price" system;
- (j) The British Air Ministry has found it advisable to set "target cost" sufficiently high to permit the normally efficient contractor to realize some savings bonus, but to consider such anticipated bonus is calculating the "target price."
- (k) If an elaborate sub-contracting system is developed, the same "bonus" and "target price" systems employed by parent firms can be incorporated in agreements with sub-contractors.
- (l) The Excess Profits Tax applies a chargeable rate of 100% to all "excess" business profits earned since April 1, 1939. The incidence of this tax has virtually nullified the incentives to economy provided by "bonus" schemes. However, both "target prices" and "bonus" systems have been retained as the best available means of directly controlling costs, prices and profits.

SECTION II

Contract Procedures Employed in Procurement of Armaments Other than Aircraft.

1. Contract Procedures Used in the Procurement of Ordnance.

Bonus schemes have not been used in the procurement of the ordnance requirements of the British War Office or the British Admiralty. Their use has been considered unnecessary for the following reasons:

- (a) The immense experience with the production of all types of ordnance, amassed in the several Government ordnance factories, provided the procurement agency with adequate data concerning the cost of producing these armaments;
- (b) The whole production system was based upon elaborate production "layouts" (charts, photographs, drawings, blueprints, specifications, and instructions) which closely estimated the amount of material and the number of men and machine hours required in the production of each component part, and the probable cost thereof; a check of methods, output and costs was made at frequent intervals.
- (c) A large number of experienced firms capable of making ordnance, according to the above methods, were usually available. Such firms, acting as parent firms, formed the nuclei of a large subcontracting system, each unit of which was capable of satisfactory production under the system mentioned above.

Accordingly, the competitive tender system was practical in most cases and has continued in general use up to the present time in both War Office and Admiralty ordnance procurement contracts. Although such contracts stipulated a fixed price, they almost invariably included an escalator clause which provided for revisions of that price should those costs beyond the control of the contractor change. The basic profit included in this fixed price was formerly



about 10% in both Army and Navy contracts; this profit item has, however, been reduced since early 1939 to lower levels.

Where straight competitive bidding was impracticable, where the experience of government arsenals was not convincing, or where a firm was asked to make a product in the production of which it had little or no experience, the following system of "target price" setting (not, however, complemented by "bonus" schemes) was employed. The cost of a "test batch" was determined by a time and cost study of its production. The test was run in accordance with the "layout" provided by the government arsenals and under the close inspection of arsenal officials. The cost of this batch having been ascertained, it was compared wherever possible with a "bogey" cost based on the experience of the government arsenals. If the contractor's cost was, in the opinion of the procurement officials, reasonably in line with the "bogey" and reasonably indicative of subsequent cost of production, a fixed price, based on results of the test, was adopted for subsequent output for the entire life of the contract. As in the contracts let by tender, the price was fixed so as to yield a fixed percentage, originally about 10%, on turnover. Escalator clauses were likewise included.

Should the contractor cut his cost below that upon which the price was set, he reaped the entire benefit; conversely, should his costs be above those anticipated, he suffered the entire loss.

## 2. Contract Procedures in Construction of Cantonments.

In constructing some of the cantonments for the British Army, an attempt was made to apply the target price and bonus system. The following paragraphs from the Third Report of the Select Committee on National Expenditure, printed May 7, 1940 (pp. 7-9) outline the scheme and the reasons for its apparent failure:

"The contracts for these camps, known as 'target price contracts,' provided that the contractors should be paid (a) actual and necessary prime costs, (b) a fixed fee calculated as a percentage of an estimated cost and covering overheads, profits and the use of certain tools, and (c) a bonus on any saving they succeeded in making on the target price. The target price may perhaps be best described as 'an adjusted price of a previous estimate having regard to local conditions and the cost of labour.' Its purpose was to encourage economy in building, by fixing a reasonable basic estimated cost, such as would enable a contractor by

the exercise of care, energy, and ability, to reduce this basic or target cost and thus to earn a bonus.

"This theory has proved entirely unworkable in practice. As the cost of labour and material varied so extensively, the actual target price could not always be ascertained until the work was approaching completion. The Sub-Committee were informed that the system was adopted in order to find out the theoretical cost of a camp under certain specified conditions, but, as these conditions rarely prevail, the target price becomes of little practical utility. In effect, the incentive to economy only exists as long as the contractor has a prospect of earning a bonus. Although the divergencies between the original estimates and the final costs are at present unknown, the general indication is that the latter will be greatly in excess of the estimates.

"The Sub-Committee consider that the failure of the target price system and the resulting inadequate returns to contractors have led firms to accept more work (involving few extra overhead charges) than they could effectively deal with, and that this has led to much inconvenience and delay. They do not think that the supervision of work has been effective or satisfactory....

"Since speed is no longer the dominating factor, a stronger incentive to economy may now be provided by obtaining fixed price tenders by competition, subject to subsequent measurement. In order to induce firms to tender at reasonable prices under existing conditions, "variation clauses" are included in these contracts by which the fixed contract price may be varied up and down after the date of acceptance, in accordance with clearly defined alterations in the rate of wages and the market prices of materials."

4. Contract Procedures in Ship Construction and Repair by the Admiralty.

So far as we have been able to ascertain, no bonus schemes or "target price" mechanisms have been employed by the Admiralty in contracting for the construction of ships or their repair. Contracts for ship construction have traditionally been let on a competitive tender basis and this system generally obtains at the present time. During the first year of World War II, because of shortage of time and facilities, the Admiralty has used various types of "cost-plus" contracts, but the Select Committee on National Expen-

diture has recently recommended that the Admiralty revert to its traditional fixed price contract system. A more complete discussion of contract procedures traditionally and recently employed by the Admiralty in the construction and repair of ships is contained on pages 3-5 of the Seventh Report of the Select Committee on National Expenditure, printed June 25, 1940.

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

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DATE December 30, 1940.

TO Mr. White  
FROM Mr. Kassarok  
Subject: The British Shipping Situation.

See Mr. White's con-  
clusions drawn from  
this memo dated  
1/3/41.

The following memorandum summarizes the British shipping situation. The table and the accompanying discussion are based largely on Lord Lothian's memorandum on this subject of December 8, 1940, to the Secretary.

SUMMARY STATEMENT

All figures are from Lord Lothian's memorandum unless otherwise noted. Tankers and ships under 1,600 gross tons are excluded.)

(Millions of Gross Tons)

Peace-time Position

Total British tonnage before the war was	14.4	
Of this, there was used on routes that did not touch at the United Kingdom <sup>1/</sup>	<u>5.0</u>	
The total British tonnage used to carry imports into the United Kingdom was, therefore,	9.4	
In addition, the foreign tonnage used to carry imports to the United Kingdom came to <sup>1/</sup>	<u>3.1</u>	
The total tonnage, therefore, supplying the United Kingdom in peace-time was		12.5

War-time Position, October 27, 1940 <sup>2/</sup>

British tonnage before the war was 14.4

<u>Additions</u>		<u>Deductions</u>	
New vessels	0.8	Being repaired	1.5
Purchases	0.3	British losses	2.0
Prizes	1.0	Military and	
Time Charter	2.4	Naval Uses	3.5
Voyage Charter	<u>0.5</u>	In Empire Use	<u>1.5</u>
Total Additions	5.0	Total Deductions	8.5

The net deduction (8.5 minus 5.0) is 3.5

The total tonnage being used to supply the United Kingdom, therefore, is 10.9

Additional allied tonnage which could be used to supply the United Kingdom comes to <sup>3/</sup> 2.0

Total tonnage, therefore, which could be used to supply the United Kingdom is 12.9

<sup>1/</sup> Computed by me from Britain in Depression by the Economic Science and Statistics Section of the British Association for the Advancement of Science.

<sup>2/</sup> Since October 27, 1940 to December 30, 1940, England had a net loss of about 0.4 million gross tons. See appendix for detailed table.

<sup>3/</sup> Estimated by me from basic data given in United Kingdom Army Quarterly.

1. Before the war, the British had 20,900,000 gross tons of ships above 100 gross tons in size, according to Lloyd's. Excluding 3,000,000 gross tons of tankers and 3,500,000 gross tons of other ships between 100 and 1,600 gross tons, gives Lord Lothian's figure of 14,400,000 gross tons of British shipping before the war. Not all of this shipping, however, was used to carry imports to England. About 5,000,000 gross tons was used on routes between foreign ports, Empire (non-United Kingdom) ports, or between an Empire port and a foreign port. On the other hand, roughly one-third of British imports arrived in foreign ships, being equivalent to a substitution for 3,100,000 gross tons of British shipping. Hence, it required before the war 12,500,000 gross tons of shipping to provide England with the 60,000,000 tons of imports Lord Lothian's memorandum credits her with receiving. (All figures exclude oil imports.)

2. During the war to October 27, 1940, England added 5,000,000 gross tons to the merchant fleet in her service, according to the British memorandum. 800,000 tons were constructed during this period. 300,000 were purchased, mainly from the United States. 1,000,000 tons were captured or requisitioned from the Germans, Italians, Danes, and French. 2,400,000 tons have been chartered on a time basis by the British from their allies and neutrals. An additional 500,000 tons is chartered on a voyage basis only from allies and neutrals.

3. Offsetting these accessions of shipping is the loss or diversion of a total of 8,500,000 tons of commercial shipping. 1,500,000 tons of this is being repaired and thus out of service. Losses of British shipping during the war amount to 2,000,000 tons. 3,500,000 tons of shipping is being used by the Navy as auxiliary cruisers, mine-sweepers, supply ships and directly by the Army. 1,500,000 tons is in Empire use.

4. The total shipping in direct British use available to transport imports into the United Kingdom, therefore, amounted to 10,900,000 gross tons on October 27, 1940 (basic figure, 14,400,000 tons, addition of 5,000,000 tons, subtraction of 8,500,000 tons).

5. In addition to this 10,900,000 tons, there is, according to my estimate\*\*, around 2,000,000 tons of shipping of Britain's allies which is not now being used to bring supplies to the United Kingdom. Norwegian ships, for example, are still being operated from the United States to Latin America and the Far East on routes served by British vessels before the war. There is still Greek shipping under charter to the Japanese.

6. The British state that in September and October the volume of imports into England was below the 3.6 million tons needed per month (3.1 million tons in September, 3.2 million tons in October).

\* According to my computation from the basic data in Britain in Depression by the Economic Science and Statistics Section of the British Association for the Advancement of Science.

\*\* Based on data in the United Kingdom, Army Quarterly.

The probable reason for this is that the British have not concentrated all the shipping available to them on the routes to the United Kingdom as just mentioned above. Now, that the British problem of securing foreign exchange has been partially solved, from the standpoint of war needs the British have no reason to hesitate to withdraw shipping from neutral routes.

7. The British can also increase the efficiency of use of their shipping. The average length of voyages could be decreased by purchasing commodities in North America rather than in more distant countries if the British are prepared to spend more dollar exchange.

8. It appears to me that, according to the experience of the last war, as summarized by Sir Arthur Salter\*, the tonnage now under British control if efficiently utilized may be sufficient to meet England's present requirements.

In 1917, the British using 8,000,000 gross tons were able to import 34,000,000 tons of imports (excluding oil). At the present time, according to Lothian's memorandum, the British are using 11,000,000 gross tons of shipping and need to import 43,000,000 tons. On the experience of the last war, the 11,000,000 tons of shipping should be enough to carry 45,000,000 tons of imports. The decrease in efficiency of shipping in this war is no greater than in the last war (being about one-third in both cases) crowding in harbors and longer distances being compensated for by the increased speed and efficiency of modern vessels.

9. At the present time, the shipping available to the British is being reduced at a rate of 3,000,000 gross tons a year. The rate of losses of merchant shipping due to the war for the last five months has been running at the rate of 4,800,000 gross tons a year. The British state their new construction is only one-fourth of this, or 1,250,000 tons, and cannot be increased. The present rate of American launchings is around 500,000 gross tons a year. There is no other major shipbuilding source of supply open to the British. The British request that the United States increase its shipbuilding rate by 3,000,000 gross tons appears, therefore, a reasonable one.

10. The losses in ships available to the British in the war to date have been largely made up by windfall gains of shipping from their allies and their enemies. Possibly some similar accessions might be secured in the future. However, this type of compensation cannot be counted on.

11. It is possible that the British may be able to reduce losses in the future. However, it is likewise possible that losses may increase. The one certain way England can lose the war is through a lack of shipping. Hence, adequate reserves of shipping are vitally important.

\*Reference: Allied Shipping Control by J. A. Salter (Chairman of the Allied Maritime Transport Council in 1918).

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Division of Monetary  
Research

12. In order to wage the war properly, Great Britain needs shipping over and above her present needs as a reserve available for military and naval uses, if necessary. This is just as important as reserves of men are to an army commander. The British must wage the war by making use of the mobility conferred by their sea power to strike wherever the Germans cannot bring their superior land power to bear. For this purpose, the British need reserves of ships to be able to seize opportunities as they present themselves.

13. In addition to reserves for military and naval use, England needs reserves which could be used to supply possible continental allies or neutrals. Should Italy break away from the Axis, for example, shipping should be immediately available to supply her needs.



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Division of Monetary  
ResearchAPPENDIX

Net Change from October 27 to December 30, 1940

(In Millions of Gross Tons)

Additions:

New construction <sup>1/</sup>	0.1	
Purchases	<u>0.3</u>	
Total		0.4

Deductions:

British losses <sup>1/</sup>	0.5	
Foreign losses in United Kingdom Service <sup>1/</sup>	<u>0.3</u>	
Total		<u>0.8</u>

Net loss for period		0.4
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<sup>1/</sup> My estimate, based on rate given in Lothian's memorandum.

✓ ✓

WAR DEPARTMENT  
 HEAD DEPARTMENT GENERAL STAFF  
 MILITARY INTELLIGENCE DIVISION G-2  
 WASHINGTON

December 30, 1940.

**MEMORANDUM FOR THE SECRETARY OF THE TREASURY:**

**Subject: British, Allied and neutral  
 war shipping losses.**

The following is a tabulation of British, Allied and neutral shipping losses for the weeks ending on the dates indicated:

*copy from  
to H. White*

	December 15, 1940		December 22, 1940*	
	Number	Gross Tons	Number	Gross Tons
British	5	30,830	?	29,057
Allied	2	10,646	?	(44,428
Neutral	-	---		)
<b>Total</b>	<b>7</b>	<b>41,476</b>		<b>73,485</b>

\* Unofficial tabulation—subject to correction.

*Sherman Miles*  
 SHERMAN MILES,  
 Brigadier General, U. S. Army,  
 Acting Assistant Chief of Staff, G-2.

✓ ✓

BRITISH EMBASSY, 179  
WASHINGTON, D.C.

PRIVATE

Dec. 30, 1940.

Dear Cochran,

I attach, for the confidential information of the Secretary, a statement of one or two cases of which we have details, where the sale of a United Kingdom direct investment has been tried, so far without success. The Manila Railroad case is much the most important, and if you can help us there we shall be very grateful.

In a different category - since we have every hope that there will be no difficulty there - is the Costa Rica Railway Co., which owns part of the Transcontinental Railway, and which is now negotiating with you for its sale.

Yours sincerely,

*F Phillips*

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

BARTHOLOMAW COMPANY INC. of ROCHESTER, N.Y.CAPITAL STRUCTURE

\$400,000 5% Non-cumulative Non-voting  
Redeemable Preferred Stock.

\$100,000 Common Stock

The Preferred Stock is held by an English  
Company.

This is a brewery which after prohibition went into the ice cream business. The Company have always thought it would be more attractive if owned locally. Negotiations have been tried from time to time and the ice cream business has now been sold; the rest of the undertaking remains unsold.

DARWIN & MILNER INC.

Holding: 9,995 out of 10,000 shares of \$5.00 each.

Negotiations are at present proceeding with a view to the sale of this Company. The Company developed from a purveyor of patent steels into a small merchanting business bound up to some appreciable extent in the person of the President. This makes it difficult to assess a potential selling value and negotiations although energetically pressed have so far proved abortive.

(1) Delta & Pine Land Co. of Mississippi

(2) Delta Planting Co.

(1) Holding: 2,980 out of 3,000 shares of \$100 each.

(2) Holding: 2,628 out of 5,000 n.p.v. shares  
shown in Balance sheet as ~~\$183,000~~ at \$250

This is a case of inherently valuable undertakings, which the owners would like to sell, but which they are advised are unsaleable at present. The following is an extract from a letter from the Company:-

" In the Spring of this year the question was raised as to whether it was advisable for the Fine Cotton Spinners & Doublers' Association Ltd. to try

-2-

"and sell these Companies to American interests, and at that time the President of the two Companies - Mr. Oscar Johnson - indicated that he thought it might be possible to raise capital in America for this purpose.

Owing to the change in world conditions between March and July, the Board of the Fine Cotton Spinners & Doublers' Association came to the conclusion that it was not advisable to proceed with these negotiations at the present time, and their decision to postpone the matter actually crossed with a letter from Mr. Johnson, in which he expressed the opinion that it would now be quite impossible to interest American capital in any project of the kind. In this opinion the Fine Cotton Spinners & Doublers' Association concurs.

The Fine Cotton Spinners & Doublers' Association think it not impossible that at some future time these properties might prove attractive to American capital."

#### MANILA RAILROAD CO.

The Manila Railway Co. (1906) Ltd. owns \$15,256,000 5% Refunding Mortgage Bonds of the Manila Railroad Co. Negotiations have for sometime been in progress with the Manila Railroad Co. for a resale of the entire issue of these 5% Bonds before their due date in 1956. The real negotiators have been the Philippine Government, who own all the capital stock of the Company.

In 1934, the Railroad Co. re-purchased from the English Co. \$8,170,000 of their own 4% Bonds at a price of 80%; it seems reasonable, therefore, to expect at least as good a price for the 5% Bonds, on which the interest has been regularly paid.

The Philippines first offered 65%-67%. The English Company asked for 80% and the Philippines raised their offer to 68½%; but after that they approached Mr. Gifford and suggested their original offer of 65%-67%.

1. The purpose of this note is to bring together the facts concerning -

- (a) The expenditure which will be necessary before the end of February if serious delay is to be avoided in the placing of orders under Programs 1 and 2, which were approved by the President; and
- (b) The resources of United Kingdom available to meet such expenditure.

The choice of the 28th of February as the date when Congress will have decided is, of course, pure guess-work. Obviously the later the date in fact is, the worse the position.

#### CONCLUSION

1. Payments due under existing commitments or under replacement orders which must be placed if continuity of production is to be maintained will amount before February 28th to \$400 million.

2. As regards programs 1 and 2 we have been informed on behalf of Mr. Secretary Stimson that certain unexpended funds and unused credits of the War Department might be used by it for the immediate placing of certain complete orders both for Ordnance and Aircraft; also that it might be possible that funds might be obtained from the R.F.C. for the creation of new capacity for either Air or Ordnance, but this last item has yet to be cleared. We have been informed that the War Department was prepared to consult with us in utilizing these funds for the placing of orders with a view to having them coincide with our requirements as far as possible. We are glad to take advantage of this suggestion; details of the orders which we would like to see placed under this scheme have been or are being furnished to the War Department.

3. This assistance, if given, would be invaluable but not in itself sufficient to ensure that the vital parts of Programs 1 and 2 are commenced on time. We wish to place promptly orders, over and above those placed by the War Department, involving a total expenditure of \$850 million dollars with probably cash payments of \$250 million between now and the end of February.

5. The total expenditure to be met before Feb. 28th is, therefore, \$650 million at the lowest estimate. If the original intention that all the orders under Programs 1 and 2 should be placed as soon as possible were adopted the amount to be found before Feb. 28th would not be \$650 million but substantially higher, perhaps by another \$200 million. This figure has been reached on the basis of a ruthless postponement of everything that could possibly be postponed without grave injury.

RESOURCES

6. Our new accruing financial resources in the period are confined to the sale of assets in the United States, which in the time would hardly reach \$100 million. The newly mined South African gold - which might reach \$100 million during the period - is more than absorbed by our Canadian expenditure. There is in fact an additional liability here, not a new asset.

7. As regards the possibility of drawing down existing balances, these balances in gold and U.S. dollars amounted on December 23rd to about \$416 million; of which gold scattered and not transportable would certainly account for at least \$60 million, while \$63 million are the regular balances held by British banks operating on behalf of the British Exchange Control, which cannot in practice be appreciably drawn down.

These resources are the last available working balance for our Exchange Control area; out of them must be met any sudden calls which arise in connection with -

- (a) our munitions purchases in the United States - the point now under discussion;
- (b) the ordinary commercial transactions between the United States and Great Britain;
- (c) the whole dollar business of Australia, New Zealand, South Africa, India and Colonial Empire; and
- (d) assistance to Greece, Turkey and other friends.

The figure given above of an expenditure to the end of February of \$650 million refers, of course, only to our munitions expenditure in the United States. If we were dealing with a length period such as a year it would be a reasonable assumption that such munitions expenditure would be about equal to our loss of gold and dollars, British and Empire exports paying for our other dollar expenditure. But this is not in the least true of the particular months. In any month our balances might be drawn down by far more than is accounted for by armaments expenditure in North America.

Thus no estimate can be given of the amount to which balances could be drawn down for the purpose of financing munitions expenditure. We can only say that we thought ourselves on the danger line on December 1st with the reserve of \$574 million and that on December 23rd with \$416 million (of which not more than \$300 million are in fact in reach) His Majesty's Government regard their position as perilous.

8. The various methods by which funds could be raised at short notice have been discussed already. Some have been ruled out as practical possibilities and the only remaining methods of which we know are the following:-

- (a) Advances on our marketable securities. We have about \$150 million vested and unsold. There is a further amount of about \$500 million which could be vested, most of which is already in Canada.
- (b) borrowing Allied gold. We are still in negotiat-

-3-

ion with the Allied Governments, who hold between them a little over \$1,000 million of gold (some in South Africa). They are unwilling to lend us their gold unless we can promise to replace it at the end of the war; if we can do this they would probably lend us some part of it. But if we are to use our own gold, it is only with the help of the United States that we can replace the Allied gold after the war.

- (c) Purchase of sterling by the United States Stabilisation fund.
- (d) Repayment to us by the U.S. Government of capital expenditure (direct and hidden) incurred for the erection of munition etc. factories amounting to \$160 million, in respect of United Kingdom contracts (and French contracts taken over by the United Kingdom).

British Embassy, Washington D.C.  
December 20, 1940.



MEMORANDUM

The President warmly welcomed the prospect of receiving the statement of our full requirements of weapons developed while I was in London and asked that it reach him soon. Arising out of indications that the dollar value of these would be larger than expected, perhaps of the order of \$15,000,000,000 (though this was merely a guess at this stage), discussion arose on the type of legislation which should be drafted for Congress.

The President invited Secretary Morgenthau to draft suggestions for legislation covering;

- (a) Appropriation procedure and
- (b) Procedure in connection with loan by the U.S. of weapons to the U.K.,

indicating we could be helpful in connection with (b).

His idea is that the legislation should follow the lines of his last night's speech whereby the weapons or their equivalent would, in due course, be returned by Great Britain to the U.S. It would have to include a change in the existing Neutrality Act to permit of the U.S. Government making loans of weapons to a belligerent foreign Government. No change would be necessary in the Johnson Act.

This was the only logical line of attack. It would be impossible to put a money value in advance to Congress since the decision as to the weapons actually to be shipped to Great Britain would only be fully known at time of delivery.

He instanced three examples as applied to the case of a 3" anti-aircraft gun which might be so loaned:

- (a) If the gun had been installed at a point where it was found after the war its use had been more or less negligible, except perhaps for practice purposes, it could be returned intact.

-2-

- (b) If the gun had been used to the point where re-rifling was necessary, Great Britain would replace the worn barrel before returning it.
- (c) If the gun had been demolished or rendered unrepairable its equivalent would be replaced by Great Britain, say within five years.

The point was made that in the case coming under (c) category where applied for instance to a fighter aeroplane, lent say in the spring of 1941, and which was replaced say in 1943, a plane of the 1943 brand would be expected in return. If 1943 types were more expensive planes than the 1941 type, differences would be equated in the lesser number of planes returned.

It was pointed out that the settlement under (c) category might involve a triangular adjustment with some other country, (i.e. that the replaced weapons might be sent to the Argentine at the request of the U.S.).

Provision would have to be made that weapons given under the loan legislation procedure were limited to those which the U.S. would find it useful to receive back. This, the President pointed out, put a premium upon the establishment of mutually acceptable designs of the various weapons.

The President saw no reason why the loan procedure should not apply also to such commodities as wheat.

In response to an expression of great anxiety over the delays which would occur in the placing of new orders unless some way could be found of putting us in funds prior to Congressional action, the President expressed his similar anxiety but thought that progress might be possible by the utilisation of unexpended contractual balances and also through R.F.C. funds. Also a deficiency appropriation bill could be put through Congress fairly quickly but would be limited in its application to the wording of

-3-

existing law. Secretary Morgenthau was asked to look into these possibilities.

On the subject of ships the President said an allocation of \$36,000,000 had been made to the Maritime Commission under his instruction in order that Mr. Knudsen could get along with the building of seven additional shipyards, leaving open the question of appropriation sums required to pay for the subsequent output of these yards.

December 30, 1940.

December 31, 1940  
9:10 a.m.

H.M.Jr: Hello.

Ronald  
Ransom: Hello.

H.M.Jr: Good morning.

R: Good morning. How are you?

H.M.Jr: How are you?

R: Fine, thank you.

H.M.Jr: This is in answer to a call of yours.

R: Well, I'm sorry you bothered with that. I wanted to impose on you to ask you this sort of a question. I have a relative and very close friend who is a member of one of the large New York firms, and the firm is representing a very complicated legal setup which revolves around a man named John B-a-t-a, which I think is Bata. He's a Czecho-Slovakian industrialist who you perhaps know of.

H.M.Jr: Well, I did know him by name.

R: Yes. Now that is being handled in your organization by Mr. P-e-h-l-e, Pehle?

H.M.Jr: Pehle.

R: I wanted to take the matter up with your permission with Mr. Cochran, who I know more intimately than I do Mr. Pehle, and see if I could discover something of the underlying difficulty of that situation and in the event that I did develop something which I wanted to bring back to you ask your permission to do so.

H.M.Jr: Well, you don't need my permission. This is a free country.

R: Well, I don't want to start on one of the boys down the line and then jump over his head. If I could just mention .....

- 2 -

H.M.Jr: Well, the man that you really ought to talk to is Pehle.

R: Pehle. Is that right.

H.M.Jr: And I'll tell Pehle that he'll hear from you.

R: Will you? Well, the situation is just this: this is a very reputable firm and this member of it who I am very close to came down to Washington to see me and to say that they were involved in a very difficult discussion of the whole question of releasing funds in that industrial organization and holding company setup, and what I think is on their mind is this: if the thing is obviously bad on the face of it, if there is some difficulty there on account of this man Bata's connections, I think they would, just on my suggestion that the situation is almost impossible of solution, they would - could do something else about it, you see.

H.M.Jr: Well, I'm not familiar with the case but Pehle is the person to talk to.

R: Well, if you don't mind telling Pehle that I would like to discuss the situation with him I would greatly appreciate it.

H.M.Jr: O. K.

R: Thanks very much and I hope you have a very nice New Year.

H.M.Jr: Thank you.

R: All right.

H.M.Jr: Good-bye.

December 31, 1940

MEMORANDUM FOR MR. PEHLE:

This conversation with Ronald Ransom I consider -- it is most unusual that he should be butting in on a situation like this and I can't refuse to have him see you, but I think he's using very bad judgment in injecting himself in this manner.

(Dictated on Dictaphone by the Secretary following the conversation at 9:10)

copy of  
This memo and/telephone conversation of 12/31/40, 9:10 a.m.  
to Mr. Pehle 12/31/40 at 10:00

December 31, 1940  
9:30 a.m.

H.M.Jr: I had a very satisfactory talk with the President yesterday and with Purvis, but there are two things that stood out in the conversation that I thought I'd tell you.

Cordell Hull: Yes.

H.M.Jr: This is just for you only. (1) Has Knox thought through what we're going to do for the English in the interim between now and the time the legislation is going to pass?

H: Yes, I see.

H.M.Jr: I'm going to try my damndest to think of some way to keep the thing moving.

H: Well, I should say.

H.M.Jr: And if you get any ideas I'd appreciate it, but the way it is now, everything is blocked and he has .....

H: Now how is it - you say to keep things moving .....

H.M.Jr: Well, I mean, to keep them - keep letting them place at least some kind of an order, you know, a letter of intent or something like that, you see.

H: Which?

H.M.Jr: A letter of intent.

H: Yes. That would mean for delivery when?

H.M.Jr: Well .....

H: Anytime later?

H.M.Jr: Any time later.

H: Yes. What you mean is that the British can't put in an order now with any .....

-2-

H.M.Jr: Any new orders.

H: ..... practicability - any new orders for any purpose except when she pays cash.

H.M.Jr: That's right, and I'm trying to think of some way, and the suggestion has been made of a so-called letter of intent and then the factories might take that and go ahead and at least put in their orders for the materials, you see. I'm talking about additional materials.

H: Yes. I understand.

H.M.Jr: But everything right now is blocked.

H: Well, suppose I bring that up with Stimson and Knox, who are coming in here in a minute.

H.M.Jr: I think it would be good.

H: Yeah. All right.

H.M.Jr: Now, the other thing: I checked and talked personally to all of my fellows and they gave me their word none of them had talked with either Kintner or Alsop about that thing yesterday.

H: Yes. You saw it didn't you?

H.M.Jr: I saw it after you drew my attention to it.

H: Yeah.

H.M.Jr: They also drew my attention to the fact that on the 27th Arthur Krock had practically the same article.

H: Oh, I see. Well, anyhow, you never know where they get those things.

H.M.Jr: Well, I just wanted to assure you that - and at my press conference they asked me whether there was any trouble between the Treasury and State Department and I told them emphatically no. So I wanted you to know that.

H: Yes. Well thank you, Henry.

H.M.Jr: Right.



December 31, 1940  
9:30 a.m.

## GROUP MEETING

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

H.M.Jr: Where is Bell?

Bell, don't you think I had better call up Harold -  
oh, you know about this Executive order?

Bell: What Executive order?

H.M.Jr: Well, you stay behind and I will talk to you about  
it, in connection with Harold Smith, the one that  
Foley is doing. If you and Foley--

Foley: Extend the freezing control and put everything in  
the Treasury to carry out Harold's idea.

H.M.Jr: Well, I can do it now.

Thompson: Mr. Helvering has sent through the papers on the  
transfer of Stanley Winderman to New York on  
January 1.

H.M.Jr: I want to see the marriage certificate before I sign. (Laughter)

Thompson: That is all.

Bell: Mr. Broughton has written up a memorandum on the war financing in his organization.

H.M.Jr: That makes a good New Year's reading material.

Bell: That is a vote on the Library of Congress matter.

H.M.Jr: You people should have been here yesterday. Marriner Eccles gave me this long memorandum to read about 10 days ago, and I glanced at it and gave it to Harry and Lauch Currie to study. This is how things are done here. I said to Harry, "What should I do?" He says, "Just tell him that he can set it up, and that you reserve the right to say whatever you want." So Marriner comes in and sits down here and seemed a little nervous, and so we talked about the thing, and I said, "Well, Marriner, as far as I am concerned you can set it up." He says, "Can I set it up? You don't mind my setting it up?" I said, "No," and I said, "Goodbye, Marriner," and took him by the hand and shoved him toward the door, and he couldn't figure out whether I had read the thing or not. Then you (Bell) stepped into the picture afterward, didn't you, and saved my life with the President.

Bell: I don't know, did I?

H.M.Jr: Well, it got to somebody.

Klotz: Harry did it.

White: Dan dropped the idea, and it bothered me so I got busy and we straightened it out.

H.M.Jr: It was your (Bell's) idea, and I want to thank both of you. I came out and told the press he

- 3 -

would give them a story, and then, as I understand it now, I got the memo from somebody, it is now over resting with the President.

White: It is with Steve Early who is going to hand it to the press, or may hand it to the press.

H.M.Jr: Well, that is all of you.

White: There is just one correction. You didn't say goodby to him. You wished him a happy New Year. (Laughter)

H.M.Jr: He was so tickled that I said yes that he had no inclination to say, "Why," or what I was going to say or anything else.

Bell: He had his arguments all fixed up, probably.

H.M.Jr: It is wonderful. Harry talks to him by the hour on the telephone, and all I have got to say is happy New Year.

White: You mean we are on the telephone half an hour.

H.M.Jr: You know what Viner used to do to Eccles?

White: No.

H.M.Jr: When Viner was here in '34 and '35, he sat here, and he had another phone over there, and Eccles would call, and he would take the phone down, and he had his secretary sit there, and he would tap his pencil and the girl was supposed to pick up the telephone and say, "Yes," and he would tap it twice, and the girl would pick up the telephone and say, "No." The thing would go on for an hour and a half, and that is the way he worked it.

White: It is a good story.

H.M.Jr: Try it.

White: I would if I believed it. (Laughter)

H.M.Jr: Well, you ask Jake.

What else, Dan?

Harold?

Graves: You sent me yesterday a letter from Mr. Chester Davis raising some questions about--

H.M.Jr: ....organization and so forth, yes. Is there anything in that that at all interferes with the Executive order which we have sent to the President?

Graves: No, it has nothing to do with that.

H.M.Jr: Well, then, just write a nice letter and say thank you, but I wanted you to know because after you read what is going on in National Defense, you weep.

Graves: I think that many of the questions which he raises probably will be settled in the Executive order which I assume is being prepared, fixing the functions and jurisdiction of the Office of Production Management.

H.M.Jr: Yes, but it doesn't in any way conflict--

Graves: Not at all.

H.M.Jr: That is what I wanted.

Chick?

Schwarz: Mark Childs of the St. Louis Post Dispatch is exploring the possibility of doing a book on big income tax fraud cases that are already closed, and before we helped him even to see whether there is a book possibility, we wanted to clear with you. He has talked to Elmer Ireby and to us.

He would show it to us before he submitted it to the publisher.

H.M.Jr: Wouldn't that be John Sullivan?

Foley: Yes.

H.M.Jr: You had better wait until John gets back.

Schwarz: There is also--

H.M.Jr: Gaston and Sullivan.

Gaston: No.

H.M.Jr: No?

Gaston: Well, his book will be written from records that are available to anybody. I don't see why we should - anybody should object to it, but it is in John's general jurisdiction.

Schwarz: We will check with him.

H.M.Jr: Right. Anything else?

Schwarz: I have one suggestion that we are thinking of the possibility of getting all the public support we can for tax collection. It might be a good idea to suggest to the President filing his own income tax return early in the new year to set the example.

H.M.Jr: Go around and see the President on the day before the deadline sometime. Try to get into see him. Dan and I have, haven't we? He starts working about four o'clock in the afternoon, and starts to get disagreeable about 10 days before.

Schwarz: He might welcome the idea of getting it off his desk earlier.

- 6 -

White: If you can't get the President, maybe you could get the Secretary of the Treasury to file one.

Klotz: He does, Mr. White.

H.M.Jr: Yes, I go in. You might just as well suggest he chop down all his pine trees. (Laughter)

Schwarz: That would help. There is quite a play in the papers this morning on the National Economy League statement urging curtailment of non-defense expenditures.

H.M.Jr: When I came out of the movies last night, my heart sung when I saw the early edition of the Post.

Schwarz: It was a good story.

H.M.Jr: "It is a good story," says Chick. It is a wonderful headline. (Laughter)

Klotz: It is not based on what you said, is it?

H.M.Jr: No. Anything else?

Schwarz: That is all.

H.M.Jr: Harry?

White: Could I have a few minutes sometime this morning?

H.M.Jr: I think so. Tell Mac.  
George?

Haas: Here is Allison. They have revised their schedules.

H.M.Jr: What do you mean?

Haas: Here is their new one, and here is their old one.

- H.M.Jr: You are all coming in at ten-thirty for a dress rehearsal on prices?
- Haas: All right.
- H.M.Jr: Say, that lumber prices, didn't you tell me there are eleven or twelve component parts?
- Haas: Forty-four.
- H.M.Jr: Did you get anything out of Procurement, out of Mack?
- Haas: Yes. I think it would be a good idea to have him over here to explain it.
- H.M.Jr: Are you (Graves) interested?
- Graves: Yes.
- H.M.Jr: You are invited too.
- Haas: I put a note on these.
- H.M.Jr: Well, next year....
- Haas: On these reports that come in with the statistics on aircraft production, once in a while they make comments about why the deliveries are down and so on. Would you like to see them?
- H.M.Jr: Yes. And those should be passed on to Philip Young.
- Haas: All right.
- H.M.Jr: Well, now, I think on a thing like this that I would write the facts to them and say, "We would be glad to hear what particular raw materials have they got in mind and how long have they been waiting. We would like to have the details."

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Haas: Shall I write to them or write to them over your signature? I can do that.

H.M.Jr: Yes. Here is what it says here from Boeing:  
"Although we have indicated no change from our previous estimate, we wish to point out that critical delays in the receipt of raw materials will necessitate a revised estimate unless the situation improves."

I would write back that I would be glad to get more details. I insist on still being the most irritating person in Washington for these fellows until we get something done. I would write back and say, "We would like to have chapter and verse."

Haas: Fine.

Young: The British called me last night and wanted our approval on a press release announcing this fact that they had bought three of the Pan-American planes.

H.M.Jr: When you say the British, do you mean the King?

Young: The British Air Commission.

H.M.Jr: What did their Royal Highness have to say.

Young: I told them we wouldn't approve it because we hadn't had anything to do with the deal, so far as the press release is concerned.

H.M.Jr: What are they buying?

Young: They bought last fall three of the new Pan-American ships that are now in production from Pan-America.

H.M.Jr: Well, now, may I say something to you? When



somebody like that calls you from now on, unless you disagree with me, I would say as far as we are concerned, unless Mr. Purvis asks us something like that, we can't clear anything. They should first clear it with him. I think we have got to do that, Phil.

Young: Oh, they checked in with Mr. Purvis too, and it was his feeling that you ought to know about it.

H.M.Jr: Well, that is all right. Your answer was correct.

Young: They had called Mr. Welles subsequently, because Tripp has evidently made the deal with Welles, and Welles said, "Of course, it is up to the Treasury."

Gaston: The story is in the morning paper about it. Perhaps you noticed it.

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

Young: There are seven Lockheed commercial planes finished and complete at the Lockheed factory sitting out in the field for export, two for Australia and one for South Africa, one for the United States Navy and three for trans-Canada, which are being held up on account of the Priority Board's orders that no commercial ship shall go out, and I have a copy here of a telegram which Lockheed sent to Nelson which is fairly frank and to the point on it which I will send you a copy and a memo on. That order holding up the commercial planes is creating a good deal of havoc because in many instances, such as the South Africa planes, they are being used for military purposes in Africa rather than commercial.

H.M.Jr: Well, wouldn't that go under my letter to the four members of the thing?

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Young: Yes. I want to include those in this batch of four or five cases which I want to send over.

H.M.Jr: Nelson, the head of the Priorities, they say, has been out of town for at least two weeks.

Young: Yes. Is this what you wanted on toluol?

H.M.Jr: This is on toluol.

"My dear Cordell:

It has come to my attention that a shipment of five hundred tons of toluol is about to be made to Sweden. As the question of the export of arms and munitions to Sweden has come up for a good deal of discussion in the past, I would appreciate it if you would let me know how you feel about this case."

(Telephone conversation with Mr. Stimson follows)

December 31, 1940  
9:51 a.m.

H.M.Jr: Hello.

Henry L. Stimson: Hello, I'm on the wire.

H.M.Jr: O. K.

S: You called me this morning?

H.M.Jr: Hello?

S: You called me a few minutes ago.

H.M.Jr: Well, this was in answer to a call from you yesterday.

S: Oh, I'm sorry.

H.M.Jr: We seem to have missed connections yesterday.

S: Well, I'm engaged in an effort to get into the saddle, so to speak, on this new job which the President's speech has outlined which rather roughly expands my program from the appropriations for the War Department of the United States Program to the War Department of the United Democracies Program, and I want to get at as soon as I could the figures - I want to cross-examine the British about their figures a little. I am finding some rather disturbing things in regard to large bombers and I didn't want to do it without talking with you.

H.M.Jr: Well, I'm glad that you have. The President yesterday asked me to continue my work that I have been doing for the British, so that I'm here to .....

S: I also talked with him late in the afternoon. He's very anxious that I should do this that I'm talking to you about now.

H.M.Jr: Good.

S: And so there ought to be no trouble. I don't want to at all interfere with your work .....

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H.M.Jr: Well, I .....

S: ..... but I've got to - what I'm trying now is to get ahead on my own; that is, to get an understanding of the situation. There's the - on the one subject I was just speaking of, the heavy bombers, there's - I found quite a discrepancy in figures and there's news now through Purvis that their figures have been - he's been scared by what's happened in London.

H.M.Jr: Well, just so we can understand each other, all that I expect to do is to continue to make things easier for you and the English and when I can't do that, then I don't serve any purpose.

S: Well, you have very much. You have very much, and I naturally don't want to put any obstacles in what is making life easier for me, but I do want to - I have to for my own - just in this preparatory process of making my own mind up as to perspectives, why, I can do it much better if I talk directly rather than in big conferences.

H.M.Jr: Well, by all means talk with Purvis.

S: You have no objection to that, have you?

H.M.Jr: I'd be delighted. I'd be delighted and if you'd just send for him .....

S: Yes, all right.

H.M.Jr: If you'll send for him I'd be delighted.

S: Then I'm going to send for or come over and see you or send for Philip Young or things like that whenever I feel in need of it, if I may.

H.M.Jr: I wish you would. We're here simply to take some of the bumps out and as I say when the time comes that there are no bumps why we'll be more than pleased to withdraw.

S: Oh, well, I'm not seeking that. I hope that time will not come, but I've got to learn more, that's the trouble with myself at present.

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H.M.Jr: Well, I don't know whether Purvis is here today but he will be here Thursday morning, and you know the new setup that he has: he is responsible now to a committee of three members of the British Cabinet and he works directly with them.

S: Who are those? No, I don't.

H.M.Jr: Secretary of Air Production, what would correspond to Minister of Supplies and Secretary of their Navy. I'm using the American terms. Those three. Navy, Supply and Air Production. They are set up a Cabinet Committee of three and he works directly with them.

S: Navy, Supplies and Air Production.

H.M.Jr: Yes.

S: I see. Which one of those is Beaverbrook?

H.M.Jr: Air. And he reports directly to those three. His status also here is equal to that of an ambassador. He's not responsible to the Embassy.

S: I see. He's an independent envoy over here.

H.M.Jr: That's right.

S: Yeah.

H.M.Jr: Well, I appreciate your calling me and .....

S: That was the subject I was calling you on yesterday, and I just had this talk with the President and I wanted to tell you about it and have a talk with you.

H.M.Jr: Thank you.

S: All right.

H.M.Jr: Good-bye.

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H.M.Jr: He suddenly discovered something the matter with the bombers.

Young: Who has?

H.M.Jr: Stimson. He wants to know all about it himself. He now finds himself Secretary of War for England and the United States. With these new responsibilities, he has to know also. So I thought I might just as well let him know, so he said of course he wanted us to continue, and I told him he would be free to call upon you at any time. I might just as well let him know. So, I mean, he is evidently now interested in bombers. Mrs. Klotz, in here somewhere, I will send this into you, there is this memorandum which we finally got from Stimson. I am going to have to stop now, and if you will give Mr. Young that memorandum and then you (Young) ask McKay the verbal explanation that came over with it.

Young: I already have that. McCloy called me on it.

H.M.Jr: Have you got it?

Klotz: No.

H.M.Jr: Get McKay to write it out in longhand and give it to you.

December 31, 1940  
10:56 a.m.

RE RISE IN PRICES

Present: Mr. Bell  
Mr. Graves  
Mr. White  
Mr. Haas  
Mr. Kuhn  
Mr. Mack

H.M.Jr: It is interesting why I am late. It is grand having these people join the Cabinet. Here Frank Knox suddenly gets an FBI report dated December 21 that the Germans are thinking of scuttling their ships, and he is going to put the Marines on them today and take all their ships over. The report was dated December 21. He calls up the President, he calls up Hull, he calls up the Attorney General because Hull doesn't know anything about it, but I kept saying, "Our port captains and the Coast Guard, that is their responsibility under the Executive Order." Oh, he is going to put a lot of Marines on it. Well, after he calls up Hull and Bob Jackson, the President says, "I know all about it." Then he looked at my report, and I happened to have it here by accident, and it was dated December 21. Today is the 31st. But it has to be done this morning. But it is so secret I mustn't tell anybody. That took 45 minutes.

White: He went out looking very happy.

H.M.Jr: I put it this way. I said, "You know, Frank,

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it is a mistake ever to ask the head of a Cabinet anything. I have got to send for Gaston. You always want to ask the fellow who really does the work." I don't know whether he got it or not. I think he did.

Under the Executive Order it is my authority, I don't have to ask anybody.

Professor Haas?

Haas: Do you want the lumber first?

H.M.Jr: I will take whatever you have got first.

Haas: Here is the --

H.M.Jr: You (Kuhn) are just here so that you know what I am working on, you see.

Kuhn: I see.

H.M.Jr: And you might have an idea yourself, you never know.

Kuhn: I might.

H.M.Jr: Why don't you hold that chart up there? You have got a lot of strong able fellows here.

Haas: This is a chart which shows the increase in prices of the lumber index, which is made up by the Bureau of Labor Statistics, their price section. The lumber index, comprised of 44 lumber items, has increased from the low of 1940 to the present date, 26, and the individual items which comprise the index are also charted here, the highest one being 52% for pine timbers No. 1 and redwood No. 1, no increase.



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White: Which is the important item of lumber there?

Haas: Maybe Mr. Mack would know about that.

Mack: Pine.

White: The top one. How much more important is it?

Mack: Well, in quantity I would say that --

White: Roughly.

Mack: Half or better.

White: Is that low of 1940, John, is that unusually low or is that about what it was?

Haas: What it was. As far as I know, Harry, there is no seasonal drop in this thing.

White: It isn't an unusual drop of any character?

Haas: I don't think so.

H.M.Jr: We have the chart of the index running back for a couple of years. The point that Harry makes, this might just have been a dip, you see.

White: Possibly because it is a low for the year, and I don't know how it fluctuates.

H.M.Jr: All right. That is exhibit one. That is a beautiful chart.

White: The most important lumber item has gone up 50% since the low of this year.

H.M.Jr: And you see what he was talking about the other day, the figure that he was carrying, he said it had only gone up 20%.

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White: Is that most important for the government?

Mack: It is most important for the government on cantonments.

Kuhn: Army buildings?

Mack: Yes.

Kuhn: What goes into ships?

Mack: Well, I imagine the hard woods would go into ships.

White: Have those gone down much less?

Mack: Well, apparently the increase hasn't been as large there.

H.M.Jr: Oak flooring, 32%.

White: Well, that is very important.

H.M.Jr: Pine boards, for instance, which is certainly important. I know enough about - 38%.

White: Those low ones, Mr. Secretary.

H.M.Jr: Redwood boards No. 1, redwood siding, redwood finish, maple, hard. I suppose they don't naturally put maple floors into cantonments.

Then come cypress, door frames, pine boards No. 2 and so forth and so on.

Bell: Are there any unusual specifications in the Army requirements that might make this price go up? For instance, I heard about them ordering 16 foot two by fours instead of regular 12 foot that they might have on hand. They had to go out and cut the 16 foot.

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- Mack: I think there are two factors, Mr. Bell. One is that there has been competitive bidding within the Government agencies. For example, in Virginia, Norfolk, the Army has been building and the Navy has been building, and they have been bidding against each other. The contractors have been authorized under the contracts to buy and they also have been buying from the same sources, and that is one reason for this tremendous increase in prices. Then the other reason is the large volume of irregular sizes, 16 foot cantonments rather than the usual 12 foot sizes.
- H.M.Jr: You don't suppose, Mack, between now and one o'clock you could actually get the definite thing on that size business between the Army and Navy and where they are different from the usual run of the mill.
- Mack: I think so.
- H.M.Jr: Do you have any of that in your shop?
- Mack: Very little, but I could get it from the man who is now with the Defense Commission that is coordinating with the Army and Navy on lumber purchases.
- H.M.Jr: No, you had better not go there.
- Mack: Well, he told me that the other day when I was talking about specifications.
- H.M.Jr: Well, why not, Harry?
- White: Well, I think that you could get more information first as to why they have to have 16 feet as against 12.
- H.M.Jr: I don't want to use any specific case. You don't think that - you couldn't get it from the lumber institute here?

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White: You couldn't get it from your regular lumber contractors?

Mack: I think I can.

Sell: Why couldn't he get it from over there. He has got a coordinator, hasn't he?

E.W.Jr: Listen, Mack, you get it wherever you want to and you had better come here for lunch today when Henderson is here. It is one o'clock.

Mack: I see.

Ess: While we are on lumber --

E.W.Jr: You (Graves) haven't got any of this at your finger tips?

Graves: No.

Ess: While we are on lumber, Mr. Mack worked these up. These are actual prices paid by the Procurement Division. The highest increase is at the top.

E.W.Jr: Common boards, Virginia, increase of a hundred per cent. Framing, Virginia, a hundred per cent. Southern pine, 80 per cent.

White: Since when?

Mack: Within the last few months.

White: A hundred per cent increase?

Mack: Yes. \$19.00 to \$38.00.

White: That is impressive.

E.W.Jr: Is that impressive?

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White: I don't see how it could be more impressive. A jump in prices in a few months like that.

H.M.Jr: What else has he got?

Haas: Mr. Mack, you might explain this if you want to start now, Mr. Secretary.

H.M.Jr: This is arc welding unit. These prices here --

White: Have you any idea, Mr. Secretary, how much is spent on lumber by the Government in a month?

H.M.Jr: Mack can find out.

Haas: Some items like desks can run up in price, that is, oak desks.

Mack: But the reason for those high prices in certain of the states like Virginia and Ohio and some other places I believe is there just hasn't been any supply. Everything has been taken up, and the dealers have boosted their prices terrifically. It isn't warranted.

H.M.Jr: They could buy outside of the state.

Mack: That has been the difficulty.

H.M.Jr: What is the difficulty?

Mack: That is, trying to buy all of the needs of a particular kind rather than looking to other types of lumber and going outside of the state as well.

Bell: The supply is closed.

Mack: In other words, the Navy contractor at Norfolk will be bidding against an Army contractor for the same material in the same lumber yards.

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Bell: They don't have a joint purchasing board?

Mack: No.

White: It sounds to me like you are uncovering a terrible mess of something.

H.M.Jr: Why do I always do this?

White: I don't know. You have got a nose for the smells, I guess.

H.M.Jr: Well, of this lumber thing, don't you think I had better just take this lumber thing?

Haas: That is the most interesting.

White: You also mentioned cocoa.

Haas: I have got a memo on cocoa. I don't think there is much there.

H.M.Jr: Well, wouldn't that be just as good to have sent to them?

Haas: Yes.

H.M.Jr: In this thing here, I am just looking through - arc welding. I think we had better stick to lumber, because the lumber story, if you can get the conflict between the Army and Navy within a certain state, and that they are driving the prices up, if that is true in one state, then it is applicable to everything else. There is no use making too many of these. Looking through here, isn't that the best one you have got, lumber?

Mack: I think so, yes, sir.

H.M.Jr: Well, just soak yourself full, and if you can

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find out, for instance, that in Norfolk the Army and Navy are competing against each other, and that they are using odd sizes, that is enough. Now, what comes next?

- Haas: Well, I might tell you this, that I sent some people over to the Bureau of Labor Statistics. They have prices for 887 commodities. We went to their original records and got the low for each one of those 887 commodities.
- H.M.Jr: Excuse me just a minute. Have you (Mack) got an office in Norfolk?
- Mack: No, we haven't.
- H.M.Jr: Well, just bear it in mind that if, after this lunch - Norfolk is the worst spot, that you send somebody down there Thursday from Richmond. Just let him go down there and spend a day or two around there, nosing around and finding out and getting as many facts as he can. If you need any authority, you (Bell) could cloak him with the authority. We don't need any. I have got to raise some money. What the hell. That is enough. Do you think the Budget would like to cloak him with some authority?
- Bell: I think they would cooperate. I don't think you need any authority, do you?
- White: He is interested in buying.
- Bell: You get access to the offices without any trouble, don't you?
- Mack: Yes.
- H.M.Jr: I would send one of your buying men down from Richmond and let him go down there and just nose around, to Florida, wherever there is another cantonment.

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It would be interesting to take one of the cantonments and go into that section and find out what they are doing. How about Camp Dix, New Jersey? Think about it.

Mack: I will go over it.

H.M.Jr: Think about it.

Haas: Well, we went over to --

H.M.Jr: You know what they were trying to do, don't you?

Mack: Yes.

Haas: ..... to the Bureau of Labor Statistics. They have this index composed of 887 commodities, prices. We found out the low price for each of these 887 commodities in 1940, and what the price is today, and figured out the increase, the change, and then we came back and arranged them, from the one that had the highest increase right down. We had 22 people at one time on it. There is the list.

Now, some of these, Mr. Secretary, the prices are seasonal, but you can skip these over like eggs and fruit and vegetables and so on, but there is the rank, the highest increase down to no increase.

H.M.Jr: This is wholesale on foods?

Haas: Everything, all commodities.

H.M.Jr: Eggs are up 97 per cent?

Haas: In New York. Well, that is seasonal, you see. Fruits and vegetables you have got to skip.

H.M.Jr: I don't see that apples have gone up 97 per cent.



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Bell: Well, 50.

Haas: And oranges, too.

Mack: Do you have cod liver oil, olive oil on your list?

Haas: Olive oil is here, yes. Olive oil, 75.

White: Since when, did you say?

Haas: The low of the year and the date is here, it is March 22 on olive oil, the date of the low.

H.M.Jr: Now, why should that go up 75 per cent?

Haas: Well, the war, I suppose.

Bell: Italy is one source.

H.M.Jr: How about Portugal? Portugal is open.

Haas: Freight rates.

White: It wouldn't amount to --

H.M.Jr: Any olive oil in South America? Are you (Mack) buying any for the Red Cross?

Mack: No, we haven't been buying olive oil for the Red Cross.

H.M.Jr: Anything that you are buying for the Red Cross has gone up very much. That would be interesting. How about the stuff you have been buying for the Red Cross?

Mack: We have been getting good prices.

H.M.Jr: No particular jump?

Mack: No, as a matter of fact, our textile purchases

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for the Red Cross, our most recent purchase, was a low for the year, but I think our next lot opening in January will be up a few per cent.

H.M.Jr: Have you ever compared your textile purchases with the Army's?

Mack: Only in spot checks, and they compared very favorably. We are buying good sized lots.

H.M.Jr: I see. Well anyway - well, this is --

Haas: It lists them in the order of their increase.

H.M.Jr: Do you think we could use this today?

Haas: Well, that is the only way I could find out, and see that I wasn't missing anything.

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

Haas: I took the leading ones, leaving out the commodities where there was a question of a seasonal change in price, and listed them here. Those are the leading ones that are taken off that list.

H.M.Jr: Well now, my God, there is no --

Haas: Except lumber.

H.M.Jr: Wood pulp, tartaric acid, skins of the sheep, hides.

Haas: Here is the steel scrap.

H.M.Jr: Thirty-seven percent, steel scrap.

White: It would be very interesting to go back to only three months ago when we had discussions right in this room about the price of steel scrap, that it wasn't going to increase.

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H.M.Jr: Alcohol, 32 per cent.

White: Alcohol?

H.M.Jr: Yes. Zinc, 28 per cent.

White: What is the reason for that?

Haas: Look at this cotton. Those are those bags, I think, that are used for grain. They have gone up 21 per cent, but his purchases don't show increase.

H.M.Jr: Print cloth, 20 per cent. Well now, are we going to show him this?

Haas: I would think so.

Bell: The general index, you see, doesn't show anything.

White: Is that denatured alcohol?

H.M.Jr: It is ethyl. It is all made in this country and what they use ethyl for is - the Dow Chemical makes the stuff from the salts, and they make - they have a half interest in the Ethyl Corporation with General Motors. There is no monopoly there. I mean, there is a monopoly, definitely.

White: Thirty per cent increase --

Graves: No, I think that is ethyl alcohol they are talking about, Mr. Secretary. That would be just grain alcohol.

H.M.Jr: Why the hell should we have that?

Graves: If it is denatured, there is no excuse for that increase.

H.M.Jr: Are you looking forward to being in, Mr. White, today?

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- White: Very much.
- Haas: Do you want some more?
- H.M.Jr: Sure. I think this is wonderful.
- Haas: I have got this really backward. These are the broad groups --
- H.M.Jr: Show it to the boys.
- Haas: Oh. This chart shows the all commodity index which is composed of 887 commodities. It has increased 3.6 per cent, and these others are the broad price groups like building materials. That is the whole group. I don't know how many prices are included in that, lumber and all the other building materials. It shows the greatest increase of 7.7 per cent in foods and so on, and here is the smallest increase down here, household furniture.
- Bell: That is what Henderson would take. He would say that isn't much of an increase when he takes them all.
- Haas: That is right.
- H.M.Jr: Don't let's use that chart.
- White: The approach must be on individual items, not group items.
- H.M.Jr: That is right.
- White: It is the way they can hit it.
- Bell: That is what he contended to you the other day, wasn't it?
- Haas: Well, I thought you ought to see them anyway.

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H.M. Jr: Sure.

Haas: This is the next breakdown, the classification. Each of those groups which I called your attention to there, I broke it down into sub-groups and the price index of the sub-groups is charted here. All those sub-groups which have increased to a greater extent than the all commodities increased, which is 3.3, and that is a whole sub-group of 31.7 per cent.

H.M. Jr: All right.

Haas: Do you want that?

H.M. Jr: Sure. I think today - Henderson said the other day he couldn't talk so when he goes down there we will say, "What have you got to say?" And then when he gets all through, I think we will just go on lumber. I think that is about as good a thing as any.

Got anything on wool?

Haas: Got the price of it in that --

H.M. Jr: Have you got a story on cocoa?

Haas: Yes.

H.M. Jr: What is the cocoa story?

Haas: The cocoa story is somewhat like this. It has increased since last July. It was a low of 4-15/100ths cents, but that was the lowest price in seven years, and it increased - now it is only up to 5.05 cents, and that is to be compared with 12 cents in 1936 and 37, and there is - the statistical position is poor. There are big supplies in South America and

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big supplies in Africa on the Gold Coast  
over there --

H.M.Jr: Cocoa is not so good.

Haas: No, and I think if the price is up, it helps  
the South Americans some to increase their  
income.

Mack: There is a story in connection with the lumber,  
Mr. Secretary, that I think you ought to know  
about. When they first started to buy for these  
cantonments, they were buying locally, and they  
had this competition that resulted in this  
immediate upsurge in prices. The next development  
after they learned about that was to consolidate  
purchases here in Washington. The War Department  
decided that they would consolidate all their  
lumber purchases in Washington. They issued  
invitations for very substantial quantities,  
I suppose 25 or 30 million feet, and it took  
them so long to tabulate and to decide who should  
be given the award, so many items, that they  
found they were issuing invitations on the next  
lot before they could make the awards on the  
first lot; and that was confusing to the bidders,  
because they didn't know whether they had to  
bid on one or two lots, and they consequently  
increased their prices. The next development  
was this. And the one that they are now using.  
They called in 7 bidders and they set them  
around in this room and said, "Now, we are going  
to buy so and so and give us your prices," and  
they decided the awards right then and there,  
the same day, and issued the purchase orders the  
same day, as I understand it.

H.M.Jr: Is that good?

Mack: Yes, I would say so, yes, sir.

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- White: It is quick, anyway.
- Mack: Now, they bought 50 million feet, as I understand it, about a week ago, and they are getting ready to buy another 25 or 30 million feet in the next few days.
- White: You mean the bids are oral, around the room?
- Mack: I presume, of course, that they have them submit written bids, but they have action on them forthwith instead of sending out invitations and waiting for the mail.
- White: The result is that prices are rising. Something is wrong somewhere.
- Bell: Didn't they throw on the market one time, bids for a number of cantonments? The prices went right up.
- Haas: Lumber for eight cantonments was asked for at the same time.
- White: There are certainly a number of reasons why it should rise, but Henderson is supposed to get or somebody is supposed to have powers to prevent those rises in response to the unusual demand. If they are not supposed to do that, what is the use? There is always a reason for a price rise.
- H.M.Jr: Well, it is - I mean, I don't know, for instance, why wood pulp, chemical, should be up 58 or 59 per cent.
- White: Particularly since the Canadian pound has decreased 12 cents.
- Haas: That Norway pulp is cut off.
- H.M.Jr: But again you can make all kinds of pulp from

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this pine slash, and is the production being increased to take care of it? What are we doing? Maybe there should be a tremendous increase of this making of the pulp from the pine, which is successful now. They make it in Florida and they make it down in Georgia. They make it successfully.

White:

Well, the point is if we can't prevent price rises in such important items at the beginning of a purchase program, where are we going to be a year from now, with the program expanded two or three times.

H.M.Jr:

Oh, I am right, that the thing isn't being handled. Well, I tell you, George. If you and Mack could put your heads together and have as much as you can, you see, for me, and be back at one o'clock, see. I think we have got a good story.



## TREASURY DEPARTMENT

## INTER-OFFICE COMMUNICATION

DATE December 31, 1940

TO Secretary Morgenthau  
FROM Mr. Hadd

I am submitting herewith three tables which show the extent of price increases that have occurred in individual commodities and groups of commodities from the lows reached earlier in the year.

In Table 1, the average price increase is shown for each of the 10 MAJOR groups making up the BLS price index of 887 commodities. You will note that the list is headed by building materials, which show an average rise of 7.7 per cent, as compared with an advance of 3.6 per cent for the all-commodities index.

Table 2 shows similar average data for each of the sub-groups of the all-commodities index, among which hides and skins and lumber show the largest price increases, amounting to 31.7 per cent and 26.0 per cent, respectively.

In Table 3 the 887 individual commodities making up the all-commodities index are ranked according to the amount of price increase. It will be noted that some of the large increases, such as those for butter, eggs, fruits and vegetables have been due largely to seasonal factors.

Increases in Wholesale Prices of Commodities, from 1940 Lows,  
by Major Groups

Commodity Group	1940 low		Present		Percent increase
	Price	Date	Price	Date	
Building materials	92.1	June 8	99.2	Dec. 21	7.7
Foods	69.1	Aug. 3	73.4	Dec. 21	6.2
Farm products	65.2	Aug. 3	69.1	Dec. 21	6.0
Hides & leather	97.0	Aug. 24	102.7	Dec. 21	5.9
Textile products	71.5	Apr. 27	74.2	Dec. 21	3.8
ALL COMMODITIES	76.9	Aug. 10	79.7	Dec. 21	3.6
Metals & metal products	94.5	May 11	97.6	Dec. 21	3.3
Chemicals & allied products	76.0	June 29	77.7	Dec. 21	2.2
Fuel & lighting	71.6	Aug. 10	72.6	Dec. 21	1.4
Miscellaneous commodities	76.1	Sept. 28	77.1	Dec. 21	1.3
Housefurnishing goods	89.6	Apr. 6	90.2	Dec. 21	.7

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

December 28, 1940.

Note: Basic data are for the 887 commodities for which wholesale prices are obtained by the Bureau of Labor Statistics.

Increases in Wholesale Prices of Commodities from 1940 Lows,  
by Sub-Groups

Commodity Group	1940 low		Present		Percent increase
	Price	Date	Price	Date	
Hides and skins	77.8	Aug. 24	102.5	Dec. 21	31.7
Lumber	94.3	May 11	118.8	Dec. 21	26.0
Drugs and pharmaceuticals	77.3	Jan. 6	96.2	Dec. 21	24.5
Cattle feed	71.6	Aug. 31	88.4	Dec. 21	23.5
Dairy products	72.2	June 8	85.9	Dec. 21	19.0
Livestock	62.0	June 22	70.6	Dec. 21	13.9
Meats	67.6	Apr. 6	76.8	Dec. 21	13.6
Rubber (crude)	37.6	Mar. 2	42.7	Dec. 21	13.6
Grains	58.6	Aug. 23	66.2	Dec. 21	13.0
Other foods	60.0	Aug. 17	66.9	Dec. 21	11.5
Oils and fats	38.0	Aug. 31	42.0	Dec. 21	10.5
Cotton goods	67.3	June 15	74.3	Dec. 21	10.4
Other farm products	62.7	Sept. 28	68.4	Dec. 21	9.1
Chemicals	79.0	Mar. 30	85.4	Dec. 21	8.1
Leather	87.2	Aug. 31	93.7	Dec. 21	7.5
Fruits and vegetables	56.4	Mar. 9	60.5	Dec. 21	7.3
Woolen textile products	82.0	June 15	87.8	Dec. 21	7.1
Nonferrous metals	78.2	Feb. 17	83.2	Dec. 21	6.4
Anthracite fuel	76.2	May 2	80.9	Dec. 21	6.2
Motor vehicles	94.7	May 11	100.3	Dec. 21	5.9
Fertilizer materials	66.6	July 13	69.9	Dec. 21	5.0
Other textile products	70.2	Aug. 31	73.7	Dec. 21	5.0
Auto tires and tubes	55.1	May 11	57.8	Dec. 21	4.9
Bituminous fuel	98.9	June 29	103.7	Dec. 21	4.9
Gas, fuel	78.5	Apr. 6	82.3	Dec. 21	4.8
Paper and pulp	87.0	Apr. 13	91.2	Dec. 21	4.8
ALL COMMODITIES	76.9	Aug. 10	79.7	Dec. 21	3.6
Coke	109.5	Sept. 28	113.4	Dec. 21	3.6
Metals & metal products, plumbing & heating	77.4	Feb. 17	79.2	Dec. 21	2.3
Building materials, plumbing & heating	77.4	Feb. 17	79.2	Dec. 21	2.3

Increases in Wholesale Prices of Commodities from 1940 Lows,  
by Sub-Groups (Continued - 2)

Commodity Group	1940 low		Present		Percent increase
	Price	Date	Price	Date	
Other building materials	92.4	June 1	94.4	Dec. 21	2.2
Mixed fertilizers	72.8	Aug. 24	74.2	Dec. 21	1.9
Paint and paint materials	83.9	Aug. 31	85.5	Dec. 21	1.9
Electricity	72.4	Nov. 23	73.5	Dec. 21	1.5
Clothing	85.0	Jan. 27	86.1	Dec. 21	1.3
Iron and steel	92.2	June 1	93.3	Dec. 21	1.2
Brick and tile	90.7	Oct. 5	91.8	Dec. 21	1.2
Housefurnishings	94.3	Apr. 6	95.3	Dec. 21	1.1
Petroleum and products	48.7	Oct. 12	49.2	Dec. 21	1.0
Cement	90.3	May 4	90.9	Dec. 21	.7
Other miscellaneous	82.8	Sept. 21	83.2	Dec. 21	.5
Farm equipment	91.1	Aug. 31	91.5	Dec. 21	.4
Shoes	107.0	Nov. 9	107.3	Dec. 21	.3
Silk	42.4	Sept. 28	42.5	Dec. 21	.2
Furniture	84.2	July 6	84.4	Dec. 21	.2
Cereal products	74.3	Dec. 21	74.3	Dec. 21	-
Hosiery and underwear	61.3	Dec. 21	61.3	Dec. 21	-
Other leather	98.4	Dec. 21	98.4	Dec. 21	-
Rayon	29.5	Dec. 21	29.5	Dec. 21	-
Structural steel	107.3	Dec. 21	107.3	Dec. 21	-

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

December 28, 1940.

Note: Basic data for the 887 commodities for which wholesale prices are obtained by the Bureau of Labor Statistics.

Increases in Wholesale Prices of Individual Commodities 2/  
from 1940 Lows

Code number	Commodity	1940 low		Present		Percent increase
		Price	Date	Price	Date	
30	Eggs, fresh, New Orleans, per dozen	.118	June 11	.233	Dec. 17	97.5
33	Eggs, fresh, San Francisco, per dozen	.155	Mar. 12	.295	Dec. 17	90.3
53	Vegetables, onions, per 100 pounds	.800	Jan. 9	1.500	Dec. 24	87.5
29	Eggs, fresh, Cincinnati, per dozen	.150	June 11	.270	Dec. 24	80.0
146	Pork, cured, bellies, clear, per lb.	.048	Mar. 5	.085	Dec. 24	79.2
186	Vegetable oil, olive, edible, per gal.	1.850	Mar. 22	3.250	Dec. 20	75.7
147	Pork, cured, bellies, rib, per lb.	.049	Mar. 5	.086	Dec. 24	75.5
54	Vegetables, potatoes, sweet, per 5/8 bu.	.475	Jan. 19	.800	Dec. 20	68.4
32	Eggs, fresh, Philadelphia, per dozen	.169	June 8	.280	Dec. 21	65.7
357	Gasoline, natural, Oklahoma, per gal.	.015	Mar. 25	.024	Dec. 23	60.0
31	Eggs, fresh, New York, per dozen	.163	July 23	.260	Dec. 24	59.5
747	Wood pulp, chemical, Kraft, #1, per 100 lbs.	2.125	Jan. 2	3.375	Dec. 24	58.8
522-9	Pine, timbers #1	24.380	Apr. 2	37.230	Dec. 17	52.7
522-1	Pine, boards #2, common	21.520	July 25	32.740	Dec. 17	52.1
38	Oranges, per box	2.075	Jan. 2	3.150	Dec. 24	51.8
35	Apples, fresh, New York, per bushel	.925	Aug. 6	1.400	Dec. 24	51.4
614-1	Cream of tartar, per pound	.258	Jan. 5	.388	Dec. 20	50.4
636	Acid, tartaric	.313	Jan. 5	.463	Dec. 20	47.9
217	Skins, sheep, per pound	1.150	June 11	1.700	Dec. 17	47.8
213	Hides, steer, Texas, per pound	.088	Aug. 31	.130	Dec. 21	47.7
522-4	Pine, dimension #2	22.300	July 2	32.540	Dec. 17	45.9
671-10	Tallow, per pound	.032	Aug. 27	.046	Dec. 24	45.8
127	Fruits, dried apricots, per pound	.090	Apr. 4	.128	Dec. 12	42.2
236	Handkerchiefs, linen, women's, per doz.	.539	Jan. 2	.764	Dec. 24	41.7
522-2	Pine boards, #3, common	19.040	Apr. 30	26.950	Dec. 17	41.5
28	Eggs, fresh, Chicago, per dozen	.156	June 3	.220	Dec. 23	41.0
149	Pork, mess, per barrel	17.250	Feb. 13	24.250	Dec. 17	40.6
235	Handkerchiefs, linen, men's, per doz.	1.152	Jan. 2	1.617	Dec. 24	40.4
515-5	Douglas fir, flooring 0	24.500	Apr. 2	34.300	Dec. 24	40.0
522-3	Pine, dimension #1	25.010	July 2	35.020	Dec. 17	40.0

1/ Data are for the 887 commodities for which wholesale prices are obtained by the Bureau of Labor Statistics.

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

December 28, 1940.

Code number	Commodity	1940 low		Present		Percent increase
		Price	Date	Price	Date	
214	Skins, calf, per lb.	\$ .150	Sept. 3	\$ .204	Dec. 24	34.7
76	Butter, choice, New Orleans, per lb.	.260	July 2	.360	Dec. 17	38.5
211	Hides, cow, per lb.	.096	Aug. 27	.133	Dec. 24	38.5
524-1	Pine Boards #3 common, Ponderosa	19.660	Aug. 6	27.210	Nov. 26	38.4
75	Butter, New Orleans, fancy, per lb.	.264	July 2	.370	Dec. 17	38.1
515-3	Douglas fir, siding C	24.420	Feb. 20	39.200	Dec. 24	37.9
17	Hogs, heavy butchers, per 100 lbs.	4.725	Apr. 1	6.500	Dec. 23	37.6
132	Fruits, fresh, bananas, per bunch	2.000	Jan. 23	2.750	Dec. 24	37.5
1	Barley, per bu.	.375	Aug. 27	.515	Dec. 24	37.3
445	Scrap, steel, per gross ton	15.125	Apr. 9	20.750	Dec. 24	37.2
515-4	Douglas fir, flooring B	26.460	May 24	36.260	Dec. 24	37.0
515-1	Douglas fir, #2	16.170	Feb. 27	22.050	Dec. 24	36.4
69	Butter, Boston, firsts, per lb.	.265	June 6	.361	Dec. 19	36.2
41	Butter, Philadelphia, 91 score, per lb.	.265	June 1	.360	Dec. 21	35.8
43	Butter, St. Louis, extra, per lb.	.254	May 21	.350	Dec. 21	35.7
23	Poultry, New York, per lb.	.140	June 14	.190	Dec. 24	35.7
131	Fruits, dried, raisins, per lb.	.031	May 2	.042	Dec. 12	35.5
42	Butter, Philadelphia, 88 to 90, per lb.	.255	June 1	.344	Dec. 21	34.9
57	Vegetables, potatoes, white, N.Y., 100 lbs.	.075	Aug. 6	1.450	Dec. 24	34.9
145	Pork, cured, bacon, per lb.	.129	June 13	.174	Dec. 19	34.9
556	Paint Materials, turpentine, so., per gal.	.320	June 14	.431	Dec. 24	34.7
522-5	Pine, B and better	34.050	July 30	45.460	Dec. 17	34.7
40	Butter, Philadelphia, 92 score, per lb.	.273	June 22	.366	Dec. 21	34.1
736	Cattle feed, bran, per ton	15.750	July 2	21.125	Dec. 17	34.1
512-2	Gum, sap #1 common, 1000 bd.ft.	22.540	Aug. 6	30.135	Dec. 17	33.7
14	Hogs, light butchers, per 100 lbs.	4.975	Apr. 1	6.600	Dec. 23	32.7
516	Lumber, Douglas fir, per 1,000 ft.	30.340	May 24	40.140	Dec. 21	32.3
637-1	Alcohol, ethyl, 190 proof, per gal.	4.540	Jan. 5	6.005	Dec. 20	32.3
517-1	Oak flooring	53.170	Jan. 27	70.260	Dec. 21	32.1
324	Hemp, manila, per lb.	.056	Mar. 14	.074	Dec. 19	32.1

1/ Data are for the 887 commodities for which wholesale prices are obtained by the Bureau of Labor Statistics.

Regraded Unclassified

Code number	Commodity	1940 low		Present		Percent increase
		Price	Date	Price	Date	
43	Milk, fluid, Chicago, per 100 lb.	\$ 1.667	May 21	\$ 2.200	Dec. 17	32.0
4	Oats, No. 2, white, per bushel	.303	July 23	.398	Dec. 24	31.4
150	Pork, fresh, per pound	.094	April 4	.123	Dec. 19	30.9
555	Paint materials, shellac, T.N. per lb.	.130	Sept. 20	.170	Dec. 20	30.8
284	Yarn, twisted, per pound	.225	June 4	.294	Dec. 24	30.7
212	Hides, steer, native, per pound	.100	June 8	.130	Dec. 21	30.0
88	Cheese, San Francisco, per pound	.135	April 23	.175	Dec. 17	29.6
60	Wool, grease basis, delaine, per lb.	.340	April 23	.440	Dec. 24	29.4
16	Steers, good to choice	9.875	June 17	12.750	Dec. 23	29.1
27	Eggs, fresh, Boston, per dozen	.170	July 25	.219	Dec. 19	28.8
671-8	Oils, sulfur olive, per pound	.080	Feb. 23	.103	Dec. 20	28.8
488	Zinc, pig, per pound	.059	Jan. 23	.076	Dec. 24	28.8
141	Beef, fresh, Chicago, per pound	.150	Feb. 7	.193	Dec. 18	28.7
221	Leather, side, per square foot	.210	Aug. 13	.270	Dec. 17	28.6
157	Cocoa, beans, per pound	.042	July 30	.054	Dec. 24	28.6
78	Butter, New York, firsts, per lb.	.256	June 4	.329	Dec. 24	28.5
68	Butter, Boston, extra, per lb.	.273	May 23	.350	Dec. 19	28.2
74	Butter, Cincinnati, per lb.	.235	May 21	.305	Dec. 24	28.1
84	Butter, San Francisco, extra per lb.	.270	April 2	.345	Dec. 17	27.8
285	Yarn, twisted, per pound	.319	June 4	.407	Dec. 24	27.6
79	Butter, New York, seconds, per lb.	.239	July 16	.305	Dec. 24	27.6
73	Butter, Chicago, 88 and 89 score, per lb.	.239	June 3	.305	Dec. 23	27.6
59	Wool, grease basis, clothing, per lb.	.290	April 16	.370	Dec. 24	27.6
737	Cattle feed, meal, cottonseed, per ton	21.750	June 25	27.750	Dec. 17	27.6
515	Lumber, Douglas fir, No. 1, per 1000 ft.	19.600	April 9	24.990	Dec. 24	27.5
77	Butter, New York, extra, per pound	.263	July 16	.335	Dec. 24	27.4
522-7	Pine flooring B and better	40.790	June 18	51.940	Dec. 17	27.3
251	Broadcloth, per yard	.114	Aug. 6	.145	Dec. 24	27.2
85	Butter, San Francisco, firsts, per lb.	.260	April 2	.330	Dec. 17	26.9
739	Cattle feed, middlings, standard, per ton	16.250	Aug. 20	20.625	Dec. 17	26.9

1/ Data are for the 887 commodities for which wholesale prices are obtained by the Bureau of Labor Statistics.

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From 1940 Low (Continued - 4)

Code number	Commodity	1940 low		Present		Percent increase
		Price	Date	Price	Date	
98	Cereal foods, oatmeal, per 100 lbs.	\$ 2.667	Sept. 10	\$ 3.378	Dec. 24	26.7
283	Yarn, Southern, per lb.	.320	June 4	.405	Dec. 17	26.6
72	Butter, Chicago, 91 score, per lb.	.253	June 3	.320	Dec. 23	26.5
518-1	Oak, #1 common	26.950	Apr. 29	34.055	Dec. 16	26.4
119	Rice, Edith, per lb.	.038	Oct. 1	.048	Dec. 24	26.3
64	Wool, Halfblood, scoured basis per lb.	.525	May 28	1.040	Dec. 17	26.1
657-1	Cottonseed meal, per ton	23.000	Sept. 24	29.000	Dec. 24	26.1
63	Wool, scoured basis, per lb.	.875	May 28	1.100	Dec. 17	25.7
522-6	Pine, B and better finished	51.810	June 11	64.860	Dec. 17	25.2
71	Butter, Chicago, 92 score, per lb.	.260	May 20	.325	Dec. 23	25.0
61	Wool, Halfblood, grease basis, per lb.	.360	Apr. 16	.450	Dec. 24	25.0
36	Apples, fresh, Seattle, per box	1.000	Jan. 16	1.250	Dec. 17	25.0
21	Sheep, wethers, 100 lbs.	3.500	Aug. 5	4.375	Dec. 23	25.0
657	Bones, ground, fertilizer mats., per ton	28.000	July 5	35.000	Dec. 20	25.0
784	Wax, paraffin, crude white, per lb.	.024	Aug. 19	.030	Dec. 23	25.0
62	Wool, med. grades, grease basis, per lb.	.370	Apr. 9	.460	Dec. 24	24.1
181	Tallow, per lb.	.037	Aug. 15	.046	Dec. 19	24.1
87	Cheese, New York, per lb.	.178	Apr. 9	.221	Dec. 24	24.2
15	Steers, fair to good	8.625	Jan. 22	10.700	Dec. 23	24.1
7	Wheat, No. 2 hard, per bushel	.660	Aug. 20	.818	Dec. 17	23.9
9	Wheat, No. 2 dark northern spring, per bu.	.705	Aug. 20	.872	Dec. 24	23.7
748	Wood pulp, mill, chem., sulfite per 100 lbs.	2.500	Jan. 3	3.463	Dec. 18	23.7
121	Fruit, canned, apricots, per doz.	1.375	Jan. 4	1.700	Dec. 12	23.6
6	Wheat, No. 2 red winter, Chicago, per bu.	.735	Aug. 20	.906	Dec. 17	23.3
512-1	Gum, #1, common, 1000 bd. ft.	26.460	July 2	32.585	Dec. 17	23.1
86	Cheese, Chicago, per lb.	.143	Apr. 9	.176	Dec. 24	23.1
19	Sheep, ewes, per 100 lbs.	3.250	July 22	4.000	Dec. 23	23.1
282	Yarn, northern, 22/1, per lb.	.216	June 4	.265	Dec. 24	22.7
175	Pepper, black, per lb.	.036	May 28	.044	Dec. 24	22.2
265	Osnaburg, per yard	.073	Aug. 20	.089	Dec. 17	21.9

1/ Data are for the 887 commodities for which wholesale prices are obtained by the Bureau of Labor Statistics.



Code number:	Commodity	1940 low		Present		Percent increase
		Price	Date	Price	Date	
551	Paint mat., oil China wood, per lb.	\$ .220	June 7	\$ .268	Dec. 20	21.8
215	Skins, goat, per lb.	.370	Aug. 23	.450	Dec. 20	21.6
273	Sheeting, brn., 4/4, series 2, per yd.	.066	Mar. 12	.080	Dec. 17	21.2
49	Seeds, flax, per bushel	1.353	Sept 17	1.640	Dec. 24	21.2
515-6	Douglas fir, timbers #1, common	18.620	June 4	22.540	Dec. 24	21.1
514-2	Maple flooring, 2nd grade	54.713	May 14	66.219	Dec. 17	21.0
91	Milk, powdered, skimmed, per lb.	.067	Apr. 2	.081	Dec. 24	20.9
111	Flour, wheat, strts., St. Louis, per bbl.	4.125	Aug. 17	4.975	Dec. 14	20.6
8	Wheat, #1 northern spring, per bushel	.703	Aug. 20	.848	Dec. 17	20.6
403	Bars, concrete reinforcing, per 100 lbs.	1.700	Apr. 2	2.050	Dec. 24	20.6
515-2	Douglas fir, #1	21.560	May 28	25.970	Dec. 24	20.5
254	Drills, brown, per yd.	.083	Sept 3	.100	Dec. 24	20.5
11	Wheat, #2 red winter, St. Louis, per bu.	.745	July 23	.895	Dec. 17	20.1
522-8	Pine, lath #1	4.500	Feb. 20	5.400	Dec. 17	20.0
268	Cloth, print, 38 $\frac{1}{2}$ -inch, per yd.	.045	June 4	.054	Dec. 17	20.0
583-1	Acetone, chemically pure, per lb.	.050	July 5	.060	Dec. 20	20.0
429	Pig iron, ferromanganese, per gross ton	100.000	Jan. 2	120.000	Dec. 24	20.0
423	Locks, mortise, 3 $\frac{1}{2}$ in., each (in sets)	.250	Jan. 2	.300	Dec. 24	20.0
422	Knobs, door, per pair	.250	Jan. 2	.300	Dec. 24	20.0
738	Cattle feed, meal, linseed, per ton	22.500	Oct. 4	27.000	Dec. 20	20.0
222	Leather, sole, oak, bends, per lb.	.330	Aug. 31	.395	Dec. 21	19.7
539	Paint mat., black, carbon, reg., per lb.	.026	Jan. 5	.031	Dec. 20	19.2
327	Burlap, per yd.	.068	Aug. 27	.081	Dec. 17	19.1
527	Lumber, spruce, eastern, per 1,000 ft.	32.000	Jan. 2	38.000	Dec. 17	18.8
671-7	Oils, soybean, per lb.	.043	Aug. 23	.051	Dec. 20	18.6
153	Poultry, dressed, New York, per lb.	.135	Jan. 2	.160	Dec. 24	18.5
339	Twine, cotton, #1, wrapping, per lb.	.216	Aug. 27	.255	Dec. 24	18.1
112	Flour, wheat, stan. pat., Toledo, per bbl.	3.875	Aug. 16	4.575	Dec. 13	18.1
524	Lumber, pine, ponderosa, #2, per 1,000ft.	28.010	July	33.040	Nov.	18.0
321	Suiting, unif. serge, med. grade, per yd	1.931	Feb. 27	2.277	Dec. 24	17.9

1/ Data are for the 887 commodities for which wholesale prices are obtained by the Bureau of Labor Statistics.

Code number:	Commodity	1940 low		Present		Percent increase
		Price	Date	Price	Date	
255	Drills, gray, per yard	\$ .073	Aug. 13	\$ .086	Dec. 17	17.8
257	Duck, numbered, per yard	.307	Apr. 23	.361	Dec. 17	17.6
521-1	Hemlock, #1 piece stuff	30.870	Jan. 2	36.260	Dec. 31	17.5
281	Yarn, northern, 10/1, per lb.	.196	June 4	.230	Dec. 24	17.3
20	Sheep, lambs, per 100 lbs.	7.900	Jul. 29	9.250	Dec. 23	17.1
638	Caffeine alkaloid, per lb.	2.350	Jan. 5	2.750	Dec. 20	17.0
110	Flour, wheat, short pat., St. L., per bbl.	5.000	Aug. 17	5.850	Dec. 14	17.0
223	Leather, sole, oak, scoured backs, per lb.	.295	Aug. 20	.345	Dec. 17	16.9
599	Arsenic, white, per lb.	.030	Jan. 5	.035	Dec. 20	16.7
22	Poultry, Chicago, per lb.	.133	Nov. 19	.155	Dec. 24	16.5
188-1	Vegetable oil, soybean, refined, per lb.	.055	Aug. 23	.064	Dec. 20	16.4
665	Tankage, animal, per ton	23.500	June 21	27.350	June 20	16.4
56	Potatoes, white, Chicago, per 100 lb.	1.075	Sep. 24	1.250	Dec. 24	16.3
497	Blocks, concrete, per unit	.118	Mar. 12	.137	Dec. 10	16.1
324	Yarn, crossbred stock, white, per lb.	1.250	Aug. 13	1.450	Dec. 24	16.0
263	Muslin, bleached, series 3, per yd.	.075	June 11	.087	Dec. 24	16.0
106	Flour, wheat, strts. Kansas City, per bbl.	3.600	Aug. 17	4.175	Dec. 14	16.0
171	Molasses, per gal.	.505	Jan. 2	.585	Dec. 24	15.8
14	Cows, good to choice	6.000	Oct. 7	6.950	Dec. 23	15.8
12	Cattle, calves, per 100 lbs.	8.750	Apr. 8	10.125	Dec. 23	15.7
102	Flour, rye, white, per bbl.	2.900	Aug. 20	3.350	Dec. 17	15.5
249	Trousers, men's dress, per pair	3.185	Jan. 2	3.675	Dec. 3	15.4
67	Wool, Montevideo, grease basis, per lb.	.295	Aug. 17	.340	Dec. 21	15.3
152	Poultry, dressed, Chicago, per lb.	.165	Jan. 2	.190	Dec. 17	15.2
13	Cows, fair to good	5.650	July 29	6.500	Dec. 23	15.0
519-1	Poplar #1, common, per 1,000 ft.	46.060	Jan. 2	52.920	Dec. 24	14.9
412	Bolts, stove, per 100	.149	Jan. 2	.171	Dec. 24	14.8
580	Window, 2-light, open, Ponderosa pine	.862	Jan. 2	.990	Dec. 31	14.8
312-1	Dress goods, suiting, worsted, per yd.	1.683	Jan. 2	1.931	Oct. 22	14.7
473	Lead, pig, desilverized, per lb.	.048	Aug. 13	.055	Dec. 24	14.6

1/ Data are for the 867 commodities for which wholesale prices are obtained by the Bureau of Labor Statistics.

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Code number:	Commodity	1940 low		Present		Percent increase
		Price	Date	Price	Date	
753	Rubber, plantation, rib., sm. sheets, per lb.	.183	Feb. 27	.209	Dec. 24	14.2
39	Hay, alfalfa, per ton	12.500	June 18	14.250	Dec. 24	14.0
267	Print cloth, 27-inch, per yard	.036	Aug. 27	.041	Dec. 17	13.9
481	Sheets, zinc, per 100 lbs.	9.944	Jan. 16	11.325	Dec. 24	13.9
750	Wood pulp, mill, soda bleached, per 100 lbs.	2.900	Jan. 3	3.300	Dec. 16	13.8
274	Sheeting, brown, 4/4, series 3, per yd.	.058	July 9	.066	Dec. 24	13.8
520-2	Cedar shingles #1	2.375	June 4	2.700	Dec. 17	13.7
662-1	Potash, sulfate, 90 percent, per ton	31.900	June 4	36.250	Nov. 26	13.5
661-2	Potash, muriate, imported, per ton	23.540	June 4	26.750	Nov. 26	13.6
661-1	Potash, muriate, domestic, per ton	23.540	June 4	26.750	Nov. 26	13.6
660-1	Potash, manure salts, per ton	15.840	June 4	18.000	Nov. 26	13.6
562	Doors, ponderosa pine, each	3.626	Jan. 2	4.116	Dec. 31	13.5
105	Flour, wheat, sht. pats., Kansas G., per bbl.	4.125	Aug. 17	4.675	Dec. 14	13.4
168	Glucose, 42° unmixed, per 100 lbs.	3.016	Jan. 4	3.416	Dec. 26	13.3
666-20	Mixed fertilizer, S. Central, Miss.	19.810	July	22.390	Nov.	13.0
752	Rubber, crude, latex, thick, per lb.	.185	Feb. 27	.209	Dec. 24	13.0
564	Paint materials, rosin, B.gr., per bbl.	1.800	July 16	2.030	Dec. 24	12.8
461	Woodscrews, per gross	.167	May 7	.211	Dec. 24	12.8
356	Fuel oil, Pennsylvania, per gallon	.039	Jan. 2	.044	Dec. 23	12.8
34	Apples, fresh, Chicago, per bushel	1.000	Jan. 2	1.125	Dec. 24	12.5
513	Lumber, chestnut, per 1,000 feet	39.200	Jan. 2	44.100	Dec. 24	12.4
592-1	Alcohol, Butyl., normal, per lb.	.080	July 5	.090	Dec. 20	12.5
433	Pig iron, spiegeleisen, per gross ton	32.000	Jan. 2	36.000	Dec. 24	12.5
326	Yarn, fine, weaving, per lb.	1.713	Feb. 3	1.925	Dec. 21	12.4
279	Tire fabric, chafing, per lb.	.230	July 23	.258	Dec. 17	12.2
320	Suiting, uni. serge, f. grade, per yard	2.426	Feb. 27	2.723	Dec. 24	12.2
317-1	Overcoating, top, per yard	1.960	Jan. 2	2.200	Dec. 31	12.2
118	Rice, blue rose, per lb.	.033	Oct. 1	.037	Dec. 24	12.1
107	Flour, wheat, st. pats., Minnea., per bbl.	3.950	Aug. 20	4.425	Dec. 17	12.0
163	Canned salmon, red, per doz. cans	2.300	Jan. 2	2.575	Dec. 24	12.0

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Code number:	Commodity	1940 low		Present		Percent increase
		Price	Date	Price	Date	
108	Flour, wheat, second patents, per bbl.	\$ 3.810	Aug. 20	\$ 4.265	Dec. 17	11.9
616-3	Lead arsenate, per lb.	.085	Mar. 1	.095	Dec. 20	11.8
37	Lemons, per box	2.975	July 16	3.325	Dec. 24	11.8
184-1	Vegetable oil, corn, refined, per lb.	.076	Aug. 30	.085	Dec. 20	11.8
180	Sugar, raw, 96°, per lb.	.026	July 30	.029	Dec. 24	11.5
475	Pipe, lead, per 100 lbs.	6.500	Aug. 13	7.250	Dec. 24	11.5
332	Rope, cotton, per lb.	.167	May 21	.186	Dec. 24	11.4
745	Paper, mill, tissue, per ream	.875	Jan. 3	.975	Dec. 18	11.4
484	Tin, pig, per lb.	.450	Jan. 23	.501	Dec. 24	11.3
477	Rods, yellow brass, per lb.	.133	May 14	.148	Dec. 24	11.3
5	Rye, no. 2, per bbl.	.430	June 25	.478	Dec. 17	11.2
523-1	Pine shop #2	26.390	Oct. 1	29.340	Nov. 26	11.2
526-1	Pine boards #3 common northern	39.445	Jan. 2	43.855	Dec. 24	11.2
465	Passenger cars, mfr. not given	901.444	Jan. 2	1002.000	Nov. 26	11.2
537	Paint materials, Butyl acetate per lb.	.090	July 5	.100	Dec. 20	11.1
553	Paint materials, putty, per lb.	.045	Jan. 5	.050	Dec. 20	11.1
677	Cutlery, knives and forks, per gross	13.500	Jan. 2	15.000	Dec. 31	11.1
216	Skins, kip, per pound	.180	Aug. 20	.200	Dec. 24	11.1
358	Gasoline, California, per gallon	.045	Nov. 18	.050	Dec. 23	11.1
511-1	Birch #1, common, 1000 bd.ft.	45.080	Jan. 2	49.980	Dec. 31	10.9
524-2	Pine shop #2 Ponderosa	23.490	July 2	26.050	Nov. 26	10.9
366	Petroleum, Pa., crude, per bbl.	1.850	Sept. 3	2.050	Dec. 24	10.8
103	Flour, wheat, stan. pat., Buffalo, per bbl.	4.225	Aug. 17	4.675	Dec. 14	10.7
266	Percale, per yard	.085	Apr. 23	.094	Dec. 24	10.6
130	Fruits, prunes, dried, per lb.	.038	July 25	.042	Dec. 12	10.5
652-1	Quinine sulfate, X, per ounce	.670	Mar. 15	.740	Dec. 20	10.4
572	Pipe, sewer, per foot	.290	Apr.	.320	Dec.	10.3
104	Flour, wheat, first clears, per bbl.	3.875	Aug. 17	4.275	Dec. 14	10.3
630-2	Tin tetrachloride, anhydrous, per lb.	.225	Mar. 29	.248	Dec. 20	10.2
46	Peanuts, per lb.	.030	Mar. 26	.033	Dec. 24	10.0

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Code number	Commodity	1940 low		Present		Percent increase
		Price	Date	Price	Date	
41	Hay, timothy, per ton	\$ 15,000	Oct. 21	\$ 16,500	Dec. 16	10.0
40	Hay, clover, per ton	15,000	Oct. 21	16,500	Dec. 16	10.0
420	Hatchets, per dozen	8,820	Jan. 2	9,702	Dec. 31	10.0
218	Leather, chrome, calf, per sq. ft.	.418	Sept. 3	.460	Dec. 3	10.0
162	Fish, canned salmon, pink, per doz. cans.	1.478	Aug. 27	1,625	Dec. 24	9.9
564	Frames, window, ponderosa pine	2,901	Jan. 2	3,185	Dec. 24	9.8
277	Ticking, per yard	.132	June 25	.145	Dec. 24	9.8
666-14	Mixed fertilizer, So. Atlantic S. C.	18,300	Apr. 4	20,080	Nov. 24	9.7
276	Shirting, percale, per yard	.094	June 4	.103	Dec. 24	9.6
256	Duck, Army, per yard	.146	Apr. 9	.160	Dec. 17	9.6
549	Paint materials, Litharge, per lb.	.073	Aug. 9	.080	Dec. 20	9.6
50	Seeds, timothy, per 100 lbs.	3.650	Sept. 16	4.000	Dec. 23	9.6
133	Vegetables, canned Asparagus, per doz. cans.	2.350	Jan. 4	2.575	Dec. 12	9.6
525-1	Pine boards #2 common	35.030	July 2	38.360	Nov. 26	9.5
472	Copper, electrolytic, per lb.	.108	Aug. 13	.118	Dec. 24	9.3
492	Lavatories	8.218	Jan. 2	8.974	Nov. 26	9.2
309	Dress goods, broadcloth, per yard	2.045	Jan. 2	2.233	Dec. 24	9.2
347	Bituminous coal, prep. sizes, per ton	4.230	May	4.619	Nov.	9.2
337	Thread, linen, shoe, per lb.	2.156	Jan. 2	2.352	Dec. 24	9.1
606	Calcium compounds, arsenate, per lb.	.055	Mar. 1	.060	Dec. 20	9.1
639-1	Drugs, camphor, synthetic, per lb.	.550	Jan. 5	.600	Dec. 20	9.1
272	Sheeting, brown, 4/4, Series 1, per yd.	.078	Sept. 24	.085	Dec. 24	9.0
313	Dress goods, French serge, per yard	1.114	Apr. 23	1,213	Dec. 24	8.9
593-1	Alcohol, specially denatured, per gal.	.225	Jan. 5	.245	Dec. 20	8.9
148	Pork, cured, hams, per lb.	.168	Mar. 5	.183	Dec. 24	8.9
349	Coke, beehive, per ton	4.475	Feb. 17	4.875	Dec. 21	8.9
160	Coffee, Santos, No. 4, per lb.	.068	Aug. 20	.074	Dec. 24	8.8
588	Acid, oleic (red oil), per lb.	.058	Aug. 2	.063	Dec. 20	8.6
742-1	Boxboard, liner, per M Sq. Ft.	1.200	Mar. 12	1,303	Nov. 26	8.6
529-3	Cypress, shop #1	57.330	Jan. 2	62.230	Dec. 17	8.5

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Code number:	Commodity	1940 low		Present		Percent increase
		Price	Date	Price	Date	
547	Paint mat., red, dry, lead, per lb.	.083	Aug. 9	.090	Dec. 20	8.4
494	Sinks	11.564	Jan. 2	12.505	Nov. 26	8.1
483	Solder, per lb.	.285	Feb. 6	.308	Dec. 24	8.1
657-3	Fish scrap, grd., fert. mat., per ton	50.000	Aug. 2	54.000	Dec. 20	8.0
545	Paint mat., Ethyl acetate, anhydrous, lb.	.063	July 5	.068	Dec. 20	7.9
311	Dress goods, flannel, 6-ounce, per yd.	.941	Apr. 23	1.015	Dec. 24	7.9
760	Matches, regular, per case	2.967	July 2	3.200	Nov. 26	7.9
144	Mutton, per lb.	.065	Oct. 31	.070	Dec. 19	7.7
115	Meal, corn, white, per 100 lbs.	1.300	Jan. 2	1.400	Dec. 24	7.7
113	Hominy grits, per 100 lbs.	1.300	Jan. 2	1.400	Dec. 24	7.7
151	Veal, per lb.	.130	Apr. 4	.140	Dec. 18	7.7
164	Fish, cod, pickled, per 100 lbs.	6.500	Jan. 2	7.000	Dec. 17	7.7
749	Wood pulp, mill, mech. #1, per ton	32.500	Jan. 2	35.000	Dec. 24	7.7
464	Passenger cars, mfr. not given	741.167	Jan. 2	798.111	Nov. 26	7.7
466	Passenger cars, mfr. not given	690.500	Jan. 2	743.400	Nov. 26	7.7
529-2	Cypress, C grade	77.420	Jan. 2	83.300	Dec. 17	7.6
632	Toluene, per gal.	.265	Jan. 5	.285	Dec. 20	7.5
55	Potatoes, white, Boston, per 100 lbs.	1.000	Oct. 3	1.075	Dec. 19	7.5
185	Vegetable oil, cottonseed, per lb.	.053	Oct. 8	.057	Dec. 17	7.5
757	Caskets, metal, adult size, each	74.480	Jan. 2	80.033	Nov. 26	7.5
467	Passenger cars, mfr. not given	1623.539	Jan. 2	1743.233	Nov. 26	7.4
751	Rubber, crude, Amber, #3, per lb.	.175	Feb. 27	.188	Dec. 24	7.4
491	Closets, water, each	8.036	Jan. 2	8.624	Nov. 26	7.3
563	Frames, door, ponderosa pins, per set	3.724	Jan. 2	3.989	Dec. 24	7.1
165	Fish, herring, pickled, per lb.	.070	Jan. 2	.075	Dec. 24	7.2
58	Potatoes, white, Portland, Ore., 100 lbs.	1.050	Oct. 22	1.125	Dec. 17	7.1
476	Quicksilver, per 76-lb. flask	154.000	Jan. 19	165.000	Dec. 20	7.1
487	Wire, copper, per lb.	.143	Aug. 13	.153	Dec. 24	7.0
388-1	Separator, cream	68.208	Jan. 2	69.758	Nov. 26	7.0
137	Canned spinach, per doz. cans	1.263	Jan. 4	1.350	Dec. 12	6.9

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Code number	Commodity	1940 low		Present		Percent increase
		Price	Date	Price	Date	
2	Corn, no. 2 yellow, per bushel	\$ .578	Mar. 19	\$ .618	Dec. 17	6.9
773-1	Soap, chips or flakes, laundry use, per lb.	.088	Aug. 27	.062	Nov. 26	6.9
529-1	Cypress, A grade	35.770	Jan. 2	38.220	Dec. 24	6.8
207	Women's shoes, patent leather, per pair	3.650	Jan. 2	3.900	Dec. 24	6.8
754	Barrels, wooden, each	2.200	Aug. 20	2.350	Dec. 24	6.8
614	Copper sulfate, per 100 lbs.	4.450	Feb. 9	4.750	Dec. 20	6.7
329	Jute, raw, per pound	.045	Oct. 22	.048	Dec. 24	6.7
90	Milk, evaporated, per case	3.000	Apr. 23	3.200	Dec. 24	6.7
24	Cotton, middling, Galveston, per lb.	.090	Oct. 15	.096	Dec. 24	6.7
776-1	Soap, powdered or granulated, bulk, per lb.	.060	Oct. 1	.064	Nov. 26	6.7
325	Yarn, halfblood, weaving, per pound	1.525	Apr. 6	1.625	Dec. 21	6.6
3	Corn, no. 3 yellow, per bushel	.569	Mar. 19	.606	Dec. 24	6.5
44	Milk, fluid, New York, per 100 pounds	3.075	May 7	3.275	Dec. 17	6.5
26	Cotton, middling, New York, per pound	.095	Oct. 15	.101	Dec. 24	6.5
363	Kerosene, refined, series 2, per gal.	.048	Jan. 2	.051	Dec. 23	6.5
471	Spitt metal, New York, per pound	.175	Feb. 13	.186	Dec. 24	6.5
436	Pipe, galvanized-steel, per 100 feet	4.315	Jan. 2	4.589	Dec. 24	6.5
733	Tires, balloon	11.957	Jan. 2	12.706	Dec. 3	6.5
355	Fuel oil, Oklahoma, per gallon	.033	Jan. 2	.035	Dec. 23	6.1
742-2	Boxboard, liner, east. ter., per M sq. ft.	1.208	Apr. 30	1.282	Nov. 26	6.1
734	Tires, truck and bus	31.888	Jan. 2	33.837	Dec. 3	6.1
552	Paint materials, oil, linseed, raw, per lb.	.083	Sept. 20	.088	Dec. 20	6.0
138	Canned stringless beans, per doz. cans	.613	Jan. 9	.650	Dec. 24	6.0
486	Wire, yellow brass, per pound	.184	Feb. 13	.195	Dec. 24	6.0
159	Coffee, Rio, no. 7, per pound	.050	Sept. 24	.053	Dec. 24	6.0
345	Anthracite, pea, per net ton	7.892	May	8.367	Nov.	6.0
568	Glass, window, single B, per 50 sq. ft.	2.777	Jan. 2	2.940	Dec. 24	5.9
116	Meal, corn, yellow, per 100 pounds	1.700	Feb. 16	1.800	Dec. 20	5.9
743	Paper, mill, book, per 100 pounds	5.950	Jan. 2	6.300	Dec. 24	5.9
262	Muslin, bleached, series 2, per yard	.086	Apr. 16	.091	Dec. 24	5.8

1/ Data are for the 567 commodities for which wholesale prices are obtained by the Bureau of Labor Statistics.

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Code number	Commodity	1940 low		Present		Percent increase
		Price	Date	Price	Date	
478	Rods, copper, per lb.	\$ .171	Aug. 13	\$ .181	Dec. 24	5.8
310	Dress goods, crepe, per yd.	.891	Apr. 23	.941	Dec. 24	5.6
567	Glass, window, per 50 sq. ft. Single A	3.341	Jan. 2	3.527	Dec. 24	5.6
250	Trousers, men's work, per doz. pairs	8.910	Jan. 2	9.405	Dec. 24	5.6
361-1	Gasoline, Pa., per gal.	.055	Apr. 22	.058	Dec. 23	5.5
479	Sheets, yellow brass, per lb.	.182	Feb. 13	.192	Dec. 24	5.5
343	Anthracite, chestnut, per net ton	9.278	May	9.775	Nov.	5.4
25	Cotton, middling, New Orleans, per lb.	.092	Oct. 15	.097	Dec. 24	5.4
187-1	Veg. oil, peanut, edible, per lb.	.074	Nov. 1	.078	Dec. 20	5.4
485	Tubes, yellow brass, per lb.	.209	Feb. 13	.220	Dec. 24	5.3
495	Tubs, bath, each	26.460	Jan. 2	27.832	Nov. 26	5.2
575	Roofing, prepared, medium, per square	1.210	Jan. 2	1.272	Nov. 26	5.1
323	Trousing, cotton warp, per yd.	.490	Oct. 1	.515	Dec. 21	5.1
344	Anthracite, egg, per ton	9.148	May	9.614	Nov.	5.1
480	Sheets, copper, hot-rolled, per lb.	.196	Aug. 13	.206	Dec. 24	5.1
697	Stoves, coal, each	73.374	Jan. 2	77.072	Dec. 31	5.0
65	Wool, Argentine, grease basis, per lb.	.205	Nov. 16	.215	Dec. 21	4.9
558	Paint mat., zinc oxide, led. grd., per lb.	.061	Jan. 5	.064	Dec. 20	4.9
354	Gas, mfg. & nat., per 1,000 cubic ft.	.556	Jan.	.583	Oct.	4.9
315	Dress goods, flannel, 7 ounce, per yd.	1.299	Feb. 27	1.361	Dec. 24	4.8
352	Coke, byproduct, Chicago, per ton	10.500	Jan. 6	11.000	Dec. 21	4.8
210	Women's shoes, elk blucher, per pair	3.150	Jan. 2	3.30	Dec. 24	4.8
278	Tire fabric, cord, per lb.	.300	Aug. 13	.314	Dec. 17	4.7
657-2	Cyanamid, calcium, pulverized, per ton	28.050	Jan. 2	29.370	Dec. 31	4.7
666-8	Mixed fertilizer, S. Atl., east. shore	23.550	Jan.	24.630	Nov.	4.6
401	Bar iron, common, per lb.	.022	Jan. 2	.023	Dec. 24	4.5
51	Tobacco, leaf, per 100 lbs.	15.492	Mar.	16.193	Nov.	4.5
195	Men's shoes, calf oxford, 4A, per pair	3.350	Jan. 2	3.500	Dec. 24	4.5
779	Tob. prod., cig., list pr. per 1000	5.513	Jan. 2	5.760	Nov. 22	4.5
666-11	Mixed Fertilizer, So. Atlantic, Ga.	21.740	July	22.700	Nov.	4.4

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Code number:	Commodity	1940 low		Present		Percent increase
		Price	Date	Price	Date	
427	Pig iron, basic, furnace, per gross ton	\$22.500	Jan. 2	\$23.500	Dec. 24	4.4
514-1	Maple, hard	46.060	Jan. 2	48.020	Dec. 31	4.3
340	Twine, hard fiber, per lb.	.093	Aug. 6	.097	Dec. 24	4.3
42	Hops, per lb.	.230	Jan. 2	.240	Dec. 17	4.3
432	Pig iron, malleable, furnace, per gross T.	23.000	Jan. 2	24.000	Dec. 24	4.3
666-10	Mixed fertilizer, S. Atlantic, Georgia	19.810	Jan.	20.650	Nov.	4.2
591	Acid, stearic, per lb.	.118	Aug. 16	.123	Dec. 20	4.2
362	Kerosene, refined, white, series 1, per gal.	.049	Aug. 21	.051	Dec. 20	4.1
253	Denims, per yd.	.121	June 18	.126	Dec. 24	4.1
428	Pig iron, bessemer, per gross ton	24.340	Jan. 5	25.340	Dec. 20	4.1
740-1	Boxboard, chip, central territory, per T.	36.135	Apr. 16	37.620	Nov. 26	4.1
270	Sheeting, bleached, per yd.	.250	Mar. 19	.260	Dec. 24	4.0
351	Coke, byproduct, New Jersey, per ton	11.615	Jan. 6	12.075	Dec. 21	4.0
696	Sheets, bed, per doz.	8.363	Mar. 19	8.697	Dec. 24	4.0
692	Pillowcases, per doz.	2.006	Mar. 19	2.087	Dec. 24	4.0
430	Pig iron, foundry, Pittsburgh, per gross T.	24.890	Jan. 2	25.890	Dec. 24	4.0
330	Leather, artificial, heavy, per yd.	.519	Jan. 2	.539	Dec. 24	3.9
699	Stoves, gas, each	69.340	Jan. 2	72.050	Nov. 26	3.9
705	Tableware, factory, pitchers, per doz.	3.080	Jan. 2	3.200	Dec. 24	3.9
291-6	Underwear, cotton, union suits, per doz.	6.556	Jan. 2	6.803	Nov. 26	3.8
741-1	Boxboard, manila, lined, cen. ter., per ton	52.470	Apr. 9	54.450	Nov. 26	3.8
193	Shoes, youths', per pr.	1.274	June 25	1.323	Dec. 24	3.8
678	Floor covering, carpets, Axminster, per yd.	2.565	Jan. 2	2.660	Dec. 24	3.7
468	Trucks	872.395	Jan. 2	904.255	Nov. 26	3.7
287	Hosiery, cotton, women's, per doz. pairs	1.375	Apr. 16	1.425	Dec. 24	3.6
109	Flour, wheat, patents, per bbl.	5.544	June 18	5.742	Dec. 24	3.6
378-1	Mower, horse-drawn	73.000	Jan. 2	75.625	Nov. 26	3.6
656	Ammonium sulfate, per ton	28.000	Jan. 5	29.000	Dec. 20	3.6
666-2	Mixed fertilizer, middle Atlantic, N.Y.	24.140	Jan.	25.000	Nov.	3.6
348	Bituminous coal, screenings, per ton	3.419	June	3.540	Nov.	3.5

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Code number:	Commodity	1940 low		Present		Percent increase
		Price	Date	Price	Date	
666-15	Mixed fertilizer, So. Atl., So. Car.	\$ 21.290	Mar.	\$ 22.030	Nov.	3.5
674	Blankets, wool, 4 to 5 lbs., per lb.	1.450	Jan. 2	1.500	Dec. 24	3.4
123	Fruit, peaches, canned, per dozen	1.125	July 25	1.163	Dec. 12	3.4
701	Tablecloths	1.147	Jan. 2	1.186	Nov. 26	3.4
394-3	Tractor, crawler	2717.667	June 4	2811.000	Nov. 26	3.4
346	Bituminous coal, mine run, per ton	4.251	July	4.393	Nov.	3.3
459	Wire fence, galv., per 100 lbs.	3.100	Jan. 5	3.200	Dec. 20	3.2
10	Wheat, No. 1 hard white, per bushel	.780	July 9	.805	Dec. 17	3.2
239	Overalls, per dozen	16.000	Apr. 2	16.500	Nov. 19	3.1
644-1	Ergot, per pound	1.650	Oct. 4	1.700	Dec. 20	3.0
666-4	Mixed Fertilizer, New England, Maine	46.110	Jan.	47.460	Nov.	2.9
458	Wire fence, barbed, galv. per 100 lbs.	3.400	Jan. 2	3.500	Dec. 24	2.9
691	Pails, galv. iron, 10-qt., per gross	2.048	Jan. 2	2.107	Nov. 5	2.9
203	Men's shoes, work, series 2, per pair	1.750	Feb. 13	1.800	Dec. 24	2.9
528-3	Redwood finish	71.295	Jan. 2	73.255	Dec. 17	2.7
496	Tubs, laundry, cement, each	10.780	Jan. 2	11.060	Nov. 26	2.6
709	Tubs, galvanized-iron, per doz.	7.242	Jan. 2	7.428	Nov. 5	2.6
462	Passenger cars, mfr. not given	1403.895	Jan. 2	1439.667	Nov. 26	2.5
316	Overcoating, Heavy, per yard	2.079	Feb. 27	2.129	Dec. 24	2.4
244	Suits, Men's, 3-piece, 13-oz., each	20.750	Jan. 2	21.250	Nov. 26	2.4
571	Lime, building, hydrated, per ton	66.500	Jan.	68.000	Nov.	2.3
308-1	Yarn, thrown, knit, Japan, white, per lb.	3.000	Sept. 20	3.070	Dec. 20	2.3
280	Toweling, per yd.	.088	Jan. 2	.090	Dec. 24	2.3
261	Muslin, bleached, series 1, per yard.	.128	Apr. 9	.131	Dec. 24	2.3
777-3	Soap, washing powder, per lb.	.044	Sept. 3	.045	Nov. 26	2.3
307-1	Yarn, thrown, knit, Japan, white, per lb.	3.245	Sept. 20	3.315	Dec. 20	2.2
306-1	Yarn, thrown, knit, Japan, white, per lb.	3.450	Sept. 20	3.520	Dec. 20	2.0
275	Shirting, Madras, per yd.	.250	June 4	.255	Dec. 24	2.0
666-12	Mixed fertilizer, So. Atl., No. Car.	18.730	May	19.090	Nov.	1.9
260	Gingham, per yd.	.103	June 4	.105	Dec. 24	1.9

1/ Data are for the 887 commodities for which wholesale prices are obtained by the Bureau of Labor Statistics.

Code number:	Commodity	1940 low		Present		Percent increase
		Price	Date	Price	Date	
528-2	Redwood siding clear	\$ 53.655	Jan. 2	\$ 54.635	Dec. 17	1.8
139	Canned tomatoes, per doz. cans	.560	Sept. 24	.570	Dec. 24	1.8
124	Fruit, canned pears, per doz. cans	1.500	Aug. 15	1.525	Dec. 12	1.7
666-13	Mixed fertilizer, So. Atlantic, N. C.	19.950	May	20.280	Nov.	1.7
129	Fruits, dried peaches, per lb.	.063	Aug. 8	.064	Dec. 12	1.6
410	Bolts, machine, $\frac{1}{2}$ by 6 ins. per 100	3.056	Jan. 2	3.104	Dec. 24	1.6
353	Electricity, com. ser. per 100 kil-hrs.	1.567	Aug.	1.590	Sept.	1.5
291-3	Shirts, cotton, athletic, per doz.	1.610	July 23	1.634	Nov. 26	1.5
299-1	Raw silk, Japan, white 87%, per lb.	2.625	Aug. 27	2.665	Dec. 24	1.5
666-3	Mixed fertilizer, Middle Atl., Penna.	20.780	Jan.	21.090	Nov.	1.5
729	Office chairs, side	79.2	Jan.	80.4	Nov.	1.5
370-5	Feed grinder, power, burr type	37.050	Jan. 2	37.575	Nov. 26	1.4
96	Bread, San Francisco, per lb.	.069	May 7	.070	Nov. 26	1.4
663	Sodium nitrate, per ton	29.000	Jan. 5	29.400	Dec. 20	1.4
776-3	Soap, textile (industrial) per lb.	.078	Sept. 3	.079	Nov. 26	1.3
291-5	Union suits, cotton, knit, boys' per doz.	4.636	Jan. 2	4.698	Nov. 26	1.3
301	Raw silk, Japan, white 78%, per lb.	2.530	July 16	2.560	Dec. 24	1.2
122	Fruit, canned cherries, per doz. cans	2.339	Jan. 2	2.364	Dec. 24	1.1
666-1	Mixed fertilizer, Middle Atlantic, Md.	22.420	Jan.	22.670	Nov.	1.1
777-1	Soap, toilet, per lb.	.186	Oct. 22	.188	Nov. 26	1.1
383-1	Plows, walking, 2-horse	16.220	Jan. 2	16.380	Oct. 29	1.0
687	Ironers, electric, automatic, each	73.255	Jan. 2	74.003	Dec. 24	1.0
717	Mattresses	86.0	Jan.	86.8	Nov.	.9
712	Beds, metal	3.610	Jan. 2	3.642	Nov. 26	.9
735	Tubes, inner	2.847	Apr. 2	2.873	Dec. 3	.9
666-19	Mixed fertilizer, South Central, Ky.	21.800	Jan.	21.970	Nov.	.8
666-21	Mixed fertilizer, South Central, Tenn.	16.640	Jan.	16.780	Nov.	.8
576	Roofing, prepared, slate-surfaced, per sq.	1.640	Jan. 2	1.652	Nov. 26	.7
367-1	Binder, corn	192.250	Jan. 2	193.650	Nov. 26	.7
374-1	Harrow, spring-tooth	21.717	Jan. 2	21.850	Oct. 29	.6

1/ Data are for the 867 commodities for which wholesale prices are obtained by the Bureau of Labor Statistics.

Code number:	Commodity	1940 low		Present		Percent increase
		Price	Date	Price	Date	
509	Portland cement, per barrel	\$ 90.3	April	\$ 90.8	Nov.	.5
731	Office desks, flat-top	92.3	Jan.	92.7	Nov.	.5
732	Office, desks, typewriter	93.5	Jan.	94.0	Nov.	.5
498	Brick, com. bldg., per 1,000	12.101	Mar. 7	12.148	Dec. 11	.4
382-1	Flows, walking, 1-horse	7.477	Jan. 2	7.505	Oct. 29	.4
680	Floor covering, carpets, Wilton, per yd.	4.826	Jan. 2	4.845	Dec. 24	.4
693	Sewing machines, electric, each	67.166	Mar. 5	67.449	Nov. 26	.4
672	Blankets, cotton, per pair	.888	Mar. 5	.890	Dec. 24	.2
742-4	Boxboard, corrug. paper, East. ter. per M sq.	.682	Jan. 30	.683	Nov. 26	.2
742-3	Boxboard, corrug. paper, Cen. ter. per M sq.	.682	Jan. 30	.683	Nov. 26	.2
380-1	Planter, corn, 1-row, 1-horse	17.078	Jan. 2	17.090	Nov. 26	.1
380-2	Planter, corn, 2-row	67.625	Jan. 2	67.650	Nov. 26	.04
396-1	Wagon, 2-horse, with bed, no brake	99.840	May 7	99.861	Nov. 26	.02
368-2	Cultivator, 2-row riding	101.663	July 23	101.675	Nov. 26	.01

Office of the Secretary of the Treasury, Division of Research and Statistics, Dec. 28, 1940.

1/ Data are for the 887 commodities for which wholesale prices are obtained by the Bureau of Labor Statistics.

Regraded Unclassified

## TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

245

DATE December 31, 1940

TO Secretary Morgenthau  
 FROM Mr. Hase  
 Subject: The cocoa situation.

Prices relatively low despite recent rise

The present spot price of 5.35 cents a pound for Accra cocoa in New York represents a gain of almost 30 per cent from the 1940 low of 4.15 cents reached last July. The July low, however, represented the lowest price in seven years and present prices are still relatively low in comparison with those in some recent years. In September 1939 the price at New York reached 6.75 cents and during the 1936-37 price boom a peak above 12 cents a pound was reached.

The recent price increase was initiated by fears of shipping difficulties, particularly in connection with imports from Africa. There has also been talk of an increase in shipping rates from Brazil.

Two-thirds of our supply from Latin America

The recent upturn in cocoa prices will tend to improve the incomes of growers in certain Latin-American countries - notably Brazil the Dominican Republic, Ecuador, and Venezuela - which supplied in 1939 about two-thirds of our cocoa requirements. The leading world producers of cocoa are the African Gold Coast, Brazil, and Nigeria, in the order named. Their relative importance as sources of supply may be gauged by the following preliminary figures of cocoa exports by principal producing countries during 1939:

(thousands of long tons)

Gold Coast	275
Brazil	128
Nigeria	114
Ivory Coast	50
Dominican Republic	28
Cameroons	25
Ecuador	13
Venezuela	10
Others	<u>69</u>
Total	712

The British Government has made arrangements under the West African Cocoa Control Board to buy the entire crops of the Gold Coast, Nigeria, and free French Africa, normally producing nearly two-thirds of the world supply. Owing to the curtailment of world markets, however, a large part of the supply thus acquired is likely to remain unsold, and the destruction of cocoa beans initiated by the British last summer will doubtless be continued.

The apparent consumption of cocoa in the United States during 1939 amounted to 277 thousand long tons. It is estimated that our consumption in 1940 will be somewhat higher than in 1939, establishing a new high record.

Price situation somewhat unfavorable

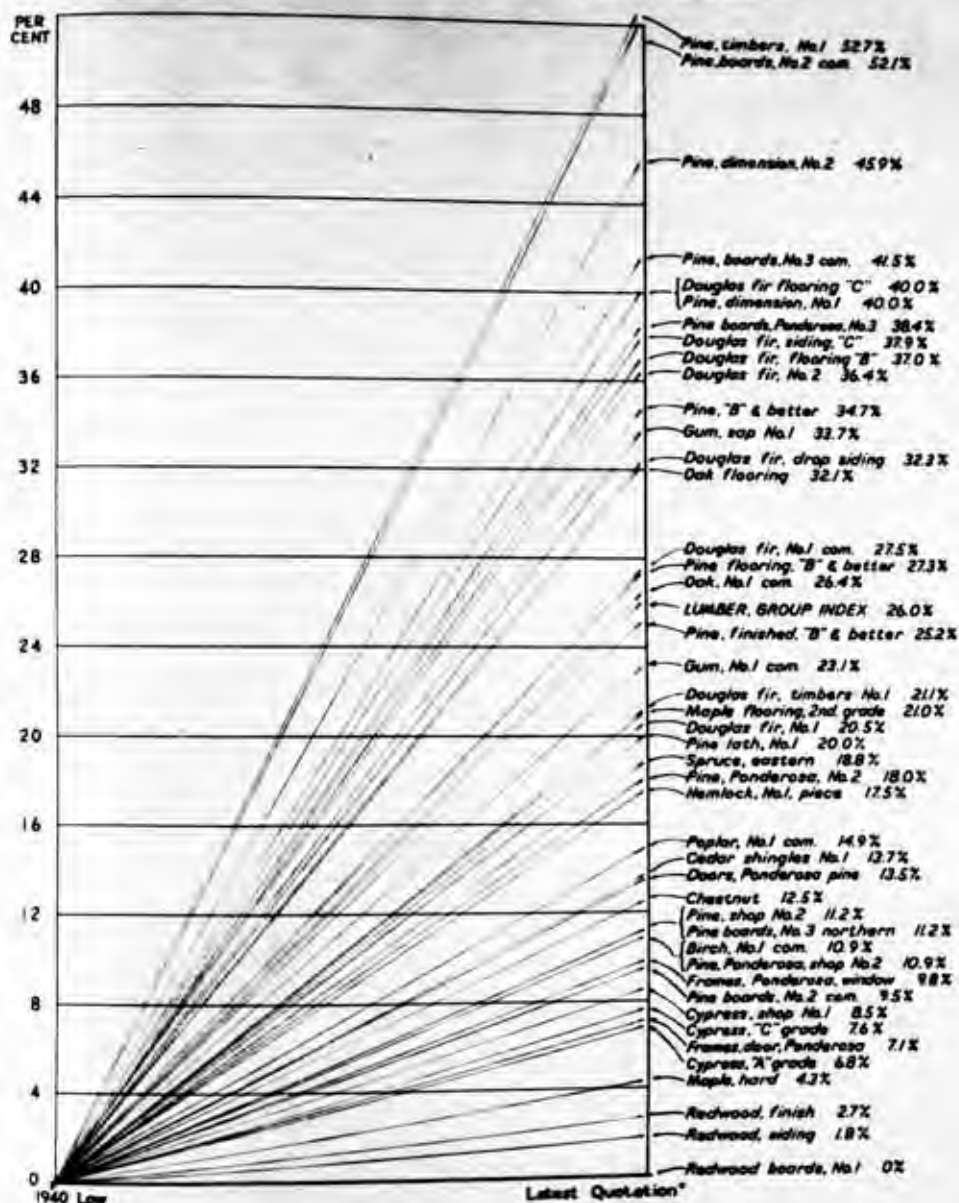
While the prospect of increased demand in 1941 due to increased consumer incomes, and the possibility of increased shipping difficulties, are potential bullish factors, the price situation for cocoa otherwise appears rather unfavorable. The excessive supplies in West Africa, under British control, were mentioned above. In Brazil, most recent information indicates that stocks at Bahia at the end of October totaled 319,000 bags, as compared with 94,000 bags a year earlier. A report from the American consulate on the cocoa market at Bahia published in Foreign Commerce Weekly of November 23, stated as follows:

"The tone of the market is one of depression. With the European markets closed, a surplus of available supply has accumulated. Warehouses at Ilheus, the primary center for the assembling of stocks in the producing district, are now full, and cocoa, reportedly, is being stored in box cars and elsewhere. At Bahia, the principal port of shipment, the dock company refuses to accept further cocoa supplies in its warehouses, but permits exporters to enter amounts equal to stock withdrawn for shipment."

In the United States, stocks of cocoa in warehouses of storage companies licensed by the New York Cocoa Exchange were 1,354,000 bags on December 26, as compared with 1,121,000 bags a year earlier, and 958,000 bags at the end of 1938. Moreover, trade sources indicate that current warehouse stocks do not fully reflect the heavy imports in 1939 and 1940, and that a substantial amount of cocoa has gone into manufacturers' stocks. Imports in 1940 are expected to approximate 5,000,000 bags, which will compare with the previous record of 4,676,000 bags imported in 1939.

# PRICE INCREASES FOR SELECTED TYPES OF LUMBER

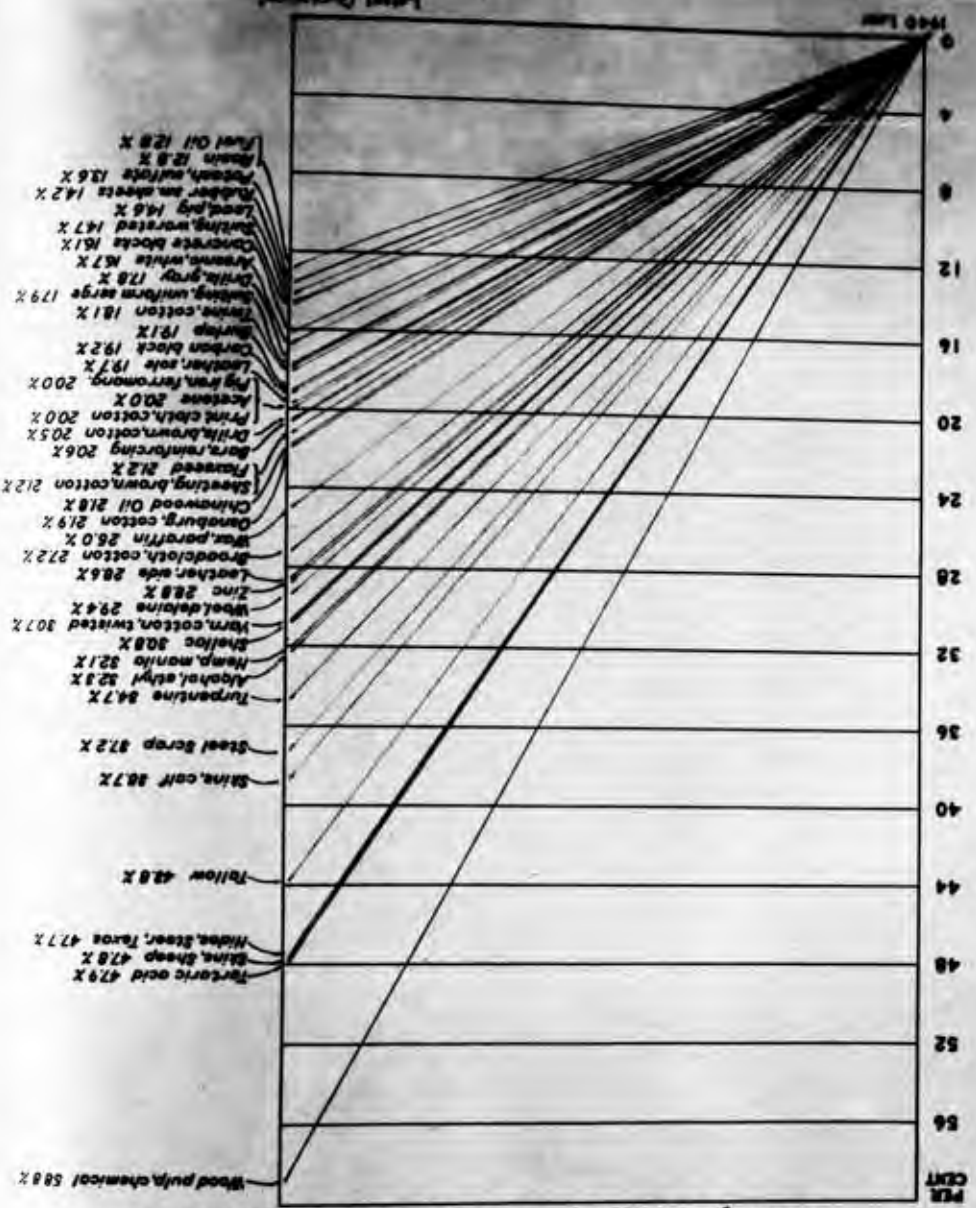
Percentage Increase From 1940 Low To Latest Quotation\*



\* Latest B.L.S. quotation available Dec. 26, 1943.  
Lumber items are those used in B.L.S. lumber price index.  
Source: Bureau of Labor Statistics

# PRICE INCREASES FOR SELECTED INDUSTRIAL MATERIALS (NOT INCLUDING LUMBER)

Percentage Increase from 1940 Low To Latest Quotation



PER CENT

LATEST QUOTATION

1940 LOW

UNITED STATES BUREAU OF LABOR STATISTICS

INDUSTRIAL MATERIALS



December 31, 1940  
11:12 a.m.

H.M.Jr: Hello.

Harold  
Smith: Hello, Mr. Secretary.

H.M.Jr: Hello, Harold.

S: Yes.

H.M.Jr: How are you these lovely days?

S: Well, I'm pretty good. I just got back from the Political Science Association meeting in Chicago.

H.M.Jr: Good for you. Harold, yesterday I showed the President informally a memorandum we'd drawn up as a suggestion on how to handle the export situation. Hello?

S: Yes.

H.M.Jr: I also showed it to Cordell Hull. The President was very much interested in it and seems to be inclined to go along. It would take the form of an Executive Order. I'd like to send it over to you personally or to whomever you designate. Ed Foley knows all about it. He has been working on it. Now, how would you like to handle this?

S: Well, you send it over to me and you'll want it expedited I assume.

H.M.Jr: Yes.

S: I'll take care of it. We'll get right busy on it. If there are any questions do I check back with Foley on it?

H.M.Jr: Would you mind?

S: Be glad to.

H.M.Jr: Fine. The President seemed to like it. I tell you what we've done: the kernel of the nut is the frozen funds, you see.

- 2 -

S: Yeah. That's right.

H.M.Jr: To freeze all funds, and I dressed it up in a package so that it would be attractive to everybody.

S: Yes.

H.M.Jr: But that's the kernel and that's why I'm vitally interested.

S: Yeah.

H.M.Jr: I'll get it over to you this morning.

S: Yes.

H.M.Jr: Thank you.

December 31, 1940  
11:13 a.m.

Operator: Operator.  
H.M.Jr: Foley.  
Operator: (Pause). Foley.  
H.M.Jr: Ed.  
Ed Foley: Yes, Mr. Secretary.  
H.M.Jr: I had Harold Smith on the wire and he says to send this thing over to him and he will expedite it.  
F: All right.  
H.M.Jr: That Foreign Funds Executive Order, and I said if he wanted to ask any questions, you were at his service.  
F: Right.  
H.M.Jr: Night and day.....  
F: Right.  
H.M.Jr: ..... except tonight.  
F: (Laughs). Well, I think I'd better process it through Justice too, don't you, and get the formal clearance over there?  
H.M.Jr: It's your baby - nurse it.  
F: O. K. I'll do it.  
H.M.Jr: All right.

December 31, 1940  
11:15 a.m.

H.M.Jr: Hello.

Operator: Mr. Forrestal calling.

H.M.Jr: Hello.

James  
Forrestal: Good morning, Henry.

H.M.Jr: Hello, James.

F: Happy New Year.

H.M.Jr: Same to you. I'm still sober; are you?

F: Well, I'm not only sober but I'm serious.  
I've just looked at my taxes.

H.M.Jr: Oh, oh.

F: (Laughs). I think I'll come over and just  
move right into the Treasury.

H.M.Jr: Come on. We'd love to have you anytime.

F: Henry, I thought you might be interested to  
know, which you probably already do, they've  
begun moving on this selling of stuff in New  
York and they've done about one or two blocks  
a day, practically.

H.M.Jr: Oh, I unfortunately get it every night.

F: You do.

H.M.Jr: Yeah.

F: But it certainly shows that what we told them  
is true.

H.M.Jr: Oh, they've tripled their sales, Jim. They've  
tripled their sales, they're delighted, Gifford  
says I was completely right and he's most  
appreciative. I can't understand it, but I  
seem to have been his friend.

F: (Laughs). Yeah.

- 2 -

- H.M.Jr: But they've definitely tripled their sales.
- F: Henry, the other thing I wanted to ask about was on the question of these ships - these Danish ships.
- H.M.Jr: Well, before you get off that, with the help of the S.E.C. I'm organizing all the investment trusts in America into a joint pool and then I'm going to be able to say to the English, now, if you want to sell any of your direct investments here's a billion dollars worth of capital that is willing to go in. See?
- F: Yeah.
- H.M.Jr: And so if they want to do business there'll be the whole investment trust crowd all together - everybody. What do you think of that?
- F: It's a good idea. You ought to get some leadership for it among the investment trust fellows so that they get the right people to talk with.
- H.M.Jr: Well, they are down here and I've turned them over to S.E.C. so that - after all they know them better than I do, and they've promised to organize with them for me and then let me know.
- F: O. K.
- H.M.Jr: When I get the group together I'll let you take a look at it and you can tell me which are the good ones.
- F: All right, Henry.
- H.M.Jr: Now, on Danish ships.
- F: I just wanted to - we had a meeting here yesterday and I didn't quite follow what the Boss wanted to do. I assume that he wanted Jerry Land to sort of handle that thing but I couldn't quite figure out.
- H.M.Jr: (Laughs). Well, he designated Hackworth and Townsend in Justice as a committee of two to do it and if you'd like me to tell you what he'd like, I can tell you that.

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F: All right.

H.M.Jr: The machinery - I don't know - they've got too many cooks in it so I kind of got out.

F: Well, I told Land I thought the best fellow to get in was Monnet.

H.M.Jr: Monnet?

F: Yeah.

H.M.Jr: Jean?

F: Well, there apparently is a - well, you tell me what you think he'd like.

H.M.Jr: Well, I know what he'd like. He'd like to have these ships chartered by the Navy or somebody, but to keep the crews on. He's very anxious to keep the Danish crews on because he's under the impression that nobody can run those Diesel engines except a Dane.

F: You wouldn't need all the crews, Henry. All you'd need would be the fellows in the boiler room.

H.M.Jr: The engineering room.

F: Yeah.

H.M.Jr: That's right, but that's what he wants and he'd like it done. I know that.

F: Uh. Now, the only hickey in it is this fellow Townsend is just about as wet as they come.

H.M.Jr: Well, it's gotten so thick, Jim, that I've kind of gotten out and thanks to the columnists they made it impossible for us by saying we were right.

F: They did. Yeah.

H.M.Jr: But I tell you, if you want any help, unofficially, the fellow who knows this inside out is Ed Foley.

- 4 -

F: Yeah, I know he does.

H.M.Jr: And he's available.

F: There'll be no objection to my talking to him.

H.M.Jr: Be delighted.

F: O. K.

H.M.Jr: He's got the thing and he knows how it can be done, and they've worked on it and they've got the answer.

F: Well, then, I think I'll do that.

H.M.Jr: He's available.

F: Thank you, Henry.

H.M.Jr: Happy New Year.

F: Same to you.

December 31, 1940  
12:20 p.m.

H.M.Jr: As long as Colonel Knox has sort of injected himself into this situation, would you make doubly sure that everything is all right on those ships?

Herbert Gaston: Yes. I've called Waesche to come over and I'm going to talk over the situation with him.

H.M.Jr: Send out a kind of warning on it, will you.

G: Yes.

H.M.Jr: Do that.

G: Yes.

H.M.Jr: Thank you.

G: Right.



December 31, 1940  
3:00 p.m.

H.M.Jr: Hello.

Operator: Mr. Purvis.

H.M.Jr: Hello.

Arthur  
Purvis: Hello. Is that you, Henry?

H.M.Jr: Yes.

P: Arthur speaking.

H.M.Jr: There are two things I wanted to say.

P: Yes.

H.M.Jr: Have you had any message from Stimson?

P: Yes, I got a message from - McCloy rang up today.

H.M.Jr: Yeah.

P: He said the Secretary felt it would be a good idea if he were to see me and I explained that I had got bronchitis and I'd rather like if I can to stay inside so as to be quite sure I'm all right Thursday morning and there was some talk about - well, McCloy said, I'll be in touch with you later perhaps. He may want to come up and see you. That was about all.

H.M.Jr: Stimson come up to see you?

P: That's what he said.

H.M.Jr: Well, he called me and said that - did I have any objection to his getting in touch with you, and I said, quite the contrary.

P: Exactly. Yeah.

H.M.Jr: Well, I wanted to tell you what it was.

P: Yeah.

- 2 -

- H.M.Jr: It seems that all of a sudden he's gotten all excited - the Germans are supposed to be making a lot of bombers, as though that were something new, and he's going to ask you to try to find out what their production is.
- P: My Lord! I wish I knew!
- H.M.Jr: Because he's under the impression that Beaverbrook has told you in confidence - I don't know where he got this - how many bombers they think the Germans are making.
- P: I wish he had. I don't think he knows. All that Beaverbrook knows is that he's inclined to feel that we may be a little too conservative in our assessment of their abilities.
- H.M.Jr: Well, that's what it is, and I took the opportunity to explain to him that the President asked me to carry on.
- P: Quite.
- H.M.Jr: And that of course any time he wanted to see you, please to feel free to do so.
- P: Ah, simply splendid because after all you and I can always get together on it. (Laughs).
- H.M.Jr: And so he's just off on that particular tangent and I wanted to tell you that.
- P: Thank you very much. It is a tangent.
- H.M.Jr: Well, I mean, considering everything else to make so much fuss about it, I mean, I didn't want you to think it was something really important.
- P: No, I'm really rather relieved to hear that because I did feel as if I might have to make a sort of special effort and I just .....
- H.M.Jr: No, no. That's all it is.
- P: Yes. Well, in that case I'll let it develop.

H.M.Jr: Right. And the other and more important thing is: I wanted to wish you and your family a very Happy New Year.

P: Thank you very much and the same to you. It was awfully nice of you to ring. I'm going to ring Margaret in a few minutes and I'll tell her so.

H.M.Jr: Good.

P: Thank you very much indeed, Henry.

H.M.Jr: And I'll be seeing you .....

P: Thursday morning.

H.M.Jr: Well, now, did we - let me see whether I put down some time. Did I?

P: You haven't yet got a time.

H.M.Jr: Well, let me do it now.

P: Good.

H.M.Jr: Would 11:00 o'clock be good?

P: It will be splendid.

H.M.Jr: Right.

P: And Henry, I'm sending in a little change note on that computation last night. I found I had missed out three points and therefore I've included them and it will be sent over for substitution.

H.M.Jr: Well, take care of yourself.

P: Thank you very much indeed.

H.M.Jr: Good-bye.

P: Good-bye.

December 31, 1940

4 pm

Present:

Mr. Gaston  
Mr. Young

HM, Jr: I was just talking to Mr. Gaston about the inspection trip material which you gave to Lucey. I hope it does not get me into trouble.

Mr. Young: I gave to Lucey? On the aircraft? West Coast stuff?

HM, Jr: You see, you gave him -- he's just practically copied verbatim those two reports.

Mr. Young: Really! I am sorry.

HM, Jr: I did not know that he was going to do that.

Mr. Young: Well, I certainly am sorry about it.

Mr. Gaston: Let me see it. This is number four. This is number three. There is nothing in that to show where that comes from.

HM, Jr: But they will know.

Mr. Gaston: There is a quote here. Quotes can easily be eliminated from that so there is no identification where it comes from.

HM, Jr: Wonder if they won't come back and say that is military secrets they are giving away. What do you think?

Mr. Gaston: Suppose we eliminate all the quotes, Phil.

Mr. Young: Certainly will have to eliminate all the quotes.

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Mr. Gaston: Will there be anything that is spotted as direct from a report?

HM, Jr.: Personally I am scared to death of it. I think all that detailed stuff .....

Mr. Young: I certainly don't like it.

HM, Jr.: I think it's military secrets. I think it's terrible.

Mr. Young: He certainly told me he was not going to use any of the detailed stuff.

HM, Jr.: He's practically copied it out of your book.

Mr. Young: Was this wrong to make it available to him?

HM, Jr.: We haven't shown him any record, Herbert. Gaston has talked to him. We have not made anything available to him.

Mr. Gaston: I got him some figures on the expansion of airplane plants, increase in number of employees. Monnet gave him something on ....

HM, Jr.: It's all very general, but that stuff is close to being military secrets.

Mr. Young: I should think the P-40 story is all right.

HM, Jr.: What is that, Phil?

Mr. Young: The fact that standardization was achieved there with resulting increased production.

HM, Jr.: I think that's all right.

Mr. Young: I think that makes a good story which reacts to everybody's credit.

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HM, Jr: That, I think, is all right.

Mr. Gaston: These major findings, are they carried in the report or is that his own organization of findings?

HM, Jr: I know when it comes out, that's headlines stuff -- the President calls up and I catch hell.

Mr. Young: Two or three of these don't mean anything in particular -- standardization of labor policies as the result of the Vultee strike, that's common knowledge.

Mr. Gaston: Suppose we go back to my office and decide what is permissible.

HM, Jr: The stuff there -- the fact that when this Northrup came back and said there wasn't enough aluminum, that made headlines for three days and there is just as sensational stuff in there and, perfectly frankly, I don't want to be in the position that we have to defend it. Leaving quotes off doesn't help any. You know these various people you have to work with and I have to work with -- Stimson and the rest of them will tear me apart. I can't say they got it from Phil Young.

Mr. Young: I don't want to put you in that position.

HM, Jr: That's the position I am in now. I want to do it while there is still time.

Mr. Young: I appreciate that.

HM, Jr: I know you are not willfully making trouble for me.

Mr. Young: Quite the contrary.

HM, Jr: I read the stuff twice and I said, "My God! Stimson and the rest -- 'If Morgenthau is like that we won't let them go on any more trips' and the President will write me a letter criticizing like the

-4-

one he wrote me about letting some man go on a Coast Guard cutter. I would rather kill the whole damn stuff. I personally think all those figures on the West Coast are absolute dynamite. Don't you, Phil?

Mr. Young: Yes. I think everything ought to come out except what is generally available or available from other sources.

HM, Jr.: But something that we have accomplished, that is to the good.

Mr. Young: Yes. Like the P-40.

HM, Jr.: But let that stuff out. The Germans read it and they say they can't even get together in their own plants let alone produce it. I don't know of anything more important now than that you two gentlemen get together.

Mr. Young: Yes. I ....

Mr. Gaston: There is no particular value for us in this stuff.

HM, Jr.: That's the point.

Mr. Young: There is nothing constructive about it.

HM, Jr.: He said he would not print anything we did not want him. You can put it in my name and say Mr. Morgenthau says he does not want it.

Mr. Gaston: Yes.

oOo-oOo

TREASURY DEPARTMENT

264

INTER-OFFICE COMMUNICATION

DATE December 31, 1940.

TO Mr. White  
FROM Mr. Kamarek  
Subject: Comment on the Memorandum on British Shipping given  
by Lord Lothian to the Secretary, December 8, 1940.

The memorandum on the British shipping situation which Lord Lothian gave the Secretary on December 8, 1940, is a mediocre job.

1. The memorandum compares the amount of shipping available to the United Kingdom during the war and during peace-time yet it never mentions the fact that a large portion of the British merchant marine during peace-time is on routes that do not touch at the United Kingdom.

2. The memorandum, however, is careful to mention that some of Britain's peace-time imports are carried in foreign ships. But the amount of imports so carried, the memorandum does not even attempt to estimate.

3. Again, the memorandum makes the point that 1.5 million tons of British shipping must be used during the war to carry on vital Empire (non-United Kingdom) services. It blithely ignores the fact that British shipping was also in these services in peace-time and that this, therefore, is not a net deduction due to the war.

4. The memorandum gives the total amount of allied plus neutral shipping under charter. No breakdown of these figures is given. The very important figure of how much allied shipping there is available which is not under charter is not given. More, the possibility of increasing shipping used for United Kingdom imports in this way does not even seem to be realized.

5. There is also no mention of the possibility of increasing the number of ships which could be chartered from neutrals.

6. There is a sentence on the thought that if losses continue some of the British services may have to be curtailed. No estimate is given of the amount of shipping which might be obtained in this way.



7. One possible way of offsetting losses, which was used in the last war, is to decrease the average length of voyages. There is no indication in the memorandum of any estimate of the increase in efficiency possible through shifting purchases to North America and concentrating shipping on a shuttle route on the North Atlantic.

## TREASURY DEPARTMENT

266

## INTER-OFFICE COMMUNICATION

DATE December 31, 1940

TO Secretary Morgenthau  
FROM Mr. Hass  
Subject: Age and tractive power of locomotives in service

In response to your request I am submitting data herewith showing (1) the total number of locomotives in service on Class I railways on December 31, 1939 classified according to age, and (2) the total number of all types of locomotives and the total tractive power of steam locomotives at the end of each year, 1926 to 1939.

(1) It will be noted (Table I) that 50 per cent of all locomotives in service on Class I railways at the end of 1939 were built before 1915, and that the proportion of old locomotives was somewhat greater in the Southern and Western districts.

(2) Table II shows that the number of locomotives in service, and the total tractive power of steam locomotives, have continued to decline through 1939. (Data on tractive power are not available for other than steam locomotives.) Supplementing the Interstate Commerce figures, independent compilations by the Association of American Railroads show a further decline to 40,355 locomotives on July 1, 1940, as compared with 41,807 locomotives in service on July 1, 1939.

(3) The adequacy of our present supply of locomotives to handle the volume of freight in prospect for 1941 will depend to a considerable extent upon the adequacy of the supply of freight cars. A further study is being made of the freight car situation in the light of probable traffic requirements in 1941, which will be completed shortly.

Table I

Locomotives in Service on all Class I Railways,  
December 31, 1939, by date of construction

Date of construction	All districts	Eastern district	Southern district	Western district
Before 1910	11,244	3,186	1,906	6,152
1910-1914	10,061	4,491	1,837	3,733
1915-1919	7,651	4,149	1,389	2,077
1920-1924	6,918	2,913	1,474	2,531
1925-1929	4,238	2,107	1,078	1,053
1930	805	352	147	306
1931	182	135	10	37
1932	98	90	1	7
1933	22	21	0	1
1934	83	74	0	9
1935	141	111	18	12
1936	100	36	10	54
1937	437	203	21	213
1938	271	86	35	150
1939	296	89	33	174
Total in service	42,511	18,043	7,959	16,509

Source: Interstate Commerce Commission.

Table II

Locomotives in Service on Class I Railways, and Total  
Tractive Power of Steam Locomotives, December 31, 1926-1939

Year	Number in service	Tractive power (In millions of pounds)
1926	62,776	2,611
1927	61,363	2,606
1928	59,470	2,580
1929	57,571	2,551
1930	56,582	2,527
1931	55,149	2,489
1932	53,316	2,430
1933	50,903	2,349
1934	48,304	2,263
1935	46,524	2,206
1936	45,146	2,163
1937	44,683	2,156
1938	43,810	2,123
1939	42,511	2,070

Source: Interstate Commerce Commission.

December 31, 1940

To: The Secretary

From: Mr. Young

Plans for Greece

Mr. Murray of the Near Eastern Division of the State Department came in today to talk about the Greek plane situation. Mr. Williams of this office was also present.

Mr. Murray showed me copies of a letter from Butler of the British Embassy, stating that the British were willing to turn over to the Greeks 30 Curtiss P-36s (Nobreaks) immediately, if the United States Government would undertake to deliver to Basra by an American boat 30 P-40s (Tomahawks) at an early date. While this offer has been presented to the Greeks, apparently no answer has yet been received.

I went over with Mr. Murray the difficulties involved in allocating any of the increased P-40 production, in view of the probability that the British will eventually accept delivery of the extra 300, if they give up 100 in the first three months of 1941 to China.

Mr. Murray showed us a cable from the American Minister in Athens in which it was stated that the Greek Government will accept any modern United States pursuit plane, if it is of a type now on order by the United States Army. Incidentally, this restriction was not mentioned by the Greek Minister in his talk with us on Monday. After some discussion, it became apparent that the most practicable solution of the problem seemed to be to persuade the Greeks to take over some of the scheduled January, February and March production of Republic P-43s now on order for the Army. It will be remembered that these planes are not highly in favor with the Army as combat planes, since they lack armor and leak-proof tanks. However, I pointed out that as these planes are entirely suitable for advanced training, it would probably require considerable pressure to persuade the Army to give them up.

Mr. Murray and I agreed to keep each other informed as to any developments in the situation.

R.Y.

December 31, 1940

My dear Mr. President:

I have been thinking over what you said about the necessity of your sending a Minister as well as an Ambassador to London.

I doubt very much if we can find anyone who would be really helpful on munitions. Therefore, I am going to take the liberty of suggesting that you consider sending Mr. John Wiley as Minister to London.

Mr. Wiley is now with the Treasury on loan from the State Department. I believe that you know him even better than I do and, therefore, there is nothing I need tell you about his many good qualities. However, I would like to add this: that if you decide to send Mr. Wiley as Minister to London, there are many things that he could do there for the Treasury in addition to his regular duties.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

The President,  
The White House.

Sent to Head Usher Crim per Lt. McKay

By Messenger 9:45  
S. S. man, Millar

December 31, 1940

My dear Mr. President:

I have been thinking over what you said about the necessity of your sending a Minister as well as an Ambassador to London.

I doubt very much if we can find anyone who would be really helpful on missions. Therefore, I am going to take the liberty of suggesting that you consider sending Mr. John Wiley as Minister to London.

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Yours sincerely,

(Signed) H. Hoagland, Jr.

The President,  
The White House.

Sent to Head Usher Grim per Lt. McKay

By Manager  
S. S. man, Miller

December 31, 1940

My dear Mr. President:

I have been thinking over what you said about the necessity of your sending a Minister as well as an Ambassador to London.

I doubt very much if we can find anyone who would be really helpful on missions. Therefore, I am going to take the liberty of suggesting that you consider sending Mr. John Wiley as Minister to London.

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Yours sincerely,

(Signed) H. Morganthau, Jr.

The President,  
The White House.

Sent to Head Usher Crim per Lt. McKay

By Message

S. S. man, Miller



✓

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NAVY DEPARTMENT  
Office of the Chief of Naval Operations  
OFFICE OF NAVAL INTELLIGENCE  
WASHINGTON

Op-16-F-2  
J7-3/EF37  
J7-3/EF48-1  
Serial 0374016.

CONFIDENTIAL

Dec 31 1940

My dear Mr. Secretary:

I have to acknowledge receipt of your letter of December 26, 1940, in which you forwarded me a photostatic copy of a report on the Netherlands East Indies oil negotiations.

Assuring you of my appreciation of your cooperation and interest in forwarding me this report,

I am, *with the seasons,*  
*Compliments,*

Very sincerely yours,

*W.S. Anderson*

W.S. Anderson,  
Rear-Admiral, U.S. Navy,  
Director of Naval Intelligence.

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

CONFIDENTIAL

See reply from  
at 1/8/41

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December 21, 1940

My dear Cordell:

It has come to my attention that a shipment of 500 tons of torpedoes is about to be made to Sweden. As the question of the export of arms and munitions to Sweden has come up for a good deal of discussion in the past, I would appreciate it if you would let me know how you feel about this case.

Sincerely,

Henry

Honorable Cordell Hall,  
Secretary of State,  
Washington, D. C.

*Handwritten initials*

FY:bj

By Messenger / 55

December 21, 1940

My dear Cordell:

It has come to my attention that a shipment of 500 tons of torpedoes is about to be made to Sweden. As the question of the export of arms and munitions to Sweden has come up for a good deal of discussion in the past, I would appreciate it if you would let me know how you feel about this case.

Sincerely,

Henry

Honorable Cordell Hall,  
Secretary of State,  
Washington, D. C.

PY:bj

By Messenger

December 31, 1940

Gaston came to the house tonight at twenty minutes to six, and I went over the Lucey article with him, which is now perfectly satisfactory.

TRANSLATION

FROM F. Schnorf,

DATE December 31, 1940

TO Mr. Knoke

Dear Mr. Knoke,

.....

All in all the situation in Switzerland is still relatively normal. The unemployment problem has so far not become acute, chiefly because a large part of our army remains mobilized in relays. However, the question of raw material and food supplies especially from overseas is a very difficult one; I still hope that the United States will help us somewhat with its British cousins in emphasizing vital Swiss needs at least as far as imports of American raw materials are concerned.\*

The money and capital markets operate under satisfactory conditions; the private discount rate is held at 1 1/4%, the yield of long term Government issues varies between 3 1/4 and 3 1/2%. It has right along been possible to fund the high cost of mobilization by means of medium or long term issues, only recently 190 millions were floated for three and four years at 3 1/8%, and 125 million for 10 years at 3 1/2%.

You know the situation on the foreign exchange market. Up to the time of the armistice between Germany and France, there was an outflow of foreign exchange; since that time, there has been an influx of foreign exchange which, in the beginning, could be ascribed to liquidation by domestic firms which had set aside large dollar amounts for their purchases in the United States, but could not employ them due to the interruption in communications. However, during the past few months, the dollars which were offered, represented dollar balances and possibly also the proceeds of American securities, which were liquidated as a result of rumors - which appeared also in

- 2 -

American newspapers - that the United States Government intended to block Swiss balances. I personally have never believed these rumors. On the other hand, funds had been transferred to the United States to such an extent that the people after the armistice and in view of the worsening possibilities of communication with the United States, suddenly felt that they had concentrated their funds very short-sightedly and hardly had sufficient means within their own country to defray their living expenses. During recent weeks the movement has fallen off heavily, and it is very probable that it will turn again in the opposite direction as soon as our commercial enterprises will find it possible to effect very desirable purchases in the United States.

Yours sincerely,

(signed) F. Schnorf.

- \* It will interest you to know that we were able to purchase from Russia during the last two months several tens of thousands of tons of wheat, rye, and oats, and a few thousand bales of cotton, even though at very high prices.

GL

COPY

Rangoon, Burma, December 31, 1940.

CONFIDENTIAL

SUBJECT: Bulk shipments of wood oil from China to the United States under consideration, in view of heavy deliveries to be made during next three years; a year would be required to provide all facilities; transit duty may be levied by Burma.

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON, D. C.

SIR:

I have the honor to report that the shipment in bulk from China to the United States, through Rangoon, of China wood oil is being considered by officers of the Foo Shing Trading Corporation, including K. P. Chen, the Chinese banker who is a director of both that Chinese organization and the Universal Trading Corporation of New York, respectively the seller and the buyer of the large quantities of wood oil to be supplied under the latter's agreement with the Export-Import Bank. The scarcity of containers for shipments of oil other than in bulk, the unsatisfactory condition of many of the containers available (used gasoline drums), and the desirability of treating the oil before shipment from Rangoon, are reasons for the consideration now being given to this matter. There has been some discussion of bulk shipments on previous occasions.

While the plans now outlined call for the use of tank trucks for road transport, the movement of oil by river from Bhamo to Rangoon in steel barges (flats), land storage in steel tanks at Bhamo, and both land and river storage at Rangoon, the only definite steps taken up to this time have been in connection with the possible provision of river storage at Rangoon. A proposal for the hire of steel barges owned by the Irrawaddy Flotilla Company, Limited, the British concern which operates a large fleet of steamers and flats on the Irrawaddy River and tributaries, has been made, and if barges for storage purposes are obtained they will be equipped for the treatment of oil now reaching this port in drums, over the Burma Railways from Lashio.

The treatment of wood oil before shipment is essentially for the removal of water, the maximum of moisture and volatile matter allowed under the specifications being 0.2 percent. The maximum allowance for impurities is the same.

Facilities for Ocean Transport.

For bulk shipments of wood oil from Rangoon to New York arrangements would have to be made for freighters equipped with tanks that could be used

for that purpose, or possibly for tank steamers in the petroleum trade. Local representatives of petroleum companies point out that any use of tankers for wood oil would depend on the certainty that tanks could be thoroughly cleaned, so that there would be no risk of contamination. As it would be expected to use any trucks equipped to carry wood oil in bulk out of China for shipments of gasoline into China, possibly under an arrangement with petroleum interests, the question of cleaning the truck tanks would also have to be considered. In connection with transportation facilities for bulk shipments from Rangoon to New York, the Foo Shing representatives here report that they have assurances from New York of assistance in that direction, in the event of bulk storage being arranged in Rangoon.

According to the Foo Shing representatives in Rangoon, freight space for 2,500 tons of wood oil in drums has been reserved on American steamers due to call at this port during the next four or five months. They state that they now have 30,000 drums (about 6,000 tons) of oil in Rangoon and Lashio, and that all oil has been cleared from cargo-transfer points along the Burma Road.

Contract Calls for Heavy Deliveries.

The agreement between the Universal Trading Corporation and the Foo Shing Trading Corporation requires the latter to deliver 160,000 tons of wood oil during the next three years--45,000 tons of the total in 1941, 55,000 tons in 1942, and 60,000 tons in 1943. It is stated that a considerable quantity of the 1940 quota of 35,000 tons still remains to be delivered, but when he was in Rangoon early this month Mr. E. P. Chen said that it was his understanding that stocks of wood oil in New York at that time amounted to about 20,000 tons, and that there was no urgent demand for additional supplies. He added, however, that it was desired to keep a plentiful supply of oil on hand to prevent speculation, and that every effort would be made to that end. Some oil, he said, was reaching Hong Kong through the port of Wenchow.

Estimates of the cost of shipping wood oil to New York in drums and treating it at that American port, and of the cost of shipping it to Hong Kong for treatment there and reshipment to New York in bulk, have been prepared by the Foo Shing office here, and the respective figures are \$28 and \$34 a ton. The local office has been informed from New York that the steaming facilities required for treating the oil are available there. However, the question of obtaining adequate supplies of containers enters into any plan for shipments other than in bulk.

Provision of Facilities Would Require Year.

It is believed that arrangements for bulk shipments of wood oil from China to New York, through Rangoon, could not be completed in less than a year. There would have to be, according to the tentative plans, a fleet of 200 trucks fitted with tanks, each of 900 to 1,000 gallons capacity, and facilities for the storage of 2,000 tons of oil at Hsamo and of a greater quantity at Rangoon. Steel and trucks would have to be brought in, and the erection of storage tanks and the construction of tank bodies for trucks would take some time.



Transit Duty May Be Levied.

Up to this time China wood oil for export from Rangoon has been permitted to move through Burma without the payment of a transit duty, but the Burma Government is now considering the question of levying a transit duty of one percent ad valorem on all Chinese exports passing through Burma. Such a duty is now levied on all imports destined for China. If the proposed duty is decided upon, and it is approved by the Governor of Burma, it probably will become effective at the opening of the next fiscal year, on April 1, 1941. At the present market value of wood oil in New York, a duty of one percent would amount to nearly \$6.00 United States currency a long ton.

Respectfully yours,

Austin C. Brady  
American Consul

## Distribution:

1. In quintuplicate to Department.
2. Copy for Embassy, London.
3. Copy for Embassy, Chungking.
4. Copy for Consulate, Kunming.

800  
869.3

ACE/cp

A true copy of  
the signed original



THE UNDER SECRETARY OF THE TREASURY  
WASHINGTON

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December 31, 1940

MEMORANDUM FOR THE FILES:

Subject: Colombian private debt in the United States

About ten days ago Mr. Collado of the State Department telephoned me to see if the Treasury would agree to sit in on one more conference on the negotiations between the representatives of Colombia and the Council of Foreign Bondholders in New York, to try to get them together before the end of the year as the temporary settlement effected last spring for the calendar year 1940 would lapse on December 31st. After discussing the matter with the Secretary, I advised Mr. Collado that the Treasury could not sit in on such a conference as we were already bogged down with work which had to be completed before the end of the calendar year. He agreed to go ahead on his own and see what could be done.

On December 27th he called me again and said that they had not been able to get the Colombian Government and the Foreign Bondholders Protective Council together and Mr. Welles had now decided that this Government should issue a statement along the lines of the draft attached to Collado's memorandum of December 27th. He said that the Ambassador was going to make an offer of a settlement directly to the bondholders and eliminate the Council from the situation and it was necessary to have a statement along the lines of the draft or the Colombian Ambassador would not make the offer. I told him that I was not at all satisfied with the statement; it was something new in Government policy to issue a statement of this character; and that I did not care to have the Treasury a party to it. However, I would study it and let him know of any other objections I might have to the language. I told him that I did not like the slap at the Council on page 2 and I did not like the sentence beginning at the bottom of page 2 and ending at the top of page 3, in which the three agencies, namely the Treasury, the Federal Loan Agency, and the State Department recommend the offer of the Colombian Government to the consideration of the bondholders.

In the meantime, Mr. Clayton and Mr. Pierson had worked over a new draft of a statement with a view to sending it to Mr. Jones in Houston, Texas. This new draft shortened the statement considerably and improved it materially in my opinion. It was telegraphed to Mr. Jones under date of December 27th. My objection to this draft was the second sentence "Nevertheless, the Colombian Government has continued to recognize its

obligations" and the phrase in the fifth sentence "of what appeared to be an equitable settlement." Mr. Collado said that he would eliminate the first, but the second was certainly the nub of the whole statement. I also objected to the statement on the second page "in the light of and knowledge of the Colombian debt situation, these agencies believe \*\*\*." I thought it should begin "It is believed that \*\*\*."

This statement was submitted to Mr. Jones and he telephoned late Saturday, December 28, a new draft which contained a great deal of detail regarding the Colombian private debt to the United States holders. While I do not believe that the statement prepared by Mr. Jones is nearly as good as the one by Clayton and Pierson, the only objections I have to the statement are: (1) in the opening sentence where he takes a slap at the bankers for having sold the bonds of the Colombian Government to citizens of our country in 1927 and 1928; and (2) the last paragraph in which it is stated that the Department of State, the Treasury Department, and the Federal Loan Administrator are of the opinion "that in view of conditions that have prevailed since 1932, and generally lower interest rates, the offer of the Colombian Government constitutes a fair adjustment." I did not think that "generally lower interest rates" was necessary or had anything to do with the default or the settlement, and "constitutes a fair adjustment" could well be changed to "is entitled to careful consideration of the bondholders." Mr. Collado agreed with me that the slap at the bankers should be eliminated and that the reference to lower interest rates might also come out, but that he thought it was necessary to make some such statement as the one agreed to here to the effect that the offer constitutes a fair adjustment.

On Monday morning, December 30, I rode down with the Secretary and explained to him what had happened. He said that he did not want anything to do with this statement and instructed me to advise the State Department that the Treasury would not be a party to this statement. At 9:30 the Secretary had a conference on another matter with the Secretary of State, at which time he saw Under Secretary Welles who brought up the proposed statement on the Colombian debt settlement. I had previously told the Secretary of my objections to the draft of the Jones statement and he had discussed these with Mr. Welles before I had had an opportunity to call the State Department. Upon his return from the State Department, he handed me the original of this statement with Mr. Welles' changes noted thereon. He told me that he had promised Mr. Welles that he would join in a statement, the wording of which would have to be worked out between Mr. Welles and me. He had met my objections by changes in the first paragraph and in the next to the last sentence, as indicated on this draft.

In telephoning Mr. Jones of these changes, he agreed in general but said that he wanted to indicate in the first sentence that these bonds were not issued and sold by the Government but were marketed through private channels. We agreed, therefore, to change this sentence to show that the bonds were issued "through the usual private financial channels."

- 3 -

In the next to the last sentence of the statement "generally lower interest rates" is to be eliminated and Mr. Jones suggested that the last part of that sentence "the offer of the Colombian Government constitutes a fair effort on its part to reach an adjustment" should be changed to "constitutes a fair effort on its part to meet its obligations." I objected to this wording because the Colombian Government's obligations are to pay six per cent interest and to meet its sinking fund requirements and this is not an effort on its part to meet those obligations, so we changed the statement to say that it "constitutes a fair effort on its part to adjust its obligations." This was again telephoned to Mr. Jones and he came back with this suggested final paragraph: "While the Government of the United States has no direct interest in the matter, the Department of State, the Treasury Department, and the Federal Loan Administrator have acted as friendly intermediaries to assist the parties in reaching an agreement, and they are of the opinion that in view of conditions that have prevailed since 1932, the offer of the Colombian Government constitutes a fair effort on its part to adjust its obligations. They recognize, of course, that the bondholders must make their own decision."

I told Collado that while I still did not like the idea of the three departments joining in a statement of this character, he had met all of my main objections to the language of the proposed statement, and that as long as the Secretary had agreed with Mr. Welles to join in such a statement, it had my approval. I told him that I thought we should have had more of the background because there must be another side to the picture, namely that of the bondholders' council, which we in the Treasury have not received. Furthermore, unless there is some understanding with the Council that it will not attack this proposed offer, it is liable to issue a statement attacking the three agencies, pointing out that Mr. Jones has not reduced his interest rates to the South American countries on loans which he is making, and also the Colombian Government is paying its internal creditors interest rates as high as eight and ten per cent. While I realize that this letter is not an exchange problem, nevertheless, it will not set well with the American public. In spite of all this, Collado said that the State Department felt that this was important and that such a statement should be made and they would go ahead with it the afternoon of December 30th.

*sub B*

Mr. Collado promised to send over copies of the letter from the Colombian Ambassador to Mr. Welles, the press release of the Colombian Embassy, and the Department's press release which was prepared in agreement with Mr. Jones and the Treasury. These copies are attached.

D.W.B.

## DEPARTMENT OF STATE

## DIVISION OF THE AMERICAN REPUBLICS

## MEMORANDUM

December 27, 1940

Mr. Bell:

In accordance with our telephone conversation I am attaching a copy of a draft press statement which was prepared in the Department last summer. We are considering using such a statement in connection with present Colombian debt discussions, and we would obviously need to clear it with the Treasury and the Loan Agency.

It may be desirable to change the statement slightly when the final attitude of the Foreign Bondholders Protective Council is known. Moreover, the figures given in numbered paragraph (1) of the last section will have to be checked and made exact.

The Colombian Ambassador has indicated that negotiations with respect to the federally guaranteed debt will begin immediately following this settlement of the federal debt, and it will be desirable to add a concluding paragraph to this effect.

(in) EGC  
E. G. Collado

## DEPARTMENT OF STATE

FOR THE PRESS

December 1940.

The world-wide economic depression that began in 1929 produced such serious economic strains that several countries in order to permit the continuance of essential governmental functions felt it necessary to suspend service on their external funded debt. From the outset of the depression the Government of the Republic of Colombia endeavored to avoid this step. For the first three years it managed, at considerable sacrifice, to pay service in full. Finally in 1933 when world economic conditions were at their worst, the strain of service became too great and the Government reluctantly felt obliged to suspend payments.

The Colombian Government has, since the default, continued to recognize its obligations, and by partial payments, including redeemable scrip, and by negotiations seeking to adjust the debt, has manifested willingness to make payments within its means.

In 1937 the Colombian Government entered into conversations with the Foreign Bondholders Protective Council, Incorporated, of New York with the object of finding a basis for a permanent settlement. Although the parties were unable to reach agreement during three years of intermittent discussion, the Colombian Government, anxious to demonstrate its desire to resume service on its obligations, in February 1941 offered to make payments on the due dates in 1940 at the rate of fifty per cent of the contractual rate of interest (3½ instead of 6½). In the expectation that during this interim the terms for a permanent settlement might be reached.

When it recently became apparent that the efforts of the Colombian Government and the Foreign Bondholders Protective Council to attain a direct settlement were about to prove fruitless, and in the knowledge of Colombia's earnest desire to adjust the problem, the Treasury Department, the Federal Loan Agency, and the Department of State undertook, as friendly intermediaries, to find some common ground that would be satisfactory to both parties. The discussions which took place with the encouragement of these three agencies led to a draft formula of settlement which appeared to constitute an equitable reflection both of the prevailing situation in Colombia and of the interests of the bondholders. This effort to bring about agreement unfortunately failed because the Council, although it presented certain observations, withheld indication of its final attitude.

The Government of the Republic of Colombia has now made, unilaterally and on its own responsibility, an offer to its national dollar bondholders based upon the terms that emerged from the foregoing discussions. This offer has been made for the purpose of assuring to the bondholders payments which the failure of the negotiations might otherwise have delayed indefinitely.

The Treasury Department, the Federal Loan Agency, and the Department of State have not been, and are not now, parties to the proffered settlement. They have acted only as friendly intermediaries for the purpose of bringing about a settlement. (However, in view of their detailed knowledge of every aspect of the Colombian debt situation, and of their concern at continued failure to reach a permanent settlement, these agencies recommend the present offer to the consideration of the bondholders, leaving to each bondholder, of course, the decision whether to accept or reject it.)

The Treasury Department, the Federal Loan Agency, and the Department of State are informed that the settlement which the Colombian Government is offering to holders of its dollar bonds is based substantially on the following terms.

1. The new debt will amount to \$50,100,000 (\$44,000,000 existing principal plus 50 per cent of interest arrearage of \$12,200,000).
2. The new interest rate to be 3 per cent per annum.
3. During the first five years of the settlement total service to be \$1,800,000 per year, and thereafter to be \$2,000,000 per year.
4. The difference between total service and the interest charges at 3 per cent to be devoted entirely to amortization of the new debt.

COPY

## FEDERAL LOAN AGENCY

Washington

W.L. Clayton  
Deputy Federal  
Loan Administrator

December 28, 1940

My dear Mr. Bell:

Enclosed please find copy of telegram to  
Mr. Jones about which I spoke to you on the  
telephone last night.

Sincerely yours,

/s/ Will Clayton

Deputy Federal Loan Administrator

The Honorable

Daniel W. Bell

Under Secretary

Treasury Department



C O P Y

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Via Commercial Wire  
Night Letter

December 27, 1940

HONORABLE JESSE H. JONES  
LAMAR HOTEL  
HOUSTON TEXAS

STATE DEPARTMENT VERY ANXIOUS FOR YOUR APPROVAL FOLLOWING SUGGESTED PRESS RELEASE TO BE SUBMITTED TO COLOMBIAN AMBASSADOR TOMORROW SATURDAY NOON AND RELEASED SOON THEREAFTER: QUOTE THE GOVERNMENT OF THE REPUBLIC OF COLOMBIA AFTER MAINTAINING FULL DEBT SERVICE FOR THE FIRST THREE YEARS OF THE DEPRESSION FINALLY IN 1933 SUSPENDED PAYMENTS. NEVERTHELESS ~~THE COLOMBIAN GOVERNMENT HAS CONTINUED TO RECOGNIZE ITS OBLIGATIONS.~~ paragraph AFTER PROLONGED NEGOTIATIONS WITH THE FOREIGN BONDHOLDERS PROTECTIVE COUNCIL, INC., OF NEW YORK, DURING WHICH THE PARTIES WERE UNABLE TO REACH AGREEMENT, THE COLOMBIAN GOVERNMENT IN FEBRUARY 1940 OFFERED TO MAKE PAYMENTS DUE IN THAT YEAR AT THE RATE OF FIFTY PERCENT OF THE RATE OF INTEREST CARRIED BY THE BONDS (THREE PERCENT INSTEAD OF SIX PERCENT) IN THE EXPECTATION THAT DURING 1940 A PERMANENT SETTLEMENT MIGHT BE REACHED. paragraph WHEN IT BECAME APPARENT THAT THE COLOMBIAN GOVERNMENT AND THE COUNCIL WERE UNABLE TO REACH AN AGREEMENT THE TREASURY DEPARTMENT, THE FEDERAL LOAN AGENCY AND THE DEPARTMENT OF STATE UNDERTOOK, AS FRIENDLY INTERMEDIARIES, TO FIND SOME COMMON GROUND THAT WOULD BE SATISFACTORY TO BOTH PARTIES. THE DISCUSSIONS WHICH TOOK PLACE WITH THE ENCOURAGEMENT OF THESE THREE AGENCIES LED TO A DRAFT FORMULA, ~~OF WHICH APPEARED TO BE AN EQUITABLE SETTLEMENT,~~ WHICH HOWEVER WAS NOT ADOPTED. paragraph THE COLOMBIAN GOVERNMENT HAS NOW MADE UNILATERALLY AND ON ITS OWN RESPONSIBILITY THE FOLLOWING OFFER TO THE HOLDERS OF ITS NATIONAL DOLLAR BONDS, BASED ON THE TERMS THAT EMERGED FROM THE FOREGOING DISCUSSIONS: 1) THE NEW DEBT WILL AMOUNT TO \$50,100,000 (\$44,000,000 EXISTING PRINCIPAL PLUS FIFTY PERCENT OF INTEREST ARREARS OF \$12,200,000). 2) THE NEW INTEREST RATE TO BE THREE PERCENT PER ANNUM.

3) DURING THE FIRST FIVE YEARS OF THE SETTLEMENT TOTAL SERVICE TO BE \$1,500,000 PER YEAR, AND THEREAFTER TO BE \$2,000,000 PER YEAR. 4) THE DIFFERENCE BETWEEN TOTAL SERVICE AND THE INTEREST CHARGES AT THREE PERCENT TO BE DEVOTED ENTIRELY TO AMORTIZATION OF THE NEW DEBT. ~~paragraph~~ THE TREASURY DEPARTMENT, THE FEDERAL LOAN AGENCY AND THE DEPARTMENT OF STATE HAVE NOT BEEN AND ARE NOT NOW PARTIES TO THE PROFFERED SETTLEMENT. THEY HAVE ACTED ONLY AS FRIENDLY INTERMEDIARIES IN AN EFFORT TO BRING ABOUT A SETTLEMENT WITHOUT WHICH PAYMENTS TO THE BONDHOLDERS MAY HAVE BEEN GREATLY DELAYED. ~~IN THE LIGHT OF THEIR KNOWLEDGE OF THE COLOMBIAN DEBT SITUATION~~ <sup>These Agencies</sup> BELIEVE THAT THE PRESENT OFFER SHOULD BE CAREFULLY CONSIDERED BY THE BONDHOLDERS. EACH BONDHOLDER OF COURSE MUST MAKE HIS OWN DECISION. UNQUOTE SECRETARY WELLES STATES THAT HE HAS BEEN ADVISED THAT THE COLOMBIAN GOVERNMENT WILL NOT MAKE THE ABOVEMENTIONED OFFER OF SETTLEMENT UNLESS SOME SUCH STATEMENT AS IS PROPOSED ABOVE IS ISSUED BY THIS GOVERNMENT. SECRETARY WELLES VERY ANXIOUS BRING THIS MATTER TO COLOMBIAN AMBASSADOR BY NOON TOMORROW. ORIGINAL STATEMENT SUGGESTED THREE TYPEWRITTEN PAGES AND WE HAVE REDUCED IT AS ABOVE. PLEASE ADVISE YOUR WISHES.

WARREN LEE PIERSON WILL CLAYTON

*Atta sept draft* 12/29/40  
*appt*

The Government of the Republic of Colombia, after maintaining full debt service on its Six Per Cent Bonds, \$25,000,000 of which were issued and sold to bankers in this country and by them resold to private investors in 1927, and \$35,000,000 in 1928, finally in 1933 was forced to suspend payments. However, before suspending payments approximately \$3,900,000 of the first issue and \$5,000,000 of the second issue had been paid, reducing the amount of bonds then outstanding from \$60,000,000 to approximately \$51,000,000. In 1934, the Colombian Government made an additional payment in 12-year Four Per Cent Funding Certificates of \$3,743,145 which it has regularly serviced.

Since that time the Colombian Government has carried on prolonged negotiations with representatives of the bondholders, in an effort to reach an agreement as to payment and an interest rate that the Colombian Government felt it would be able to meet. No permanent agreement has yet been reached.

About a year ago the Department of State, with the cooperation of the Treasury Department and the Federal Loan Administrator, acting merely as friendly intermediaries, began meeting with representatives of the Colombian Government and the Foreign Bondholders Protective Council, Inc., of New York in the hope of finding some common ground of adjustment that would be acceptable to both parties.

Some progress was made and in the expectation of reaching a permanent agreement during 1940 the Colombian Government this year has paid 3% on both issues, amounting to approximately \$1,350,000, and has expended approximately \$400,000 in the purchase and retirement of bonds. These bonds and approximately \$6,000,000 face value of bonds theretofore purchased by the Colombian Government have been canceled so that the total outstanding amount at the present time on both issues is \$44,000,000, with accrued interest at 6% of \$12,200,000.

The Colombian Government now offers to refund the principal of \$44,000,000 and accumulated interest at 3% amounting to \$6,100,000, a total of \$50,100,000 with new 30-year Three Per Cent Bonds. To service the new bonds it offers to make available \$1,800,000 per year for five years and \$2,000,000 per year thereafter. The amounts not required for interest at 3% per annum are to be devoted entirely to the purchase in the market and cancellation of the new bonds.

While the Department of State, the Treasury Department and the Federal Loan Administrator have acted only as friendly intermediaries, they are of the opinion that in view of conditions that have prevailed since 1932, and generally lower interest rates, the offer of the Colombian Government constitutes a fair adjustment. They recognize, of course, that the bondholders must make their own decision.

*Private  
Financial*

*Mell's Changes*

292 5  
12/30/40

The Government of the Republic of Colombia, after maintaining full debt service on its Six Per Cent Bonds, \$25,000,000 of which were issued and sold to bankers in this country <sup>marketed through the</sup> ~~and sold to private investors~~, in 1927, and \$35,000,000 in 1928, finally in 1933 was forced to suspend payments. However, before suspending payments approximately \$3,900,000 of the first issue and \$5,000,000 of the second issue had been paid, reducing the amount of bonds then outstanding from \$60,000,000 to approximately \$51,000,000. In 1934, the Colombian Government made an additional payment in 12-year Four Per Cent Funding Certificates of \$3,743,145 which it has regularly serviced.

Since that time the Colombian Government has carried on prolonged negotiations with representatives of the bondholders, in an effort to reach an agreement as to payment and an interest rate that the Colombian Government felt it would be able to meet. No permanent agreement has yet been reached.

About a year ago the Department of State, with the cooperation of the Treasury Department and the Federal Loan Administrator, acting merely as friendly intermediaries, began meeting with representatives of the Colombian Government and the Foreign Bondholders Protective Council, Inc.  
of

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of New York in the hope of finding some common ground of adjustment that would be acceptable to both parties.

Some progress was made and in the expectation of reaching a permanent agreement during 1940 the Colombian Government this year has paid 3% on both issues, amounting to approximately \$1,350,000, and has expended approximately \$400,000 in the purchase and retirement of bonds. These bonds and approximately \$6,000,000 face value of bonds theretofore purchased by the Colombian Government have been canceled so that the total outstanding amount at the present time on both issues is \$44,000,000 with accrued interest at 6% of \$12,200,000.

The Colombian Government now offers to refund the principal of \$44,000,000 and accumulated interest at 3% amounting to \$6,100,000, a total of \$50,100,000, with new Three Per Cent Bonds. To service the new bonds it offers to make available \$1,800,000 per year for five years and \$2,000,000 per year thereafter. The amounts not required for interest at 3% per annum are to be devoted entirely to the purchase in the market and cancellation of the new bonds.

While the Department of State, the Treasury Department and the Federal Loan Administrator have acted only as friendly intermediaries, they are of the opinion that in view of

conditions

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conditions that have prevailed since 1932, and generally  
lower interest rates, the offer of the Colombian Govern-  
 ment constitutes a fair/adjustment. *effort on its part to reach an adjustment.* They recognize,  
 of course, that the bondholders must make their own deci-  
 sion:

*Edgmont*  
*Washington*

COPY

## DEPARTMENT OF STATE

## DIVISION OF THE AMERICAN REPUBLICS

Mr. Bell:

This is the revision of the statement on Colombian debt made last evening by Messrs. Clayton, and Pierson, and myself. It may require a little brushing up of a word or two.

We have in mind substituting for the numbered points of the debt offer, the exact text as announced by the Colombian Ambassador.

(initialed) EGC

E. G. Collado

## DEPARTMENT OF STATE

FOR THE PRESS

December 28, 1940.

No.

The Government of the Republic of Colombia, after maintaining full debt service for the first three years of the depression, finally in 1933 suspended payments. [Nevertheless the Colombian Government has continued to recognize its obligations.]

After prolonged negotiations with the Foreign Bondholders Protective Council, Incorporated, of New York, during which the parties were unable to reach agreement, the Colombian Government in February 1940 offered to make payments due in that year at the rate of 50 percent of the rate of interest carried by the bonds (3 percent instead of 6 percent) in the expectation that during 1940 a permanent settlement might be reached.

When it became apparent that the Colombian Government and the Council were unable to reach an agreement the Treasury Department, the Federal Loan Agency and the Department of State undertook, as friendly intermediaries, to find some common ground that would be satisfactory to both parties. [The discussions which took place with the encouragement of these three agencies led to a draft formula of what appeared to be an equitable settlement,] which, however, was not adopted.

The Colombian Government has now made, unilaterally and on its own responsibility, the following offer to the holders of its national dollar bonds, based on the terms that emerged from the foregoing discussions:

- 1) The new debt will amount to \$50,100,000 (\$44,000,000 existing principal plus 50 percent of interest arrears of \$12,200,000).
- 2) The new interest rate to be 3 percent per annum.
- 3) During the first five years of the settlement total service to be \$1,800,000 per year, and thereafter to be \$2,000,000 per year.
- 4) The difference between total service and the interest charges at 3 percent to be devoted entirely to amortization of the new debt.

The Treasury Department, the Federal Loan Agency and the Department of State have not been and are not now parties to the proffered settlement. They have acted only as friendly intermediaries in an effort to bring about a settlement without which payments to the bondholders might have been greatly delayed. [In the light of their knowledge of the Colombian debt situation these agencies] believe that the present offer should be [carefully] considered by the bondholders. Each bondholder of course must make his own decision.



COPY

DEPARTMENT OF STATE

Division of the American Republics

December 30, 1940

Mr. Bell:

There are attached copies of the letter from the Colombian Ambassador to Mr. Welles, the press release of the Colombian Embassy, and the Department's press release which was prepared in agreement with Mr. Jones and the Treasury.

E. G. Collado  
/s/ E.G.C.

## REPUBLICA DE COLOMBIA

No. 2325

December 30th, 1940.

Dear Mr. Welles:

On July 18 of this year I had the honor to confirm on behalf of my Government a proposal for the permanent settlement of the External Sinking Fund Gold Bonds of 1927 and 1928 of the Republic of Colombia, discussed at a meeting which I had with you, the Under Secretary of the Treasury, Mr. Daniel W. Bell, and Mr. Jesse H. Jones, now Secretary of Commerce.

This proposal called for the issuance of new bonds or the stamping to accomplish the same purpose of certificates on the present bonds. The new principal would amount to the face value of the present bonds, estimated at about \$44,000,000, plus 50 percent of the face value of the outstanding interest coupons in arrears, a total of slightly over \$50,000,000. This new amount of bonds would draw interest at 3 percent. During the first five years of the arrangement, the Republic of Colombia would make \$1,800,000 available annually for debt services; thereafter \$2,000,000 annually. The balance of such debt service after setting aside the amounts required for interest payments would be devoted to the purchase of bonds in the market. Bonds purchased with such balance would be retired and canceled before the next succeeding interest payment date and the amounts so retired would be reported annually.

On July 17 and 18, 1940, decree laws were promulgated which provided for putting the settlement into effect. Copies of these decrees are enclosed. Under the terms of these decrees, the formal contract covering the settlement will have to be approved by the President of the Republic and the Junta Nacional de Empréstitos. When the contract has been so approved and the formal offer is made to the bondholders thereunder, it will constitute a binding obligation of the Republic of Colombia in favor of all of the holders of bonds who accept the offer.

My Government has authorized me to renew the assurance of its willingness to proceed immediately with the settlement. My Government has also authorized me to state with regard to Article 2 of the Decree Law of July 17, 1940, that the new decree which, in accordance with Colombian law, will approve the formal contract between my Government and the bondholders, will fix the responsibility of my Government according to the terms of that contract. It is not the position of my Government that it will have any contractual right to postpone payments, and such new decree will of course not contain any reservation with respect to such a right.

Furthermore, if events should oblige my Government to suspend payments, and negotiations should prove necessary before these payments were resumed, the bondholders would not be in any way disadvantaged in such negotiations by reason of their acceptance of the permanent settlement now proposed. The

contract giving effect to this settlement will provide that there will not be offered to other holders of external bonds of the Republic of Colombia now outstanding any settlement on terms more favorable than those set out in such contract.

I remain, my dear Mr. Welles,

Very sincerely yours,

/signed/ Gabriel Turbay

## COLOMBIAN EMBASSY

Proposed Press Release

The Colombian Ambassador, Dr. Gabriel Turbay, announced today the decision of his Government to offer a permanent settlement of the debt represented by the 6% External Sinking Fund Gold Bonds, dated July 1, 1927, due January 1, 1961 and the 6% External Sinking Fund Gold Bonds of 1928, dated April 1, 1928, due October 1, 1961.

The permanent settlement will provide for interest payments at the rate of 3%. Provision is to be made for the offering of bonds in exchange for the coupons representing the arrears of interest, the principal amount of the bonds to be equal to one-half of the face amount of the overdue coupons. These bonds will bear interest at the rate of 3%. The total annual service fund for interest and amortization will be \$1,800,000 to be increased to \$2,000,000 beginning with the sixth year.

The formal offering will be made as soon as the necessary legal arrangements are completed. It is contemplated that this will be in the early part of 1941.

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## DEPARTMENT OF STATE

FOR THE PRESS

DECEMBER 30, 1940  
No. 564.CONFIDENTIAL  
FUTURE RELEASE  
NOTE DATE

CONFIDENTIAL RELEASE FOR PUBLICATION IN MORNING NEWSPAPERS OF TUESDAY, DECEMBER 31, 1940, WHICH DO NOT APPEAR ON THE STREETS BEFORE 9 P.M., E.S.T., MONDAY, DECEMBER 30, 1940. NOT TO BE PREVIOUSLY PUBLISHED, QUOTED FROM, OR USED IN ANY WAY.

The Government of the Republic of Colombia, after maintaining full debt service on its Six Per Cent Bonds, \$25,000,000 of which were issued through the usual private financial channels in 1927, and \$35,000,000 in 1928, finally in 1933 was forced to suspend payments. However, before suspending payments approximately \$3,800,000 of the first issue and \$5,000,000 of the second issue had been paid, reducing the amount of bonds then outstanding from \$60,000,000 to approximately \$51,200,000. In 1933 the Colombian Government made an additional payment in Non-Interest-Bearing Deferred Interest Certificates of \$1,799,534 which were redeemed at maturity in 1937, and in 1934 a further payment in 12-year Four Per Cent Funding Certificates of \$3,743,145 which it has regularly serviced.

Since that time the Colombian Government has carried on prolonged negotiations with representatives of the bondholders, in an effort to reach an agreement as to payment and an interest rate that the Colombian Government felt it would be able to meet. No permanent agreement has yet been reached.

About a year ago the Department of State, with the cooperation of the Treasury Department and the Federal Loan Administrator, acting merely as friendly intermediaries, began meeting with representatives of the Colombian Government and the Foreign Bondholders Protective Council, Inc. of New York in the hope of finding some common ground of adjustment that would be acceptable to both parties.

Some progress was made and in the expectation of reaching a permanent agreement during 1940 the Colombian Government this

-2-

year has paid 3% on both issues, amounting to approximately \$1,350,000, and has expended approximately \$400,000 in the purchase and retirement of bonds. These bonds and approximately \$6,000,000 face value of bonds theretofore purchased by the Colombian Government have been canceled so that the total outstanding amount at the present time on both issues is about \$44,000,000 with accrued interest at 6% of \$12,200,000.

The Colombian Government now offers to refund the principal of \$44,000,000 and accumulated interest at 3% amounting to \$6,100,000, a total of about \$50,100,000, with new Three Per Cent Bonds of a maturity of 25 to 30 years, the exact date to be indicated in the formal detailed offer to be issued shortly. To service the new bonds it offers to make available \$1,800,000 per year for five years and \$2,000,000 per year thereafter. The amounts not required for interest at 3% per annum are to be devoted entirely to the purchase in the market and cancellation of the new bonds.

While the Government of the United States has no direct interest in the matter, the Department of State, the Treasury Department and the Federal Loan Administrator have acted as friendly intermediaries to assist the parties in reaching an agreement, and they are of the opinion that in view of conditions that have prevailed since 1932, the offer of the Colombian Government constitutes a fair effort on its part to adjust its obligations. They recognize, of course, that the bondholders must make their own decision.

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## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brazil

DATE: December 31, 3 p.m.

NO: 694

TO THE SECRETARY  
TECHNOLOGY CENTER  
OFFICE OF THE

DEC 31 5 48 11 PM '42

RECEIVED  
TECHNOLOGY DEPARTMENT

Strictly Confidential.

Reference to telegram 597, November 21, 6 p.m. from Rio.

The head office of the Yokohama Specie Bank in Tokyo has just requested the Bank of Brazil by telegraph that the Bank of Brazil open a dollar account which would be subject to deposits and withdrawals by the manager of the branch of the Yokohama Specie Bank in Rio de Janeiro. A letter is to be sent out today by the Bank of Brazil which states that the request will be granted.

The director of the Bank of Brazil in discussing with me the decision by the Japanese to utilize the facilities of the Bank of Brazil rather than those of New York banks as a depository of exchange balances stated that for all practical purposes the money is in the same house in either case.

BURDETT

RA:JSH

## TREASURY DEPARTMENT

303

## INTER OFFICE COMMUNICATION

DATE December 31, 1940

TO Secretary Morgenthau

**CONFIDENTIAL**

FROM Mr. Cochran

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£103,000
Purchased from commercial concerns	£ 12,000

Open market sterling was steady at 4.03-3/4. Transactions of reporting banks were as follows:

Sold to commercial concerns	£13,000
Purchased from commercial concerns	£ 2,000

In a very thin market, the Canadian dollar discount widened to 14-1/16% by early afternoon. The closing quotation was 14%, as compared with 13-7/8% yesterday.

Except for a slight weakening of the Mexican peso rate, the other currencies experienced little movement. Closing quotations were:

Swiss franc	.3321-1/2
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2360
Brazilian milreis (free)	.0505
Mexican peso	.2066
Cuban peso	8-11/16% discount
Chinese yuan	.05-9/16

We sold \$995,000 in gold to the Central Bank of the Uruguayan Republic, to be added to its earmarked account.

The Federal Reserve Bank of New York reported that the Bank of Canada would ship \$25,145,000 in gold from Canada to the Federal for account of His Britannic Majesty's Government, for sale to the New York Assay Office.

There was a holiday in Bombay today, and no gold or silver prices were received from that center.

The prices fixed in London for spot and forward silver both advanced 1/5d, to 23-5/16d and 23-1/4d respectively. The dollar equivalents were 42.33¢ and 42.22¢.



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

We made one purchase of silver amounting to 100,000 ounces under the Silver Purchase Act. This represented a sale from inventory.

During the month of December, we purchased a total of 7,016,000 ounces of silver under the Silver Purchase Act. The sources of these purchases were as follows:

<u>Type of Silver</u>	<u>Ounces</u>
New Production	
1. From various countries	3,410,000
2. From Canada under agreement	1,070,000
Inventory	2,080,000
Secondary materials	326,000
Trading silver	130,000
Total	7,016,000

The report of December 24 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 \$9,640,000, a decrease of \$35,000 in the short position. Net changes were as follows:

<u>Country</u>	<u>Short Position</u> <u>December 18</u>	<u>Short Position</u> <u>December 24</u>	<u>Change in</u> <u>Short Position*</u>
England**	\$ 594,000	\$ 883,000	+\$289,000
Europe	3,538,000	3,533,000	- 5,000
Canada	283,000 (Long)	297,000 (Long)	- 14,000
Latin America	238,000	137,000	- 101,000
Japan	4,217,000	4,126,000	- 91,000
Other Asia	1,367,000	1,237,000	- 130,000
All others	4,000	21,000	+ 17,000
Total	\$9,675,000	\$9,640,000	-\$ 35,000

\*Decrease in short position, or increase in long position, indicated by minus (-).  
Increase in short position, or decrease in long position, indicated by plus (+).

\*\*Combined position in registered and open market sterling.

  
**CONFIDENTIAL**

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE December 31, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following transactions in the account of the Banca Commerciale Italiano, N.Y., maintained with the Chase National Bank.

<u>Date</u>	<u>Amount Credited</u>	<u>Received From</u>	<u>Amount Debited</u>	<u>Paid To</u>
Dec. 30	\$ 225,000	Banca Commerciale Italiano, N.Y. Check drawn by Credito Italiano, N.Y., on the Chase National Bank, N.Y.	\$ 225,000	Check to the order of the Central Hanover Bank & Trust Co., N.Y., for the account of Banco de la Nacion Argentina, Buenos Aires, by order of Banca Commerciale Italiano, Rome
	75,388.68	Banca Commerciale Italiano, N.Y. Two checks drawn by the Yokohama Specie Bank, N.Y. on the Guaranty Trust Co., N.Y.		
	35,514.76	Banca Commerciale Italiano, N.Y. Miscellaneous checks		

For Miss Chauncey

TREASURY DEPARTMENT  
INTER OFFICE COMMUNICATION

306

DATE December 31, 1940.

TO Secretary Morgenthau  
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following transaction in the account of the Deutsche Golddiskontbank, Berlin, maintained with the Chase National Bank.

<u>Date</u>	<u>Amount Debited</u>	<u>Paid To</u>
Dec. 30	\$ 74,643.85	Irving Trust Company, for account of Vengi- bara

*B. W. F.*

TREASURY DEPARTMENT

307

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE December 31, 1940

TO Secretary Morgenthau

FROM Mr. Klaus

FBI reports:

December 26. FBI has gone into the sales of German 3% funding bonds in the United States; these are issued to American corporations in lieu of dividends declared by German subsidiaries and are then sold at a discount to the firms dealing in foreign exchange, including Rueckwanderer marks. Instances investigated concern the American Radiator & Standard Sanitary Corporation, whose German subsidiary is the Nationale Radiator Gesellschaft of Vienna, and Underwood Elliott Fisher Company, whose German subsidiary is the Mercedes Buromaschinen Werken of Berlin.

December 28. FBI requests the Treasury's analysis "from the standpoint of the financial nature of the transactions" concerning Rueckwanderer marks, appending a resume of the information concerning Rueckwanderer marks thus far collected and includes photographs of Rueckwanderer applications. The letter is being turned over to Mr. Harry White for reply.

December 30. The total payments from Italian accounts on December 24 and 26 into the Yokohama Specie Bank is now \$5,000,000, apparently proceeds of security sales by C. J. Devine and Company, New York City, for Italian account.

ONI reports:

December 2. On the distribution of the National Police Force and the Treasury Police Force of Guatemala, showing close to 50% of the entire police force is in Guatemala City and is to be used to perform military service as well. The Treasury Police Force consists of 29 officers, 22 noncommissioned officers, and 381 agents and the National Police Force of 82 officers, 47 civilians, 220 noncommissioned officers, 1,162 agents.

December 5. Nicaragua. There are reports of corruption and graft among officials of the Foreign Exchange Commission; five bookkeepers of the accounting section of the Treasury have been discharged and the auditing bureau is being reorganized.

hr.

## TREASURY DEPARTMENT

308

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE December 31, 1940

TO Secretary Morgenthau

FROM Mr. Wiley

Mr. Rubenstein of FBI just called to say that he has been informed by telephone that the New York Agency of the Credit Suisse had withdrawn \$5 millions in cash from its account with the National City Bank and placed the money in its safe deposit box in that bank. This leaves them with a balance of \$2½ millions in their account. The bank had difficulty scraping together so much cash and so the denominations of the bills are not yet known. However FBI is endeavoring to secure a list of the bill numbers and when the Credit Suisse agents come after the cash they will try to cover the withdrawal and will keep us informed.

*Wiley*

TREASURY DEPARTMENT

309

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE December 31, 1940

TO Secretary Morgenthau

FROM Mr. Wiley

In view of the hook-up between William Rhodes Davis and Verne Marshall it may interest you to know that the FBI report of November 28, 1940, re Davis seems to establish a connection between Davis and John L. Lewis - also Joe Guffey and Walter A. Jones.

*File in*

BRITISH EMBASSY,  
WASHINGTON, D. C.

31st December, 1940

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,

*Heville Butler*

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram received from London

311

dated December 29th, 1940

Naval

Now reported that two mine sweeping trawlers damaged by shell-fire when convoy was shelled Dover Strait December 27th.

December 25th, single French aircraft flying over Gibraltar without previous notice shot down by our own and Spanish guns.

December 28th. Enemy aircraft attacked convoy off Thames Estuary. No hits obtained.

Egypt and Libya.

Prisoners taken since beginning of operations in Western desert now amount to 38,114, of which 24,845 are Italian officers and other ranks. Four more guns captured south of Bardia.

Royal Air Force

During operations night of December 27th/28th very satisfactory results obtained against aircraft assembly aerodromes and docks at Bordeaux and against Lorient submarine base. Results of attacks on shipyards at St. Nazaire, Channel ports and certain aerodromes indefinite. Two heavy and one medium bomber lost.

During daylight December 28th attack was also made on Lorient and hits were observed on two dry-docks.

Night of December 28th/29th sixty aircraft despatched to attack oil targets in Holland, submarine base at Lorient and docks at Boulogne. Minesweeping also continued. Two aircraft missing.

German/



-3-

German Air Force

During December 28th light attacks were made against Liverpool and Southampton, during latter attack two destroyers under construction were damaged. Enemy reconnaissance also carried out particularly on coast between Portland and Land's End.

Night of December 28th/29th about 25 enemy aircraft attacked Plymouth causing several fires which were got under control and some damage. Casualties reported as 2 dead and 22 seriously injured.

Casualties in attack on London night December 27th/28th reported as 82 killed and 380 seriously injured. Production at one war factory temporarily reduced to 50% through failure of gas and water supplies.

Aircraft casualties in operations over and from British Isles.

Enemy aircraft destroyed, nil. Two British bombers missing (night of December 28th/29th).

Perceptions of Code Radiograms Received  
at the War Department 10:03 P.M.,  
December 31, 1940.

London, filed 19:07, December 31, 1940.

1. On Monday, December 30th, planes of the Coastal Command engaged in only minor activities due to extremely adverse weather conditions. Only 18 British patrols were dispatched during the day. The activities of the Bomber Command on the night before were also limited by weather conditions with only a few planes dispatched to the Ruhr area and the Channel ports. Results could not be determined.

2. The activities of the German Air Force were also hindered by adverse weather. During daylight hours of December 30th a total of 36 German planes were plotted over Britain. An estimated total of 130 long range bombing planes were used in the German attack on London on the night of December 29-30th. No German planes were destroyed in spite of the fact that British fighters were in the air. The Germans however made no attempt to strike at military targets in the London area. Newspaper reports carry the details of the damage to London including the destruction of churches designed by Brunel.

3. On Sunday, December 29th, British bombers based in Malta attacked Valera and that night carried out a successful attack on Naples. Six destroyers, five cruisers and two battleships were observed in the port of Naples by planes on reconnaissance missions.

4. In the Northwest Approaches a 5,000-ton British vessel was attacked on December 29th and had to be abandoned.

5. The Germans have cleared some obstructions in the Kiel Canal and it is now possible for boats of 4,000 tons or less to use it.

6. The Germans are centering their attention on attacks with

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incendiary bombs. This statement is supported by the report that only nine high explosive bombs were used in the German attack on Plymouth during the night of December 28-29th while at least 1,000 incendiary bombs were dropped. The reports of the London bombing on the night of December 29th also support this statement.

7. It is believed in London that adverse weather is the principal cause of the temporary cessation of heavy German attacks with incendiary bombs. The use of incendiaries is nothing but arson.

8. That long range firing by German batteries on the French coast is not proving to be effective is evidenced by the report that on December 27th 200 rounds were used against a convoy in the English Channel without a hit being scored.

LEE

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RESTRICTEDM.I.D., W.D.  
December 31, 1940.  
12:00 M.

No. 281

SITUATION REPORT

This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

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I. Western Theater of War.

Low clouds and rain, last night, prevented both British and German Air Forces from carrying out bombing missions.

II. Greek Theater of War.

The Greeks report local ground successes at various points of the line. Italian aircraft were increasingly active. Salonika, Prevesa and the air fields at Janina and Kotzani were bombed.

III. Mediterranean and African Theaters of War.

The British carried out bombing missions over Cyrenaica on the nights of 29 and 30 December. Patrolling continued on the Sudan Kenya front.

Artillery action only was reported in the Bardia area. The Italians report that an attack in the Jarabub zone (about 100 miles south of Bardia) was repulsed.

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