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Treasury Department

TELEGRAPH OFFICE

1WN M 16

ESTORIL 1110P DEC 20 1940

1940 DEC 21 AM 7 40

LC SECRETARY MORGENTHAU
WASHN-DC

CHEERS IF MY UNDERSTANDING PORTUGUESE AS GOOD AS
THINK IT IS

ARTHUR

520A

(*Arthur*)

December 21, 1940
12:37 p.m.

H.M.Jr: Hello.

Operator: Chairman Frank.

H.M.Jr: Hello, Jerome.

Jerome
Frank: The other day, yesterday I think it was, the head of our Utilities Division told me that he learned that the British have considerable stock - a block of stock of a utility holding company and that some fellows are arranging to buy it - they're at least talking to them about it - and proposing then to sell it to the company at a huge profit.

H.M.Jr: Yeah.

F: Now I suspect - I gather that they may have some other utility securities and that's an outrage.

H.M.Jr: I agree with you.

F: Now, I wondered whether directly or through you I could get in touch with Gifford and say we'd be glad to help them on that sort of stuff.

H.M.Jr: No, I think that to save time and everything else, I'd be delighted if you'd get in touch with them directly and then if you arrive at any decision let me know.

F: Yes. Well, I thought what we might do would be to put somebody from our utilities staff in touch with them and tell them we'll be glad to advise them and for instance, in this case, this particular case, he ought to go right to the company himself.

H.M.Jr: Well, hell, I've been telling them that.....

F: I know you have.

- 2 -

H.M.Jr: but not in connection with utilities.

F: No.

H.M.Jr: But telling them to go to the companies direct.

F: But this sounds like a pretty raw deal. Somebody is gouging them, you see.

H.M.Jr: Well, I'd be delighted, Jerome, if you'd do it.

F: All right. Fine.

H.M.Jr: And now for your information and for you only, we called on Carter Glass; had a swell interview; said should we grant any branch banks, you know, branches to Trans-America or Bank of America if he was going to go ahead with this bank holding legislation. He says, I am going to go ahead with it and he said I would rather that you didn't grant them any.

F: Fine.

H.M.Jr: So the night before last letters went out to the Bank of America and Trans-America turning them down one hundred percent on all branches.

F: Fine. Ed Foley called me at your suggestion the other day telling me you were - you have started talking legislation now.

H.M.Jr: On this. And the legislation, as I left it with Glass, is to be that at the end of three or four years complete liquidation.

F: Yes.

H.M.Jr: Complete.

F: Yes.

H.M.Jr: His original bill two years ago was not, you know, was to freeze it.

F: Well, is that all right with him?

H.M.Jr: It was Thursday when we saw him.

F: Fine. Well, now, I was going to - I told Ed and I'll repeat it to you. It may be that our investment trust boys can help you because they've been over some of that stuff from that angle. You see, we accepted bank holding companies from the Investment Trust Act which passed this August and they've had a lot of experience.

H.M.Jr: Oh. Well, let's get it, will you, because

F: Well, I'll ask Dave Shanker to get in touch with them.

H.M.Jr: Will you take the initiative, and I can assure you that it will be welcome.

F: Yeah. All right, fine.

H.M.Jr: The amusing thing is that we sent them an 8-page memorandum on what we wanted to talk to them about the night before so he could read it and he dropped a remark showing that he had discussed it the night before with Jesse Jones.

F: (Laughs).

H.M.Jr: But notwithstanding that, the next day, he offered us a hundred percent cooperation.

F: Wonderful. Well, you're to be congratulated.

H.M.Jr: One hundred percent.

F: Merry Christmas to you.

H.M.Jr: Well, Merry Christmas, Happy New Year to you, and I've sent a Christmas present to Giannini. (Laughs).

F: (Laughs). O. K. Yeah, we gave them a nice one too.

H.M.Jr: Yeah.

F: Good-bys.

December 21, 1940
12:45 p.m.

H.M.Jr: Hello.

Operator: Mr. Hillman.

H.M.Jr: Hello.

Sidney
Hillman: Hello, Mr. Secretary.

H.M.Jr: How are you?

H: I'm all right. I just wanted to call you up and wish you the best of the Season and say to you that now I may have to call upon you - get a little more time from you than before because in this field I want your advice.

H.M.Jr: Well, I'm here and I'm at your service.

H: Well, I mean, that's what I want to - because I feel now that the responsibility there is after all of that whole picture, you know, of seeing that we really will get the utmost, expeditious production.

H.M.Jr: Well, I'd love to talk to you because I really think that there's a great opportunity because very little has been done and I think that labor can do a lot and can get the appreciation of the country. I think it's all there to be done and we go along, we place these orders, throw them on the factories and then we place more orders and throw more on them and there are so many things that these people need which Washington can do and we don't do.

H: That's right.

H.M.Jr: I mean, things like housing and sewage disposal, decent water, decent roads and the kind of things which you've got to have before you can get labor so that they'll work under happy conditions.

H: That's right.

- 2 -

H.M.Jr: And there's no coordination of that and I'd love to have a chance

H: Now, I'm leaving today. I'll be back - unless I'm called back before - the 2nd and I'd like to come over then and just get your reaction of what you think I ought to do or I can do and I'll appreciate any suggestions at all that you have.

H.M.Jr: Well, I'm full of suggestions.

H: All right. Well, I'll be there.

H.M.Jr: I wish you a happy New Year.

H: Happy New Year to you.

H.M.Jr: Good-bye.

H: Good-bye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

PERSONAL AND STRICTLY CONFIDENTIAL

DATE December 21, 1940

TO Secretary Morgenthau
FROM Mr. Wiley

An old newspaper friend of mine came to see me at my house yesterday and, in the course of general conversation, casually mentioned the communication which you sent to the Secretary of State on November 7, and showed that he had full knowledge of the contents. He also indicated that, when the letter arrived at the Department of State, it was the subject of a meeting of division chiefs and had a hostile reception.

The fact that a question of such a highly confidential nature should have leaked out is, of course, very disquieting.

Wiley

December 21, 1940.

To: Secretary Morgenthau

From: Mr. Gaston *MS*

You asked why you did not get a copy in advance of a memorandum on the subject of acquisition of foreign ships delivered by Secretary Hull to the President at the cabinet meeting Thursday afternoon. This memorandum was considered in draft form at an interdepartmental meeting which I attended in the conference room of the Department of State from 4:00 to 5:15 Wednesday afternoon, December 18. The draft was first presented to the conferees at that meeting, having been written by Saugstad, Assistant Counselor of the State Department, as a result of the views expressed at two prior meetings which I had not had an opportunity to attend but which had been attended by Foley, Cairns and Cox. Substantial revisions were made of the draft at the Wednesday meeting and Judge Hackworth promised to send a copy to me. I didn't receive any copy, but one was sent to Oscar Cox who received it at five o'clock Thursday afternoon after the cabinet meeting. I am attaching a copy of this memorandum.

You will note that the memorandum recommends (1) that the President appoint a chief coordinator for the purpose of dealing with the problem of immobilized vessels, and (2) that the Secretary of the Treasury in cooperation with the chief coordinator take immediate steps to "control and safeguard the immobilized vessels now in our ports including ports of the insular possessions".

After these steps have been taken, the coordinator would then proceed to inquire what additional steps should be taken to put the ships into use and what legislation is necessary to accomplish this.

While this report formally recommends these definite steps, it expresses contradictory opinions as to the desirability of taking them. We had felt that our responsibility was primarily one of the law and mechanics of the operation and that the utilization of the ships was primarily a problem for the Navy, the Army, the Maritime Commission and the State Department. The leaks of information to the newspapers which appear to have come from the State Department have created an additional problem.

- 2 -

I have had the Coast Guard working up a plan of action for the seizure of ships if we should be called upon to take this step and Mr. Cairns has prepared telegrams which would put the scheme into operation. To do the job most effectively and safely, however, would require calling our cutters into port and making other dispositions of personnel which we would not want to do until we were pretty sure that action was imminent because of the danger of advertising the action in advance. I think we ought not to take these preparatory steps until a coordinator has been appointed and we can have some reasonable assurance of transacting business in secrecy.

In view of the doubts expressed at Wednesday's meeting, we also came to the conclusion that it might be better to see what might be done in the way of negotiating deals for the three lines of Danish ships which comprise more than half the total of useful tonnage. The Isbrandtsen-Moller Company, which controls the largest of these fleets, is very anxious to make a negotiated arrangement with this Government for the use of the ships, but is unwilling to face the risk of dealing with the British. After a visit by James Ryan, an admiralty attorney representing Isbrandtsen, on Thursday, I called up the Navy Department and Captain Schuirmann who has been representing the Navy in the meetings came over to discuss the matter and we laid before him Ryan's suggestion with our comment on the legal phase of it. We feel, however, that the deals would need to be worked out between the Navy and the Maritime Commission.

The President's statement to the press yesterday that we have no present authority to requisition foreign ships should be helpful in the situation by allaying the fears of the masters of the foreign ships, but in the opinion of our lawyers it doesn't exactly square with the facts. They think we now have the power to requisition.

Enclosure.

MS



HWC
DEPARTMENT OF STATE
WASHINGTON

December 21, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses one copy of Section One of telegram No. 4165 of December 20, 1940, 8 p.m., from the American Embassy, London, which transmits a communication from the British Foreign Office regarding the opening of a further account at the Federal Reserve Bank of New York.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

NOV 21 1940

RECEIVED
TECHNICAL ASSISTANT

sh

EH

GRAY

London

Dated December 20, 1940

Rec'd 6:22 p.m.

Secretary of State,
Washington,

4165, December 20, 8 p.m.

STRICTLY PERSONAL AND CONFIDENTIAL FOR THE SECRETARY
AND SECRETARY OF THE TREASURY.

Following note, marked number W9188/G Secret, dated
December 20, just received from the Foreign Office:

With reference to the note number 2452 which the
United States Ambassador was so good as to address to me
on the 5th August, I have the honor to state that His Majes-
ty's Government in the United Kingdom are desirous of opening
a further account in their name at the Federal Reserve Bank
of New York. The Federal Reserve Bank have suggested that
His Majesty's Government should address their request to
the Secretary of State of the United States, and I shall
accordingly be obliged if you will be kind enough to forward
to the Secretary of State of the United States for transmis-
sion to the Treasury Department of the United States and to
the Federal Reserve Bank the following requests and instruc-
tions--

(A)

EH -2- 4165, December 20, 8 p.m. from London.

(A) His Majesty's Government request the Federal Reserve Bank of New York to open an account to be entitled His Britannic Majesty's Government special account "B".

(B) His Majesty's Government request the Federal Reserve Bank to accept on their behalf instructions of the Bank of England in all matters relating to this account.

(C) His Majesty's Government take this opportunity to advise the Federal Reserve Bank of New York that the Bank of England is authorized to manage and operate any and all accounts in the name of His Majesty's Government with the Federal Reserve Bank of New York and in connection therewith to give all manner of orders, instructions and advices relating to such account, it being expressly understood that the persons from time to time authorized by the Bank of England to sign on their behalf cheques, drafts or other orders, instructions or advices drawn on or otherwise relating to such accounts need not be officers or employees of the Bank of England or persons in England.

(D) His Majesty's Government also advise the Federal Reserve Bank that the Bank of England is authorized to request the opening of further accounts in the name of His Majesty's Government and to manage and operate such accounts in accordance with the instructions as outlined in paragraph (C) above.

(E)

EH -3- 4165, December 20, 8 p.m. from London.

(E) His Majesty's Government confirm that the understanding and agreement with regard to tested telegrams, cablegrams and radiograms contained in the following cables--

Nos. 962 and 977, dated August 1 and August 3, 1940, from Federal Reserve Bank of New York to Bank of England,

Nos. 814 and 825, dated August 2 and August 6, 1940, from Bank of England to Federal Reserve Bank of New York applies to any telegrams, radiograms and cablegrams relating to any account of His Majesty's Government with the Federal Reserve Bank of New York heretofore or hereafter established. This understanding and agreement is to the effect that: (1) the Federal Reserve Bank of New York is authorized and requested to accept and act upon any telegram, cablegram or radiogram, relating to any account in the name of His Majesty's Government, which is received by the Federal Reserve Bank of New York in the name of the Bank of England and which conforms to arrangements agreed upon between the Federal Reserve Bank of New York and the Bank of England with respect to the authentication of telegrams, cablegrams and radiograms by the use of test numbers; and (2) any such telegram, cablegram or radiogram will be binding upon the Bank of England and His Majesty's Government and will have the same force and effect in all respects as a letter signed

in

EH #4- 4165, December 20, 8 p.m. from London.

in behalf of the Bank of England by its officers who are authorized to sign correspondence and documents containing instructions or other communications such as are contained in the telegram, cablegram or radiogram.

(F) His Majesty's Government confirm that all funds and other property which may be transferred, deposited or placed in any account in the name of His Majesty's Government with the Federal Reserve Bank of New York will be the funds and property of His Majesty's Government.

(G) His Majesty's Government advise the Federal Reserve Bank that the authority extended to His Britannic Majesty's Ambassador in Washington and to Mr. J. A. C. Osborne under the "emergency signing procedure" does not apply to special account "B".

Further His Majesty's Government advise the Federal Reserve Bank that in respect of His Britannic Majesty's Government special account "A" and special account "B", (and any other accounts to which the emergency signing procedure might not apply), the signatories who have authority to sign on behalf of the Bank of England immediately prior to the time the emergency signing procedure becomes effective will thereafter have authority to sign on behalf of His Majesty's Government.

Two.

EH -5- 4165, December 20, 8 p.m. from London.

Two. The Federal Reserve Bank have requested that His Majesty's Government's communication to the Secretary of State of the United States should be authenticated by the Consul General of the United States in London and I shall accordingly be grateful if the counter-signature by the librarian and keeper of the papers at the Foreign Office of the signature of this note may be duly authenticated by or for the United States Consul General in London before this note is transmitted to the United States Government.

(END OF SECTION ONE).

JOHNSON

EMB



DEPARTMENT OF STATE
WASHINGTON

December 21, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses one copy of Section Two of telegram No. 4165 of December 20, 1940, 8 p.m., from the American Embassy, London, which transmits the balance of a communication from the British Foreign Office regarding the opening of a further account at the Federal Reserve Bank of New York.

JT

PLAIN

LONDON

Dated December 20, 1940

Rec'd 6:30 p.m.

Secretary of State,
Washington.

4165, December 20, 8 p.m. (SECTION TWO)

I have the honour to be, with high consideration, sir,
your obedient servant, (for the Secretary of State)
N. B. Ronald, certified at the Foreign Office for
legalisation of the foregoing signature "N. B. Ronald"
Stephen Gaslee, Librarian and Keeper of the Papers
for the Secretary of State for Foreign Affairs. (seal)
London".

To the note is attached a certificate reading as
follows: "Great Britain and Northern Ireland, London,
England Consulate General of the United States of
America as I, John J. Coyle, Vice Consul of the United
States of America, at London, England, do hereby make
known and certify to all whom it may concern, that the
signature "Stephen Gaslee" subscribed to the annexed
certificate, is of the true and proper handwriting of
Stephen Gaslee, Librarian and Keeper of the Papers for
the Secretary of State for Foreign Affairs, London, England,
that

-2- 4165, December 20, 8 p.m. (SEC TWO) from London

that the seal affixed to the said certificate is the seal of the Foreign Office, London, England, and that to all acts signed as the annexed full faith and credit are and ought to be given in judicature and thereout. In testimony whereof I have hereunto set my hand and affixed the seal of the Consulate General of the United States of America, at London, England, aforesaid, this twentieth day of December, 1940. J. J. Coyle, Vice Consul of the United States of America at London, England, Service No. 9540, no fee prescribed". The original note has been sent to the Department today by courier pouch, together with an authenticated copy.

(END OF MESSAGE)

JOHNSON

NPL

TREASURY DEPARTMENT

19

INTER OFFICE COMMUNICATION

DATE December 21, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£17,000
Purchased from commercial concerns	£14,000

Open market sterling was quoted at 4.03-3/4 all morning. The 'reporting banks' transactions were as follows:

Sold to commercial concerns	£13,000
Purchased from commercial concerns	-0-

No movement took place in quotations for the other currencies. Closing rates were:

Canadian dollar	13-1/4% discount
Swiss franc	.2321
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2360
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	8-5/8% discount

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Yokohama Specie Bank in Osaka, Japan shipped \$3,049,000 in gold from that country to its San Francisco agency, for sale to the U. S. Mint.

It was reported that the Bombay bullion markets were closed today. No gold or silver prices were received from that center.

[Handwritten signature]

TREASURY DEPARTMENT

20

INTER-OFFICE COMMUNICATION

DATE December 21, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following transactions in Italian accounts maintained with the National City Bank, New York, and the Chase National Bank, New York.

National City Bank

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
December 19	\$ 26,200	Banco di Napoli Trust Co., N.Y.	Credit Suisse, N.Y.

Chase National Bank

December 21	\$100,000	Credito Italiano, N.Y.	Guaranty Trust Co., N.Y., for account of Guaranty Trust Co., N.Y.
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For Miss Chubb

TREASURY DEPARTMENT

21

INTER-OFFICE COMMUNICATION

DATE December 21, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Federal Reserve Bank of New York reported the following transactions in German accounts maintained with the Chase National Bank.

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid to</u>
Dec. 20	\$ 50,497	Deutsche Golddiskontbank, Berlin	Irving Trust Co., for account of Carl Marks & Co. Inc.
	50,000	Narodni Banka pro Czechy a u Moravia v Praze, Prague	Chase National Bank, N.Y., for account of Swiss Bank Corp., Zurich
Dec. 21	51,500	Deutsche Asiatische Bank, Berlin	Chase National Bank, N.Y., for account of Yokohama Specie Bank, N.Y., under advice to their Tsingtau Branch by order of Carlowitz & Co., Tsingtau

[Handwritten signature]

MJD

PLAIN

22

PEIPING VIA N. R.

Dated December 21, 1940.

Rec'd. 1:30 a.m., 22nd.

Secretary of State,

Washington.

430, December 21, 2 p.m.

Embassy's 526, December 20, 11 a.m.

A second report dated December 20th from the same source states that the new bank at Nanking will be capitalized at 100,000,000 Chinese dollars; that its note issues will be backed by gold and silver specie up to 40%; that in addition to subsidiary coins notes will be issued in denominations of 5, 10, 50, and 100 dollars; and that for the time being circulation of this currency will be limited to the provinces of Kiangsu, Chekiang and Kiangsi.

Sent to the Department. Repeated to Chungking. By mail to Shanghai and Nanking.

SMYTH

EMB

10/5

COPY

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

STRICTLY CONFIDENTIAL

DATE December 21, 1940

TO Secretary Morgenthau

FROM Mr. Klaus

FBI reports:

November 28. FBI is monitoring the account of the Polak Trading Company, one of the recipients of fees from Amtorg; nothing of importance has been indicated as yet.

November 30. Special Agent's report, foreign funds, Pittsburgh; the accounts of the Consuls for Belgium, Czechoslovakia, France, Germany, Italy, and Latvia have been examined and are being monitored as are the accounts of various other suspected persons and organizations. Among the accounts monitored is that of the Schloeman Engineering Company, purporting to design and erect special rolling mill and hydraulic machinery, with officers and personnel reported to be strongly pro-Nazi and suspected of espionage. Another person being watched is Ernst Volkmann, Assistant Director of the Research and Chemical Department,oppers Company, Pittsburgh.

December 2. Special Agent's report, German funds, St. Louis area, shows that on October 14 \$5,000 in cash was withdrawn in the form of \$20 and \$50 bills.

December 14. Mexicans are said to be negotiating in Canada for the purchase of cobalt in amounts reported to be far in excess of Mexican requirements and therefore intended either for Germany or Japan.

December 16. Cabled transfers of funds to the manager of the Batu Shoe Company in Port-au-Prince, Haiti, have been reported; it is suspected in Haiti that these funds may be for the purpose of assisting Nazis in their propaganda work in Haiti.

December 16. The Hungarian Consul General in New York City is said to have made the statement that plans were in effect whereby during the early part of the week ending December 7, 1940, the German Consulate in New York City would transport to the Embassy in Washington by automobile several volumes of highly confidential material for storage purposes in anticipation of war which is expected by February or March 1941.

December 17. It is reported that Karl von Wallascheck Wallfeld, said to be secretary of Hitler's personal Military Cabinet, arrived at San Francisco from Japan December 13 accompanied by one Herman Saam, both on diplomatic passports traveling as official couriers and intending to make an extensive tour of South America as well as of the United States.

December 20. On December 17 officials of the Japanese Embassy withdrew \$35,000 in \$500 bills and approximately \$6,500 in bills of smaller denomination from the Riggs Bank.

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BRITISH EMBASSY,
WASHINGTON, D. C.
December 21st, 1940.

Personal and secret.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

Harold Butler

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated December 19th.

Naval.

Free French torpedo boat "Branlebas", British manned, broke her back and foundered in heavy weather a.m. December 14th off the Lizard. Three survivors picked up.

2. One M/S trawler near-missed by A/C off Harwich p.m. December 18th subsequently sunk.

3. British Duquesa p.m. December 18th reported shelled by raider 700 miles southwest of Freetown. Signal incomplete but indicates the raider Admiral Sheer.

4. On December 18th believed that no less than four Fokke Wulf Condor A/C operating off west coast against shipping efforts made to intercept so far failed.

5. Motor torpedo boat on sweep sank 6,500 ton merchant vessel and probably hit armed trawler with torpedo. Reconnaissance December 18th showed two damaged Cavour class still at Taranto but Littorio class battleship not seen.

6. Coastal command bombers attacked Tirpitz at Wilhelmshaven night of December 18th/19th reports not yet received. Other A/C bombed number of vessels Sogne-fiord results unobserved.

7. British S/M night of December 13th/14th sank one, possibly two, escorted loaded merchant vessels off Cape Spartivento, Italy. Night of December 15th/16th she sank large southbound tanker off Colonna.

8. A convoy of 28 ships arrived from Canada without loss, included 5 tankers and four cargoes of steel.

9. Military. Western Desert. Position at Bardia reported at 6.35 p.m., December 18th, as obscure. Low clouds had hindered air activity but situation seemed to be developing slowly and favourably. At Bidi Omar about

-2-

800 prisoners and a battery are reported captured. The total British Imperial casualties reported during operations up to December 16th were 72 killed and wounded.

10. An Albanian battalion formerly attached to an Italian division is reported to have been disarmed and it is probable all Albanian battalions will be treated thus since desertions from them are frequent.

11. Royal Air Force. Night of December 18th/19th. Forty-six aircraft were detailed for following operations:

<u>Locality</u>	<u>Targets</u>	<u>Number of aircraft</u>
Milan	Pirelli factory	5 heavy bombers
Mannheim	Industrial	26 " "
Wilhelmshaven	Shipping	6 coastal
Lorient	Submarine base	6 medium bombers
Minelaying		4 coastal

12. German Air Force. Aircraft casualties in operations over and from British Isles.
 Enemy: one bomber. British: nil.

Telegram from London dated December 20th.

Naval.

On the evening of 18th small British force swept up the Adriatic as far North as the line Bari - Durazzo but sighted nothing. Other units of the Mediterranean Fleet, including heavy ships, proceeded up the Straits of Otranto in support and improvement in weather conditions, which previously was bad enough to prevent A/A operating, enabled the bombardment of Valona to take place 0115/19 without aircraft spotting. About 100 rounds were fired.

2. British Gunboat attacked Bardia a.m. 17th, at close range, entering the inner harbour under heavy machine gun fire and sinking 3 small ships. Large fires burning at Bardia since p.m. 15th.

3. Attacks by coastal A/C were made on U-boats at Lorient and U-boats and dockyard at Brest early on 20th.

4. Greece. No further report.

4. Royal Air Force. Night of 19th/20th. 112 aircraft were detailed for the following operations:-

<u>Locality</u>	<u>Targets</u>	<u>Number of aircraft</u>
Gelsenkirchen	Synthetic oil plants	23 heavy
Duisburg	Electric Power Station	16 "
Cologne	Synthetic oil plants and electric power station	37 "
Lorient & Brest	Submarine bases and docks	18 coastal
Boulogne	Docks	2 heavy
Norway	Special railway targets	8 coastal
Minelaying	-	8 heavy

They have all returned.

Night of 19th/20th. Only about 50 enemy aircraft operated.

5. Aircraft casualties in the operations over and

-2-

from the British Isles.

DestroyedProbableDamaged

Enemy: by our fighters

1 bomber

1 bomber

British: Nil.

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TENTATIVE LESSONS BULLETIN
NO. 79
G-2/2657-235

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, December 21, 1940

NOTICE

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

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction, see Letter TAG 350.05 (9-19-40) M-B-41.

GERMAN ANTI-AIRCRAFT ACTIVITIES
OCTOBER 21-NOVEMBER 7, 1940

SOURCE

The information contained in this bulletin is from a report made on November 8, 1940, by an American official observer in Berlin. It is based upon personal observation, conversation with colleagues, and articles in newspapers and magazines.

The observer states:

"Only current observations and latest trends are reported. Nothing in this report is to be considered positively reliable."

CONTENTS

1. INACCURACY OF PRESS REPORTS
2. INCREASE IN AIR RAID SHELTERS IN BERLIN
3. ARTIFICIAL SMOKE BANKS
4. OBSTRUCTION BALLOON
5. INEFFECTIVENESS OF SEARCHLIGHTS
6. NEED FOR PLANE DETECTION SYSTEM
7. ANTI-AIRCRAFT MATERIEL

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RESTRICTEDGERMAN ANTI-AIRCRAFT ACTIVITIES, OCTOBER 21-NOVEMBER 7, 1940.1. INACCURACY OF PRESS REPORTS

Press reports emanating from Germany frequently state that anti-aircraft defenses have driven off British bombing attacks. As far as American official observers have been able to determine, this is wholly untrue, and press representatives suggest that transmission of these reports is part of the price they pay for getting any real news at all.

British bombers fly over the city, usually at altitudes between 4,000 and 10,000 feet, and bomb their targets. In one phase, when they were operating against communications, most of their bombs hit quite near rail lines or terminals. Direct hits are not scored often, but there is a definite improvement in the British bombing. Certainly it is not promiscuous, and certainly German anti-aircraft is not rendering it ineffective.

2. INCREASE IN AIR RAID SHELTERS IN BERLIN

Numerous recent indications that the Germans have modified their plans and are now preparing for a long war include the fact that 35,000 workers have been called from other projects and assigned to the task of building air raid shelters in Berlin.

3. ARTIFICIAL SMOKE BANKS

During recent air attacks over Berlin and its suburbs, cloud banks have appeared to blanket whole areas. This type of aerial obstruction was particularly noticeable in the early morning attack of November 7, when the British attacked two airplane factories at Oranienburg, north of Berlin. When the attacking planes first appeared, a light thin cloud layer, which appeared to be a hindrance to the effectiveness of searchlights, was seen at an altitude of about 500 feet. As time passed, the cloud layer grew denser, and after half an hour the cloud bank, quite thick, extended from the ground to an altitude of a thousand feet. Except over Oranienburg, the sky was quite clear.

The only other information available on this subject is the assertion that the artificial smoke is quite expensive—practically an admission that the phenomenon actually exists.

4. OBSTRUCTION BALLOON

The appearance of an obstruction balloon over the center of Berlin about November 4 has caused much speculation. The balloon

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was of the same type as that used in balloon barrages around Hamburg and the western industrial area. It was suspended at an altitude of about 750 feet during the day when it was observed. Hanging from the balloon was a parallelogram, estimated to be about 12 feet on a side, of what appeared to be wire mesh. The top and bottom sides of the parallelogram were held by a beam of unknown material, while the sides had no support at all. The distance of the balloon from the earth was so great that connecting wires, if they existed, could not be discerned. The fact that a German plane flew around over Berlin—a rare occurrence by day or by night—during the time the balloon was suspended gives rise to the belief that the Germans may be experimenting with a new plane detection device. Although a search was made, no other balloons of this type were seen.

5. INEFFECTIVENESS OF SEARCHLIGHTS

Searchlights are not a satisfactory means of plane detection in the German system of antiaircraft defense. At first, lights went into action for brief periods and then went out again, possibly for the purpose of protecting equipment from air attack and confusing enemy air personnel by denying them orientation. The first purpose may now be eliminated, since there have been no accompanying aircraft, and the second is invalid because the British drop flares, locate their targets, and deliberately bomb them.

As a consequence, German lights now go on as soon as planes come in range, and they continue in action steadily. Since August, when raids on Berlin began in earnest, one American official observer has seen no more than four British planes illuminated by searchlights. While all artillery within range opened fire on them, they managed to escape from the beams and get away. A number of flicks have been seen, but the lights did not seem to notice them. There has been no evidence of the use of distant electrical control in connection with German searchlights.

6. NEED FOR PLANE DETECTION SYSTEM

The crying need in Berlin is for some effective system of plane detection not dependent upon searchlights, and this need will be even more vital when British high altitude planes come over during the day at such a height that they are out of sight and hearing from the ground. It is believed that the Germans are using barrage fire based on a sound track. During air attacks there are periodic pauses when only planes can be heard; then suddenly antiaircraft artillery—guns, for small and medium caliber

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cannon are rarely seen in action—opens up and hurls a twinkling curtain of bursts before the estimated course of the plane. The method is not successful. In all the raids that have taken place over Berlin, only one British plane is definitely known to have been brought down in the vicinity.

7. ANTI-AIRCRAFT MATERIEL

The most complete and reliable information available on heavy caliber anti-aircraft armament seems to indicate the following:

a. 75-mm. Gun

The smallest heavy caliber gun is a 75-mm. Skoda weapon which has been used to reinforce the fire of other weapons. One battery of these, mounted on railway cars, was until recently located at the West-Kreutz railway station in Berlin.

b. 88-mm. Multi-Purpose Gun

The next size is the standard 88-mm. multi-purpose gun. Its basic mission is anti-aircraft action, but it has been used against tanks, fortifications, and ships as well. The trend of the entire German Artillery is toward multi-purpose armament.

c. The 102-mm. Gun

The 102-mm. anti-aircraft gun is new, and it appears to have the all-purpose characteristics of the standard 88-mm. weapon. It has a mechanical loading device, and it is mobile.

d. The 150-mm. Gun

The largest gun being used for anti-aircraft defense is, according to frequently reported but unconfirmed information, a 150-mm. piece. It is said to be an immobile naval gun, modified for anti-aircraft use but manned by naval personnel.

In addition, some materiel taken from Holland, Belgium, France, and England are reported in use in the West.

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G-2/2657-220

RESTRICTED

M.I.D., W.D.

No. 276

SITUATION REPORT

December 21, 1940.

12:00 M.

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.

I. Western Theater of War.

1. Air Force Operations.

During daylight of the 20th there was very limited German activity. Last night operations were resumed on a normal scale, the attacks focussing on Liverpool and Merseyside. The London area also was bombed.

Last night the R.A.F. operated normally against Berlin, Antwerp, Boulogne, Flushing and Amsterdam. The Coastal Command harassed German gun positions, airdromes and harbors adjacent to the Channel.

II. Greek Theater of War.

Greeks claim to continue on the offensive but apparently no progress was made. Air activity was limited.

III. Mediterranean and African Theaters of War.

There is no change in the situation around Bardia, where the British operations are receiving heavy air support.

Minor ground operations are in progress on the far south flank of the bottle on the Libyan-Egyptian border, namely between Siwa and Giarabub.

Patrolling activity continues in the Gallabat and Kassala areas in East Africa.

The Italian aerial diversion in East Africa has continued, Aden being bombed.

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Paraphrase of Code Radiogram
Received at the War Department
at 1:34 P.M., December 21, 1940

London, filed 14:00 P.M., December 21, 1940.

1. On Friday, December 20, planes of the Coastal Command engaged in 11 offensive, seven routine, and seven special patrols.
2. German air operations on the night of December 19-20 involved about 70 bombers. A total of 55 coastal type planes and bombers were active during daylight hours of December 19. On December 20, 55 German patrols were over the coasts. German activity on the night of December 20-21 was more extensive than usual but was not concentrated on any one area.
3. Persistent rumors that German equipment is being moved into Italy by the Riviera route cannot be definitely confirmed. Some elements of German units are believed to be in the Province of Trentino and, less probably, in Sicily; but there is no conclusive evidence that any German troops are in Italy. The report that German troops may cross France with or without permission of the Vichy Government cannot be confirmed.
4. The number of men in the armed forces of Yugoslavia has been reduced by 100,000 men to a present strength of 400,000. Another reduction of 100,000 men will probably take place by the first of the year.
5. On December 20, two Italian cruisers, five light

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naval base, and 15 cargo vessels were observed by reconnaissance planes based on Kaitia on the route from Palawan to Maritima Island. Probably a convoy is to be found in the vicinity of Maritima Island since these vessels are converging on that point.

END**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
G-3

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CONFIDENTIAL

Paraphrase of Code Radiogram
Received at the War Department
at 5:53 P.M., December 21, 1940

*Mr. Young read
and ret'd this
on 12/30/40*
35-A

Athens, filed 20:00, December 18, 1940.

In regard to telegram No. 3 from your office: Greek strength is estimated at 21 divisions. Of these 16 are on the Albanian front. Not more than 12 have as yet been employed. Total Greek effective strength is about 400,000. The immediate Greek objective seems to be securing the strategic points of Valona and Tepeleni, thus fixing a general line from Valona to Lake Ohrida. There will then be a possibility of continuing the effort either to destroy the Italians completely or else to force them to evacuate. This is dependent on what is permitted by such factors as weather, possible further enemy collapse, and the nature of the terrain. The Greek forces still have their preponderant elements in the north. However, the chief present effort is in the central and southern sectors.

Major Caw is remaining in Greece, while Colonel Brower left for Egypt today. They report that the Greek Air Force has a six squadron total. Three of these have Blenheim, Potes, and battle light bombers. As used, Potes is much the best of the lot. PZL fighters are used by the other three squadrons. To these may be added one Anson squadron, which is employed for coastal patrol with the Navy. There are also a few Breguets, which are employed for observation by the army. The average for all squadrons is about seven planes, in view of shortage of supplies and facilities for repair, plus losses. The air force in Greece operates under army

CONFIDENTIAL

direction. It is employed in close support. Capability and determination characterize the pilots, whose operations are extremely efficient. Their losses have been heavy. Twelve Gladiators have just been presented by the British. As many as 100 of our light bombers and pursuit planes could be put to good use by the Greeks.

Units of the British in Greece are all under the command of the air force. This totals 4-1/2 squadrons in all. Three of these have Blenheim short nose bombers, this including one flight equipped as fighters, while 1-1/2 have Gladiator fighters. On November 7 the Blenheim mixed squadron arrived; on November 21-23 Blenheim bombers; during the last half of November the Gladiators by increments. During the period of full moon this force was strengthened by one flight of Wellingtons from Egypt for operations by night. For the strategic bombing of the ports of Valona and Santi Quaranti, the British air force was used. The Wellingtons, when they were present, bombed Durazzo, Bari, and Brindisi. The Greeks are always asking for more close support from the air. This has been granted, without any unduly serious interruption of the main effort, by occasional attacks on air fields and towns in the forward zone. In spite of inferior planes and equipment, bad weather and ice, the British operations show dash and daring. Results attained in bombing are very poor when judged by our standards. This is due to poor sights, brief training, strong fighter resistance, and enemy antiaircraft guns. Stick bombing, though wasteful, is required. 250 pounds is the usual size of the bombs. When the target is within

CONFIDENTIAL

their range and the weather clear, the Gladiators make a very effective escort for bombers. I believe that the attacks on their ports have influenced the Italian decisions to retreat to an extent greater than the Greeks realize. This is true in spite of relatively slight effectiveness in bombing.

Operational flying is all contact, because of shortage of de-icing equipment and instruments in planes and shortage of radios on the ground, plus lack of training. Three airdromes only are in use but there are about 4 auxiliaries. Such other fields as exist are either too muddy or too little. The air force will therefore have to stay at its present size until more fields are built, get dry or are taken from the enemy.

The Italian air force opposing the Greeks in Albania is estimated as at least 25 squadrons. The Italian planes are for the most part CR 42 and G 50 fighters, 8 79 Detoant bombers. The Italians have only four principal airdromes in Albania - Elbasan, Tirana, Valona, and Durazzo. It is probable, however, that at least ten of the squadrons listed are based on Italy. Recent operations have been directed against localities of no particular value from the military standpoint. Among such targets Corfu has been chief.

A British "army" of about sixty officers and men who have no connection with the air force, is somewhere in Greece. This little force is giving instruction and advice on the use of materiel furnished by the British. It may also be engaged in planning future operations by the British army. Both Greek and British communiques

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are conservative and truthful in the claims they make. Not always complete, as for example in reporting losses. They seldom report accidents. Nor do they report losses of considerable size caused by something other than enemy action. (Report of Colonel Brewer and Major Crow ends here.)

It is requested by our Minister that the portion of the air report which relates to the Greek air force be brought to the State Department's attention. This is in connection with the Legation's telegram No. 353, section 2, dated December 9, 12 noon.

As regards reports sent through the Legation, invite your attention to my telegram No. 2. \$500 for additional cable funds are requested. This should be sent without delay so that I can cover present obligations and be ready for any possible emergencies.

BAKER

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

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CONFIDENTIAL

December 21, 1940

Isidor Lubin came to see me at a quarter to five, and told me that at the meeting this morning of the Big Four, Knudsen, Knox, Stimson and Sidney Hillman, Knudsen came there with the agenda prepared and he also wanted a secretary to this group. Lubin wanted me to get word to the President that Knudsen wanted this secretary, and I said that I wouldn't because I didn't want to bother him with it.

I then asked Lubin whether the small manufacturer was getting any of the munitions business, and he said, "Absolutely nothing." I then asked him whether he had any similar studies to the one Governor Lehman had made in New York State. He said yes, that he had a study made in Kansas City and 70 miles around, and there are a great many factories there of small size who have actually no war orders. He also said he had a similar study made in the Milwaukee area.

It occurred to me that if, in Milwaukee and Kansas City and anyother location where there are a predominance of German population and isolationists, these plants could be given immediately large orders for munitions so that these people would get some idea of just what it means, it would be extremely helpful in our campaign to give the English what they need to continue the fight. I have two interests in this - first, to see that the business is divided and that the small business man gets some; and, secondly, the reaction it would have on people living in places like Kansas City and Milwaukee. It is incredible to me that somebody hasn't thought of this before.

Tom Corcoran is looking for a job in Washington, and is crazy to have something to do. Why wouldn't it be an idea for the President to put him in charge to see that these munitions orders are placed in Milwaukee, Omaha, Kansas City and Des Moines, Iowa? It would have an enormous effect on the Middle West, and it would call their attention to just what this national defense program means. Tom Corcoran could do it with his energy, and he is as good a man as I can think of at the moment. It should be somebody like him.

CONFIDENTIAL

December 22, 1940

To: The Secretary

From: Mr. Young

Re: 300 P-40 Airplanes

Curtiss Wright Corporation has advised the President's Liaison Committee that it is in a position to produce the frames for 300 P-40 airplanes over and above those already ordered by the British. These planes could be delivered as follows:

104 in May
108 in June
88 in July

This plane is specifically the P-40-B type now being produced for the British at the rate of approximately eight per day, equipped with the Allison "C" engine and armed with two .50 calibre fuselage guns and four .30 calibre wing guns. The P-40-B is the same ship as the Hawk 81-A.

As of December 14th, the British had received delivery of 481 P-40's, excluding spares, and had 399 on order. It is expected that all of the 399 will be delivered by July 1, 1941. In this connection it should be noted that the P-40-D (Hawk 87-A) comes into production in February and supersedes the current P-40.

The Curtiss Wright Corporation has stressed the urgency of an order for this additional 300 planes as contracts must be let immediately for materials if these planes are to be delivered in May, June, and July, and if the continuity of production is to be maintained. Sir Henry Self of the British Purchasing Commission has advised me that the British would be glad to place an order for the 300 planes and earmark the funds to cover it. The amount of funds involved would be approximately

- 2 -

17 million dollars, excluding the engines.

Due to the fact that the President's Liaison Committee has received requests from other foreign purchasers for aircraft, the question arises as to whether part of this group of 300 planes could not be made available for purchasers other than the British. If some of these airplanes could be so allocated, three factors should be noted:

- (1) It would tend to give tangible evidence of United States good will to other friendly nations;
- (2) It would aid domestic manufacturers in maintaining good will built up over a period of years;
- (3) It would not presumably have an adverse effect on the United States in case of war because the P-40-B is obsolescent.

When this matter was first discussed with Assistant Secretary of State Berle, a possibility was considered of allocating a substantial quantity to the British and smaller quantities to China, Greece, Netherlands, Turkey, and Latin America. In this connection it should be noted that the War Department has made specific studies with respect to the strategic and tactical importance of aircraft allocation to Latin America.

The Chinese Air Mission has been negotiating informally with Curtiss Wright for the purchase of twenty P-40 planes after receiving an informal clearance from the Liaison Committee with the concurrence of the State Department and the Secretary of the Treasury.

It should be added that the United States Army and Navy have stated that they have no desire to purchase any of these 300 planes.

P.Y.

CONFIDENTIAL

December 22, 1940

To: The Secretary

From: Mr. Young

Re: Availability of Engines for 300 P-40's.

The P-40-B plane requires the Allison "C" engine. The British ordered 1762 Allison "C" engines, of which 1056 will be required for the British P-40's under contract, including 20 per cent spares. This will leave an accumulative surplus of 706 engines after meeting present British requirements. Of this 706 surplus, 360 are available to cover the proposed 300 P-40's under consideration. The remaining balance of 346 were to be used for installation in Lockheed Interceptors.

If these should not be used for the Lockheeds, the British have advised me that these would form a not unreasonable reserve for additional spares in view of the fact that the type is going out of production.

It is understood that if part of the 300 planes under consideration were allocated to other foreign purchasers, the British might release some of the "C" engines for those planes. If the British would not release any of their "C" engines and part of the 300 planes were allocated to other purchasers, Allison has advised me that they could probably produce 150 additional "C" engines from so-called "rejects".

Thus, if the British refuse to release any engines and were allocated 150 of the 300 planes, engines for the balance could still be made available for other purchasers.

P.Y.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) Vichy

DATE: December 22, 1940, 10 a.m.

NO.: 1171

STRICTLY CONFIDENTIAL.

Reference is made to telegram of December 20, 9 p.m., No. 1164 from the Embassy.

According to Leroy-Beaulieu (who was until recently the French Financial Attaché in Washington), the gold which was moved to North Africa must be the gold belonging to the Belgians which had been requested by the Germans. He insists that the Germans have made no such request for the French gold. He said that it is his understanding - although the whole matter is now beyond his jurisdiction since he is Director of Commercial accords - that after the incident at Dakar most of the French gold which was at that port was moved inland to Kayes in the Fay (omission). He also denied that a small quantity of gold is needed by the French for their clearing payments to the Swiss and Portuguese.

MATTHEWS.

EA:LWW

CONFIDENTIAL

Paraphrase of Code Radiogram
Received at the War Department
at 12:22 P.M., December 22, 1940

41

Same, filed 12:22, December 22, 1940.

Despite constantly persisting rumors, it is impossible, after a painstaking canvass of the most reliable sources, to find any ground for believing that German units are with the Italian forces, as yet. You are asked to inform the State Department that first-class diplomatic sources which are close to the Embassy deny with emphasis that the Germans are giving military aid on a large scale. It is still the Italian hope that bad weather will delay the Greek offensive and thus make it possible for them to hold the line from Valona to Berat. However, it is regarded as more and more probable that the Italians will have to withdraw to a final position on the general lines Krievishi, Elbasan, Mount Sebanik. The Yugoslav assistance which has been reported is said to be confined to permission for the purchase of supplies in Yugoslavia and the privilege of transporting them to Albania directly.

FINER

Distribution:

Military Aide to the President
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff - 2
War Plans Division
Office of Naval Intelligence

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Paraphrase of Code Radiogram
Received at the War Department
at 12:22 P.M., December 22, 1940

Rums, filed 12:55, December 22, 1940.

Despite constantly persisting rumors, it is impossible after a painstaking sifting of the most reliable sources, to find any ground for believing that German units are with the Italian forces, as yet. You are asked to inform the State Department that first-class diplomatic sources which are close to the Embassy deny with emphasis that the Germans are giving military aid on a large scale. It is still the Italian hope that bad weather will delay the Greek offensive and thus make it possible for them to hold the line from Valona to Durut. However, it is regarded as more and more probable that the Italians will have to withdraw to a final position on the general lines Krievitchi-Elbasan-Mount Selenik. The Yugoslav assistance which has been reported is said to be confined to permission for the purchase of supplies in Yugoslavia and the privilege of transporting them to Albania directly.

FINIS

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

CONFIDENTIAL

CONFIDENTIAL

43

Paraphrase of Code Radiogram
Received at the War Department
at 11:01 A.M., December 22, 1940

London, filed 16:50 P.M., December 22, 1940

1. On Saturday, December 21, planes of the Coastal Command made two offensive, 15 routine, and seven special patrols. The Fighter Command operated 115 planes that day and 36 the preceding night.
2. German reconnaissance planes made 105 sorties over the coast on December 21. During the night of December 20-21 the scale of German air activity was estimated at 25 mine layers and 275 bombing planes. The increased scale of reconnaissance activities by the Germans is the most important change in the situation.
3. On December 16, planes from one German transport unit, two bomber wings, and two units of reconnaissance-bombers were observed in Italy.
4. Nineteen Italian planes were destroyed on the night of December 20-21 when Wellington heavy bombers based in Malta attacked the Castel Benito airdrome in Libya.

LEE

Distribution:

Military Aide to the President
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff - 2
War Plans Division
Office of Naval Intelligence
AC - 2
G-3, 1

CONFIDENTIAL

December 22, 1940

Mr. Morgenthau: Good morning, Robert. Very glad to see you back home and to see you so chipper, with your eyes half closed and your mouth open. After all, I'm always glad to have one of these flashey, bright college boys come back to my home and brighten the life for me.

Recd. 6.30-PM, Sunday Dec 22, 1940
from Sir Frederick Phillips
Schwarzsopf. 12/23/40.
24.



X

45

BRITISH AIR COMMISSION

OFFICE OF
THE DIRECTOR GENERAL

WASHINGTON, D. C.

Note for Mr. Secretary Morgenthau
Order 300 Hawk 81A's plus 30% spares.
(Value \$14,000,000)

1. As discussed between Mr. Morgenthau and Mr. Morris Wilson on December 14, 1940, arrangements can be made for the British Air Commission -
 - (a) to place and finance the initial down payments accruing under an order for 300 Hawk 81A's plus 20% spares, and
 - (b) to provide the necessary Allison C engines, if that course is desired, pending final allocation of the deliveries.

The British Government desire to secure as many of these aircraft as possible.

2. Alternatively, it may be preferred that this order should be placed by the U.S. Army Department, as one of the items to be covered by allocation of appropriations immediately available to them. It has accordingly been provisionally included as of first priority in the list of items submitted to the Army Department for consideration in connection with that allocation.

December 21, 1940.

Regraded Unclassified

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

46

Week ended December 21, 1940

	JAPAN	RUSSIA	SPAIN	GREAT BRITAIN
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	77,500 Bbls.	---	98,000 Bbls.	---
Crude -				
Blended or California High Octane Crude*	226,600 Bbls.	---	---	---
All Other Crude	---	---	---	---
Gasoline -				
Gasoline A**	---	---	---	---
Gasoline B*	200,936 Bbls.	87,000 Bbls.	72,000 Bbls.	15,375 Bbls.
All Other Gasoline	16,510 Bbls.	---	4,000 Bbls.	1,200 Bbls.
Lubricating Oil -				
Aviation Lubricating Oil***	382 Bbls.	---	---	---
All Other Lubricating Oil	20,251 Bbls.	---	9,000 Bbls.	1,075 Bbls.
Tetraethyl Lead***	---	---	---	---
Boosters*, such as Iso-Octane, Iso-Hexane, or Iso-Pentane	---	---	---	68,572 Bbls.
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	---	---	---	6,434 Tons
All Other Scrap	---	---	---	9,906 Tons

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

December 23, 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.

Notes on Conference in Office
of the Secretary of State, 9:30 A. M.,
Monday, December 23, 1940.

Those present, Secretary Hull, Secretary Knox, Secretary Stimson, Secretary Morgenthau, Admiral Stark, Admiral Towers, Stanley Hornbeck, James L. Dunn, General Marshall, Major Timberlake, and the Liaison Committee, consisting of General Burns, Admiral Spear, Philip Young, and Colonel Maxwell.

Secretary Morgenthau opened the conference by saying that the Liaison Committee had made up a table of pending aircraft requests received from countries all over the world. Further, that the Committee had been notified by Curtiss Wright that 300 P-40 planes over and above those already on order could be produced in the spring. In addition, the Liaison Committee had found out that Allison could build 150 "commercial" engines in addition to those on order for the British.

The immediate question confronting the group was how to divide the 300 planes with the thought in mind that possibly some formula could be established in case similar situations arose in the future. Secretary Morgenthau said that it was his understanding that the Army Air Corps was not interested in these planes so that the total number might become available for other purchasers. The general idea was that probably 150 should go to the British and the balance should be allocated.

Secretary Stimson inquired as to whether or not there were any guns available. General Marshall referred the question to Major Timberlake who replied that guns would have to be made available from those on order for the United States Army. Secretary Knox said that it would be the arming of the second 150 planes that would be the bottleneck. Admiral Stark inquired as to whether or not British guns could be made available. Philip Young replied that the British had told him that they would be 4000 guns short by June for their own planes and that probably some planes would have to be grounded through lack of armament.

It was suggested that the balance of the planes, that is, 150, should go to the Chinese, and Admiral Stark inquired as to whether or not the Chinese could furnish their own guns. To which Philip Young replied that they could probably furnish some. Secretary Hull suggested that as the President had promised thirty planes to the Greeks that the 300 P-40's should be divided 150 to China, 120 to South America, and 30 for the Greeks.

- 2 -

General Marshall said that he had a list of the various South American countries showing how the War Department thought planes should be allocated in that area. Secretary Knox stated that 150 would have to go to the British. To which, Secretary Stimson added that the war was in Europe and the Far East, not in South America; therefore, the planes would go to the British and the Chinese.

General Marshall said that there were three phases to consider; the arithmetical, the psychological, and a combination of the two. He added that after all the planes should be allocated in such a way as to do the most good psychologically. It was his suggestion that no definite allocation should be made until the planes were ready for delivery.

Secretary Hull said that he thought the planes should go to China, and Stimson added that he thought China should get pursuit ships before she got bombers. Secretary Morgenthau inquired as to whether there were any other pursuit ships available that the Air Corps did not like. Major Timberlake said that the Republic P-43 was not particularly well liked by the Army as it had no armor and no leak-proof tanks. General Marshall said that the P-43 had a speed of about 360 miles per hour but that he had grave doubt as to their usefulness to the Chinese because of the lack of armor. Admiral Stark asked if leak-proof tanks could not be put in those planes, but Major Timberlake said it could not be done.

Coming back to the P-40, Admiral Stark stated that something would have to be done for China, and Secretary Hull added that he thought part of the planes should go to South America. The South American idea, however, was turned down emphatically, and it was resolved that the 300 P-40's should be divided equally between the British and the Chinese, but that China should get immediate deliveries.

Secretary Morgenthau suggested that the English place the order immediately inasmuch as Curtiss Wright had to let its subcontracts for materials if these planes were to be produced at all. It was suggested that China should get fifty from British deliveries in January, twenty-five in February, and twenty-five in March, making a total of 100 which the British would give up. As compensation the British would get 300 with delivery in May, June, and July, of which fifty would at that time be allocated in accordance with the demand, leaving a net gain of 150 for the British.

After a good deal of discussion, however, it was decided that if the British gave up current deliveries to the Chinese, then the British should receive planes on a two for one basis. In other words, the British would give up to the Chinese fifty in January, twenty-five

- 3 -

in February, and twenty-five in March, making a total of 100, but she would get back 300 later in the spring giving her a net gain of 200. Secretary Morgenthau said that he would get in touch with the British right away and ask them to place the order.

Secretary Hull inquired as to whether there were any other planes available for allocation to other foreign purchasers, and Philip Young said that there were ten due to be exported to Iran in January and February. Secretary Hull seemed rather surprised and said he thought that the Iranian planes should be investigated by a sub-committee. Secretary Morgenthau suggested that the regular Liaison Committee should look into the matter, and Secretary Hull said the State Department would be glad to cooperate and confer with the Committee on that matter.

ooOoo

December 23, 1940.
12:15 p.m.

RE BRITISH PURCHASING PROGRAM

Present: Mr. White
Mr. Cochran
Mrs. Klotz

H.M. Jr. After the meeting on airplanes at Hull's office, I asked him to ask Stimson, Marshall, Knox and Stark to stay behind. I explained to them that as of December 22 the English had 80 million dollars worth of gold on hand and on -- cash on hand, and as of January 1 they would have approximately 15 million dollars on hand. As of February 1, they would show a deficit of approximately 165 million dollars; that there were just two sources that they could go to to get the money to meet their bills between now and the first of February and that was to Canada, where there is 650 million dollars in gold, or to South Africa and Australia; that as far as Canada was concerned, the English were taking the position that unless the Canadians would release the French gold in their custody, England didn't wish to take action alone, that MacKenzie King had turned them down once or twice on account of the reaction of the French population in Canada.

The reason I was bringing this up before this group was that Sir Frederick Phillips also pointed out the danger of the reaction on the Vichy government if the English should seize their gold, and I would like to have their advice.

Well, Mr. Hull said that he thought that the reaction might be very bad and that he was in favor of going to South Africa for the gold, although he had some fears about what might happen to our battleship, etc., etc., but Admiral Stark spoke up and said we had done it before and he seemed to think that there was

nothing to worry about, so the group all decided that the thing to do was to accept my recommendation and after the Tuscaloosa had called at Lisbon to have her continue down to Capetown and pick up this gold. We would give the English a credit for how much was on board ship.

Stark pointed out that if the American ship by any misfortune should be sunk, that the loss would be ours. Stark also said that all he has got to do is to send a cruiser to England and "I can always find a way of bringing over some gold."

I am now trying to get in touch with the President in order to get a clearance on this and when and if and how the British will let me know how much gold there is in South Africa, then maybe I could tell the President that as the matter stands now Sir Frederick Phillips says he doesn't know how much is in South Africa --

Cochran: Just a minute. I have some information on that.

H.M.Jr.: Well, he didn't tell me up to 10 minutes past 12:00, anyway. Now, before you tell me -- Harry, have you had a chance to go over these figures?

White: I haven't seen them.

H.M.Jr.: Well, no one had any chance. This is my work sheet (indicating handwritten sheet) which I would like to keep. This is what I worked on.

Cochran: I would be glad to explain to Harry just what I did in about 15 minutes this morning. I didn't have a chance.

H.M.Jr.: You didn't even have that. But I want to know what the picture is. He (Cochran) had 15 minutes to do this. But this thing outside of this record which I am making here, which you (reporter) have got to type yourself, this thing of the battleship going for the gold, you all have got to forget it because I doubted it last time.

White: Is it too late?

H.M.Jr.: Yes. But you (reporter) had better type that part of the notes yourself.

No, it isn't too late.

White: There is one chance in -- I don't know what it is, a hundred -- that something will happen to that ship. If it does --

H.M.Jr.: Is that all you are worrying about?

White: Yes.

H.M.Jr.: Well, don't worry about that.

White: Well, I mean the repercussions on you would be terrific.

H.M.Jr.: No, you are wrong.

White: Am I?

H.M.Jr.: No, it was decided by Hull, Stimson, Marshall --

White: They will pin it on you because you want it to go.

H.M.Jr.: To Hell with it. I haven't cleared it with the President. If he doesn't want England to pay their bills, I should worry. They have got two ways to go. They can go down to South Africa or up to Canada to get it. Hull said positively no on Canada, somewhere else, and Stark was very cheerful about this. Somebody asked him how about a destroyer convoy. He said, "Oh, no, that is not necessary."

White: Well, if there is no risk, all right.

H.M.Jr.: Well, listen, the Secretary of the Navy and Chief of Naval Operations took this in their stride.

White: Again I say, if there is a risk and if something happens, you will be the one --

H.M.Jr.: Don't worry about that. All I am asking is -- I appreciate your pointing it out, but for God's sake don't make any records in your office. There is

only this one record and I don't want any records until the stuff lands at the Brooklyn Navy Yard, because last time we did it we were successful in guarding it, so I mean no record except this.

Klotz: I don't think we ought to type that until after it is here.

H.M.Jr.: But as to the figures -- well now, I had better keep these figures here, because I may get sent for by the President.

Cochran: Well, I have a copy, except of that rough.

H.M.Jr.: How does it sound to you, Harry?

White: I didn't know they had that little, but it may be that they have. They have got --

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

Cochran: I haven't sent that around at all.

H.M.Jr.: Well, let Harry read this.

Cochran: I have a copy of it.

H.M.Jr.: Well, that is enough for the moment.

Cochran: Shall I tell you about my talk with Phillips?

H.M.Jr.: Please.

Cochran: I got him on the phone after you called me and I told him you had been over to State and that you were going to see the President and I asked him if he had had any word yet from those cablegrams which he intended to send asking for the amount and location of gold outside of the United States and Canada and he said he hadn't had any reply and I said, "Look up the latest figure your group may have," and he phoned me back five minutes later and said that on November 1 the British had in Africa approximately 170 million dollars in gold and I said, "Well, I take it that is all in the south part." He said, "Yes, South Africa."

H.M.Jr. How much?

Cochran: 170 million dollars. He said he was sure it had been built up since then, during these two months, to over 200 million. He thought 200 million would be the minimum down there and I asked if it was all at ports and he thought it would be at either the ports of Capetown, Durban or Natal.

White: Canada has 120 million dollars of gold here. If they are on the spot she might give them that in exchange for --

H.M.Jr.: Well, Harry, I knew the Tuscaloosa was sailing and I knew we had done this thing before. I get this memorandum which you should read plus Sir Frederick's visit to me alone yesterday at 6:00 and this is what they say. Now, what else they have got I don't know but I think we had better go get this 200 million dollars worth of gold.

Cochran: Of course, Phillips points out this is not any new resource at all. This is just taking our own. After all, that is understood.

H.M.Jr.: Taking our own?

Cochran: I mean it is taking gold which they were already counting on.

H.M.Jr.: All right, gents, if you will excuse me now.

(Mr. White and Mr. Cochran left the conference.)

H.M.Jr.: Also at this meeting with just Stimson, Knox, Marshall, Stark and the President, Hull brought up the question about the long distance bombers for Japan and Marshall made a long talk why it was impractical and as a result of which Mr. Hull said, "Well, will you please tell --" I (Secretary) should please tell the President that it was the consensus of opinion that it was impractical.

Klotz: Do you mean Japan?

H.M.Jr.: Did I say Japan? China.

CONFIDENTIAL

December 23, 1940

To: The Secretary

From: Mr. Young

The following message was telephoned at 11:25 this morning by Mr. Allen of the State Department (Joe Green's Division):

Re: P-40's for Greece. Wired Minister to Greece regarding acceptance by Greece of Defiants in place of P-40's. The Minister now wires that he talked with an American observer with the R.A.F. in Greece who says he had suggested to the Greeks for the same reasons the State Department had given that they switch the order to Defiants. Now the British have sent twelve Gladiators from Egypt (the Minister doubted if they had Defiants) and the State Department feels that this will probably take care of the order. They expect another telegram from the Minister later clearing up entirely whether this took care of it or not.

P.Y.

CONFIDENTIAL

December 23, 1940

To: The Secretary

From: Mr. Young

Re: British Order for 300 P-40 Planes

In accordance with your instructions, I have conferred with Sir Henry Self, Mr. Fairey, and Mr. Gray. Morris Wilson is in Montreal today. Sir Henry Self has agreed to place an order today for the 300 P-40's under consideration, subject to any allocation or deferment of current deliveries that may be negotiated after Christmas.

W. H. M. J.
I explained the proposition as follows: (1) 300 P-40's will be delivered in May, June, and July; (2) the British will defer fifty P-40's to the Chinese in January, twenty-five in February, and twenty-five in March, making a total of 100 which the British will lose from current deliveries. To balance this loss, the British will receive 300 in the spring making a gain of 200 planes. Thus, the British will receive delivery of two planes in the spring for every one given up before that time.

Sir Henry Self stated that he would start negotiations to place the order immediately with the understanding that there may be these deferments or even that the entire order for 300 may be taken over by the United States or other purchasers. Sir Henry is cabling London at once to ask favorable consideration.

In the light of this conference I do not consider it necessary for you to meet with the British this afternoon if the foregoing is satisfactory. I propose to give Curtiss Wright a letter today from the Liaison Committee granting clearance for the placement of this order.

Py.

December 23, 1940

These are the figures the Secretary used at the meeting in Secretary Hull's office this morning and when he saw the President this afternoon.

Cash on hand Dec. 22 = 60,000,000
 Expended - Dec. 22-30 50,000,000
 10,000,000

Security Stks " " 5
 On hand Jan 1 15,000,000

Expended - Jan = 200,000,000
 Security Stks " 20,000,000
 On hand Jan 1 15,000,000

Deficit 8 35,000,000
 by Feb 1 " 165,000,000

Must sell from gold

TREASURY DEPARTMENT

54

INTER OFFICE COMMUNICATION

DATE December 23, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

As of December 22 the British Government has on hand:

Gold in New York	None
Gold in Canada	\$ 20,000,000
Gold in South Africa (principally and Australia	360,000,000
Dollar Exchange, including \$53,391,000 at Federal Reserve Bank	60,000,000
Vested dollar securities unsold	150,000,000

With vested securities being liquidated at the rate of \$5,000,000 weekly and with British dollar expenditures averaging \$50,000,000 weekly the cash position of the British on January 1 will be approximately \$15,000,000 and on February 1 approximately a deficit of \$165,000,000 to be made up through sale of gold. To offset this there might be counted \$50,000,000 of gold production per month.

The Bank of France has earmarked with the Bank of Canada \$370,000,000 and the Bank of England has earmarked with the Bank of Canada \$280,000,000 of French gold, making a total of \$650,000,000 of French gold in Canada.

DEC 23 1940

The President,

The White House.

My dear Mr. President:

Supplementing my memorandum of November 7, in which I recommended the institution of a system of general exchange control, I should like to make the following suggestions.

Discussions in the Treasury have made it clear that the content of a system of exchange control will depend upon the objectives of the Government, especially in the foreign field but also in the domestic field. I feel that those objectives could best be served by your setting up an Exchange Control Policy Board, composed of the heads of those departments and agencies which are responsible for activities affected by exchange control, say, the Departments of State, Commerce, and the Treasury, and the Defense Commission. Their joint discussion of questions of policy would provide you with better counsel when important issues come before you for decision, and would also tend to insure interdepartmental cooperation.

The policy jurisdiction of this Board might well go beyond foreign exchange control. There are related fields within which policies could profitably be coordinated by such an agency. These would include shipping control, supervision of foreign government purchases, supervision of foreign governmental payments, export control, and possibly, in the future, foreign property control. A Board with these broader functions might, in the event of acute emergency, readily be converted into a Department of Economic Warfare.

Just as there would be advantages in consolidating in a Policy Board of this kind the responsibility for policies for foreign exchange control and other related functions, there would, I believe, be advantages also in concentrating in a single department all licensing, enforcement, and other facilities employed in the administration of those policies. This would result in greater

convenience to manufacturers, exporters, representatives of foreign governments, and others directly affected, and from the Government's standpoint would mean unified supervision and better coordination and would give promise of quicker action and stronger enforcement. Major aspects of the present control program are of course handled in the Treasury, through the Foreign Funds Control Division, the President's Liaison Committee for Foreign Government Purchases, the Customs Service, the Coast Guard, and so on. These facilities could readily be supplemented and expanded as might be necessary to permit the administration in the Treasury of any desired system or degree of economic controls.

This suggestion of course contemplates that the Treasury would function purely as a ministerial agency for control administration. It would be the executive arm of the Policy Board, to which it would look for approval of its programs, and to which it would refer all questions of policy before taking action.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

HNG/mff



By Monmouth



TREASURY DEPARTMENT

WASHINGTON

December 23, 1940.

MEMORANDUM FOR THE SECRETARY:

I hand you herewith a draft of a letter to the President, proposing (1) a Foreign Exchange Policy Board, and (2) the concentration of control facilities in the Treasury Department.

This conforms to your request of last Monday, December 16.

I have shown this to Mr. McReynolds, who approves. He has initialed the copy.

Mr. Foley's office is drafting an Executive order to effectuate the plan which you have in mind. I am told that this will be ready by Friday.

GRIVES.
AG

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Stockholm, Sweden

DATE: December 23, 1940, 11 a.m.

NO.: 1128

I refer to telegram of December 12, 2 p.m.,
for the Treasury from the Legation.

We are told by the Consul in Oslo that the article which was published in the TIDNINGEN in Stockholm was quoted from Quisling's paper and was unadulterated propaganda on the part of that paper. At the Oslo stock exchange there has been no strike or organized demonstration. However, due to lack of confidence in the City administration, as Rooth suggested, Oslo City bonds have had few buyers. For two months, other than these bonds, buying on the exchange has been quite active. Some days after the original article was published, the Quisling newspaper published a retraction, but apparently the retraction was not quoted in any other papers.

STERLING.

EA:LWW

ATP

PLAIN

LONDON

Dated December 23, 1940

Rec'd 12:08 p.m.

Secretary of State,
Washington

4183, Twentythird.

FOR TREASURY

The Bank of England has issued a notice withdrawing permission to business travellers to take pounds 25 in Bank of England notes out of the United Kingdom and permission for up to pounds 25 in Bank of England notes to be sent to members of the forces without application for certificate "C". These permissions were allowed under F. E. 72 which was a notice to banks dated July 11. The exemption under S. R. & O. 1940 No. 1267 by which up to pounds 25 in Bank of England notes may be taken to Eire is maintained.

(A) Statement evidently released to the press gives the reason for this ruling as due to the desirability of encouraging the use of foreign exchange for travelling purposes purchased with permission and to discourage the export of bank notes to areas whence their re-import is forbidden under regulation 2B S.R. & O. 1940 No. 1514)

JOHNSON

WSB

DEC 23 1940

Dear Lena:

Replying to your letter of the 15th, I am glad to note that plans are contemplated for getting lumber prices under control. I believe, however, that you have been misinformed in concluding that grade marking requirements of the Procurement Division have been a factor in the price situation. Regulations of the Procurement Division provide complete flexibility in the basis of lumber specifications used by Government buying agencies, the only requirement being that the Division be notified of the grade ratings used if they differ from those of the Lumber Standards Association. All agencies can use independent grade ratings, if they so desire, and various agencies have been using them for some time.

Sincerely,

Henry

Hon. Lena Henderson,
Commissioner of Price Stabilization,
Advisory Commission on National Defense,
Federal Reserve Building,
Washington, D. C.

P.S. What do you propose to do
about the price of lumber?

DEC:OCH:als 12-23-40

FILE COPY

cc to Mr. Thompson

By Messenger 340

DEC 23 1940

Dear Lem:

Replying to your letter of the 18th, I am glad to note that plans are contemplated for getting lumber prices under control. I believe, however, that you have been misinformed in concluding that grade marking requirements of the Procurement Division have been a factor in the price situation. Regulations of the Procurement Division provide complete flexibility in the basis of lumber specifications used by Government buying agencies, the only requirement being that the Division be notified of the grade ratings used if they differ from those of the Lumber Standards Association. All agencies can use independent grade ratings, if they so desire, and various agencies have been using them for some time.

Sincerely,

Henry

Mr. Leon Henderson,
Comptroller of Price Stabilization,
Advisory Commission on National Defense,
Federal Reserve Building,
Washington, D. C.

P.S. What do you propose to do about
the price of lumber?

WTH:GHL:cks 12-23-40

cc to Mr. Thompson

By Messenger

THE ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE
FEDERAL RESERVE BUILDING
WASHINGTON, D. C.

December 18, 1940

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

Dear Henry:

I, too, have been concerned with the price rises that have been taking place in lumber, and for the past two months have been looking into them. As you may recall, I issued a press release on September 10th in which I stated that I believed the increases were not justified on the basis of supply and demand. Since that time there has been instituted a central purchasing arrangement which has had the net result of bringing prices paid by the Government down to the extent of \$2 to \$4 a thousand.

That the industry has exercised some form of voluntary production control is evidenced by the fact that in 1929, with total shipments of 36 billion feet, stocks on hand at the end of the year amounted to 13 billion feet, while in 1940, with shipments estimated at 29 billion feet, stocks at the end of November were only 6.75 billion feet.

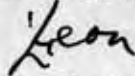
There are a number of things which still serve to keep the general price level high, most of which are minor matters in themselves but, combined, serve to disturb the market. One of these is the matter of grade marking, in which the Procurement Division can help. Regulations of the Procurement Division require that specifications call for grade marked lumber. This grade marking is done under the rules of the American Lumber Standards Association, which is composed of the lumber manufacturers associations. In many instances it has been found that these manufacturing associations have used their rights to issue grade marking certificates in a discriminatory manner against independents. This matter has been investigated by the Department of Justice and indictments have been procured against the West Coast Division and the Western Pine Division. However, the process of litigation can be stretched out over a very long period and we can get no immediate results from that source. I believe that if the Procurement Division changed its regulation to permit acceptance

George *Has investigated and report 1/10/41*

of inspection certificates from independent inspection agencies approved by the Procurement Division, it would be one step toward breaking up possible control which is alleged by the Department of Justice to affect prices.

Other efforts are being made along the lines of encouraging substitutes, particularly by those agencies engaged in defense housing. We are also now investigating possible avenues of increasing supply through the Forest Service.

Sincerely yours,



Leon Henderson
Commissioner

P. S. I'm having the whole situation in lumber canvassed with a view of taking whatever action we can.

TREASURY DEPARTMENT

64

INTER OFFICE COMMUNICATION

DATE December 23, 1940.

TO Mrs. Klotz

FROM Mr. Hagg

The Secretary asked me to prepare the attached material with regard to lumber prices for use in his diary.

NOTE ON THE FOLLOWING SEQUENCE OF EVENTS

1. On December 13, 1940, Secretary Morgenthau wrote Mr. Leon Henderson with regard to price rises occurring in many important commodities, particularly in lumber and a number of other basic defense materials. Copy of letter and enclosures are attached as Exhibit 1.
2. On December 17, 1940, Secretary Morgenthau sent the President the following charts (attached as Exhibit 2):

"Movement of Basic Commodity Prices"
"Lumber and Building Material Prices
and Lumber Stocks"

(The above charts are the same as those enclosed with Mr. Henderson's letter except that figures which later became available were added.)

3. On December 20, 1940, Mr. Henderson made a statement to the Press that lumber prices should be lower. (See Exhibit 3.)

C
O
P
Y

December 13, 1940

Dear Leon:

I have been much concerned with the extent of the price rises that have already occurred in many important commodities, particularly in lumber and a number of other basic defense materials. Looking at a chart showing recent price changes among the 28 basic commodities in the Bureau of Labor Statistics daily price index, a copy of which is enclosed, I notice that prices of practically one-third of these commodities have risen 20 per-cent or more since August. Lumber prices, shown in a second chart enclosed, have had a very extensive rise, to far above the peak reached in 1937, although total stocks of lumber have not been greatly reduced.

I wonder what action has been taken with respect to the situations responsible for these price increases, and what further action, if any, ought to be taken?

Sincerely

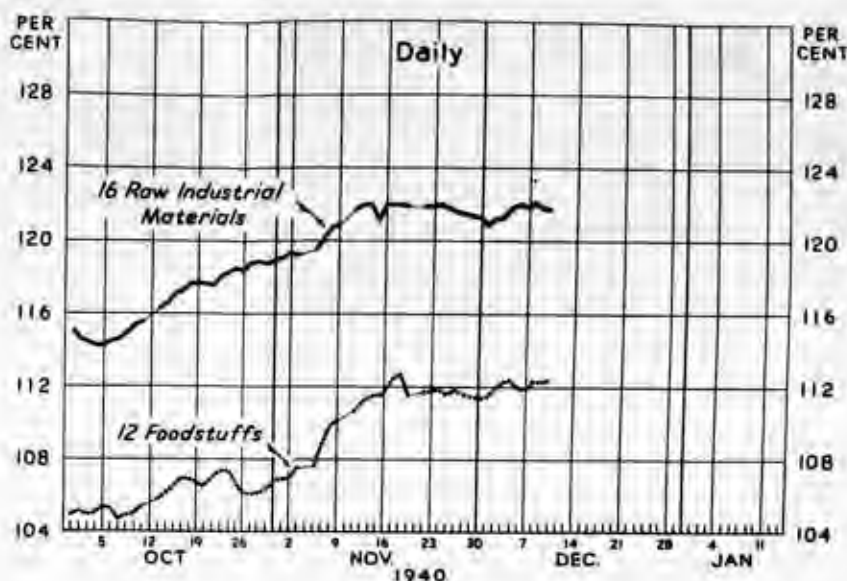
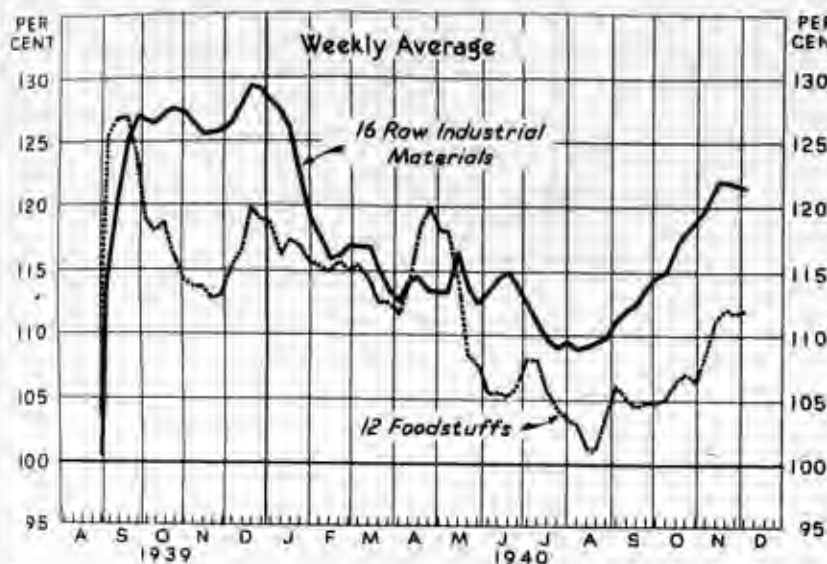
(signed) H. Morgenthau, Jr.

Hon. Leon Henderson,
Commissioner of Price Stabilization,
Advisory Commission on National Defense,
Federal Reserve Building,
Washington, D. C.

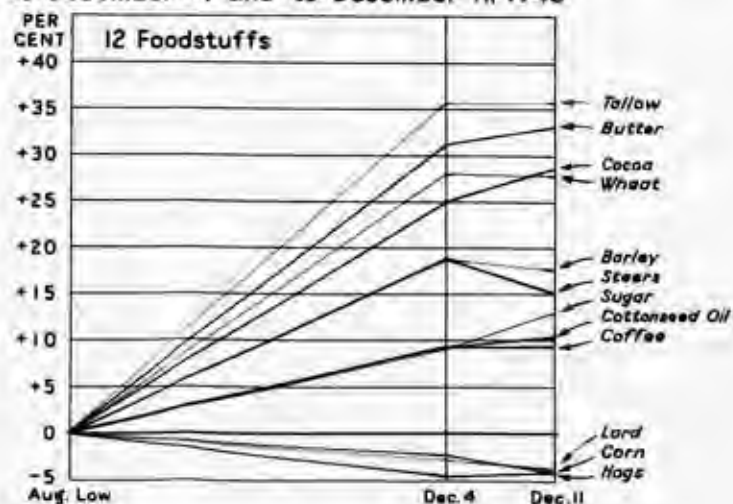
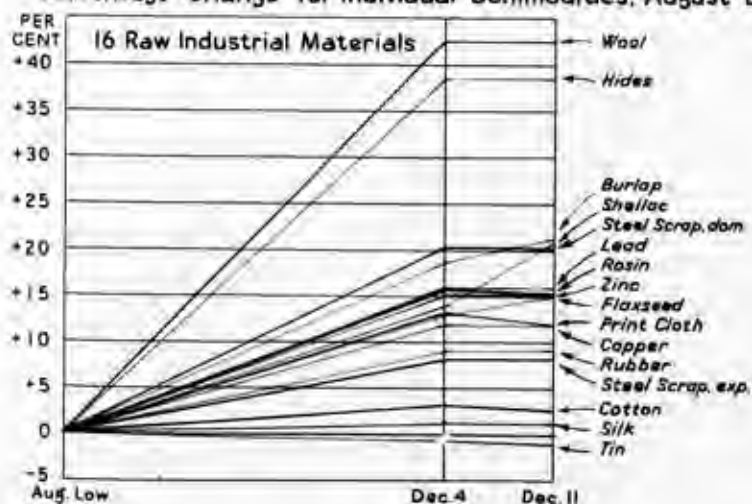
Enclosures

MOVEMENT OF BASIC COMMODITY PRICES

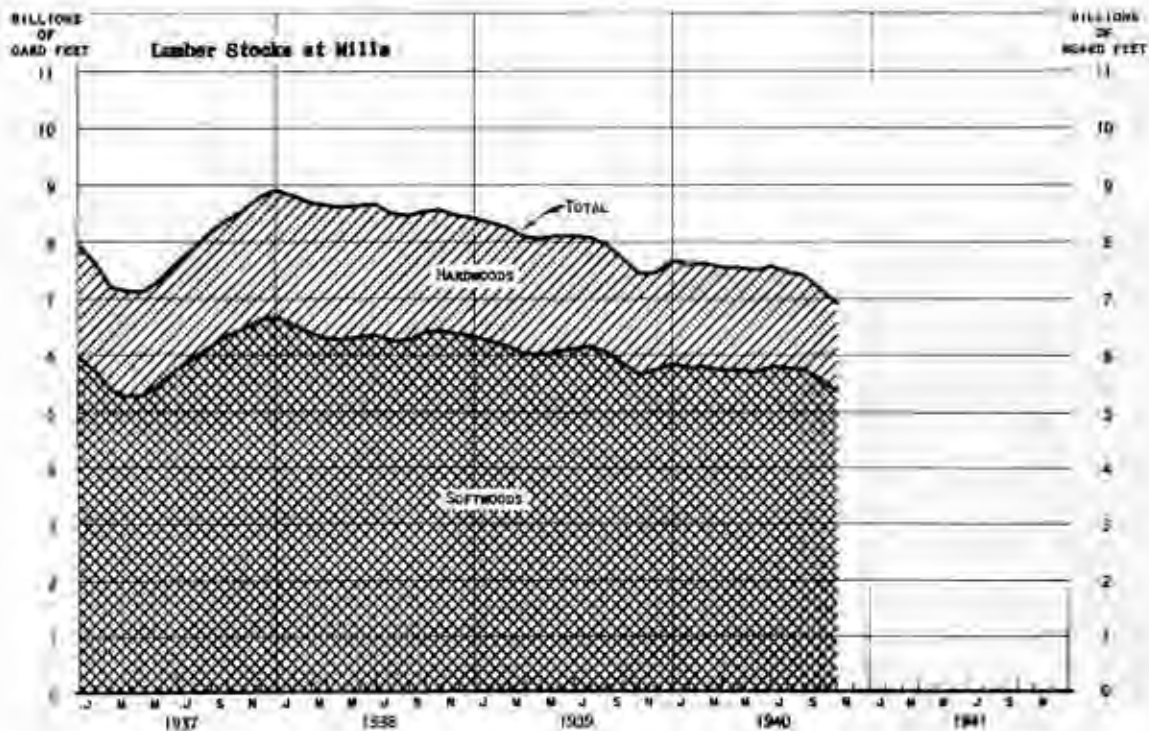
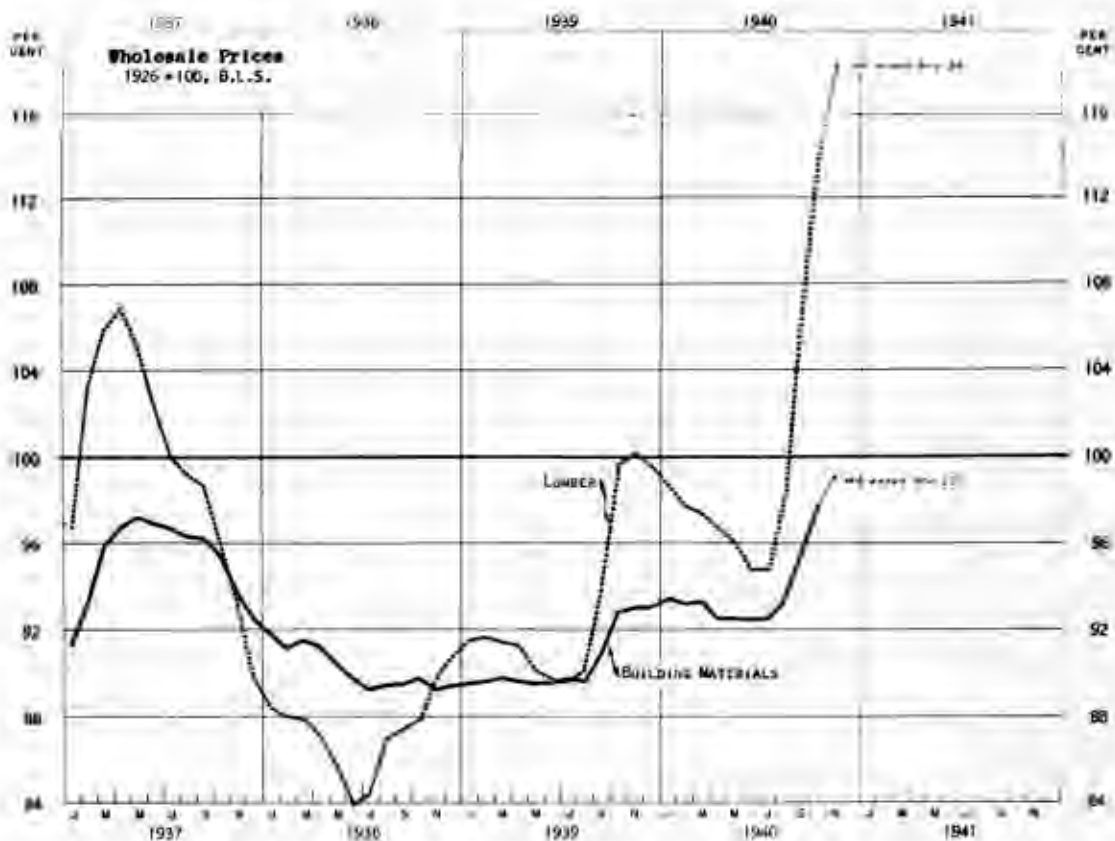
AUGUST 1939 = 100



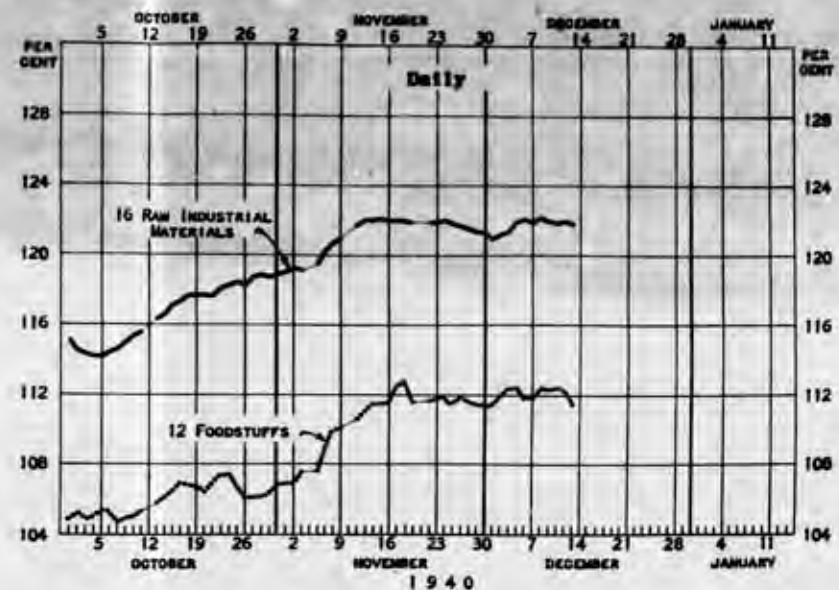
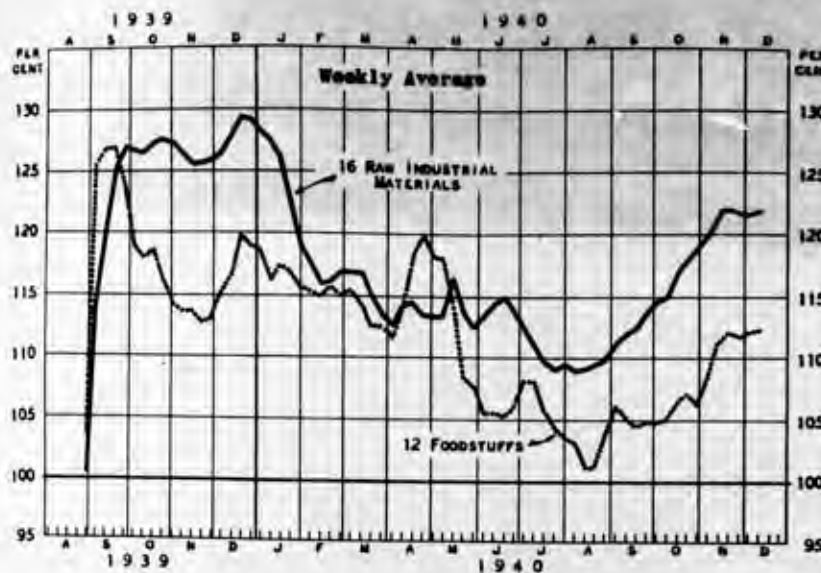
Percentage Change for Individual Commodities, August Low to December 4 and to December 11, 1940



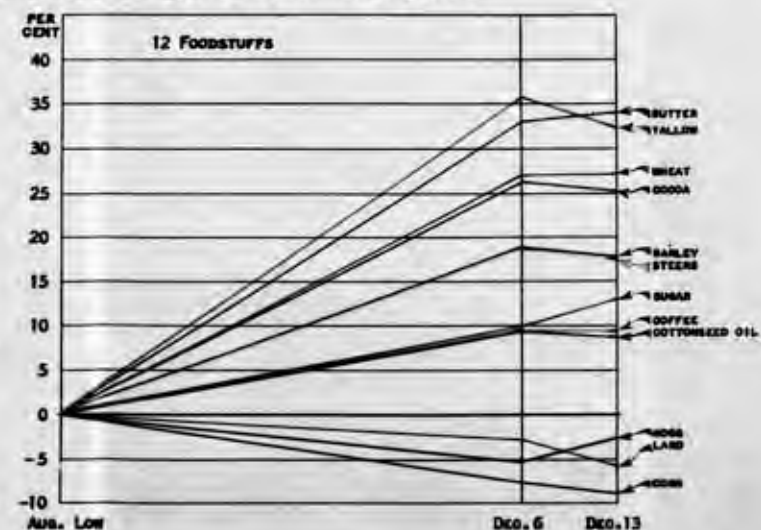
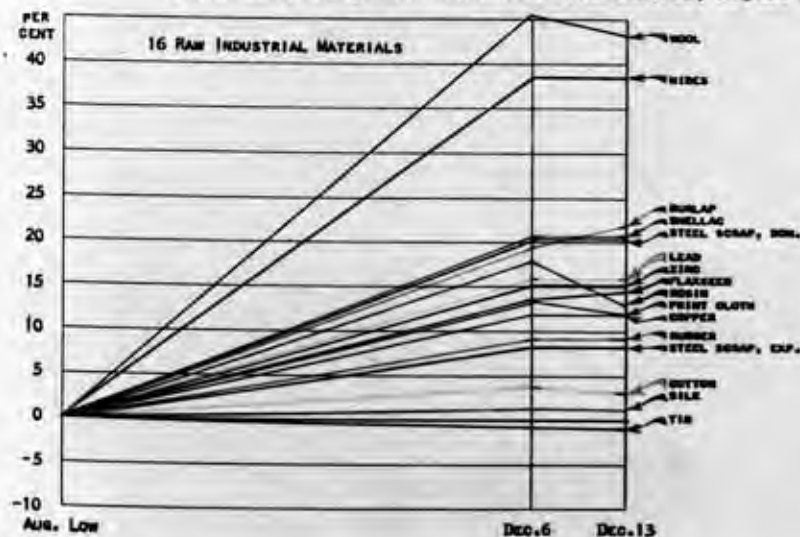
LUMBER AND BUILDING MATERIAL PRICES AND LUMBER STOCKS



MOVEMENT OF BASIC COMMODITY PRICES AUGUST 1939 = 100



Percentage Change for Individual Commodities, August Low to December 6, and to December 13, 1940



LUMBER AND BUILDING MATERIAL PRICES AND LUMBER STOCKS

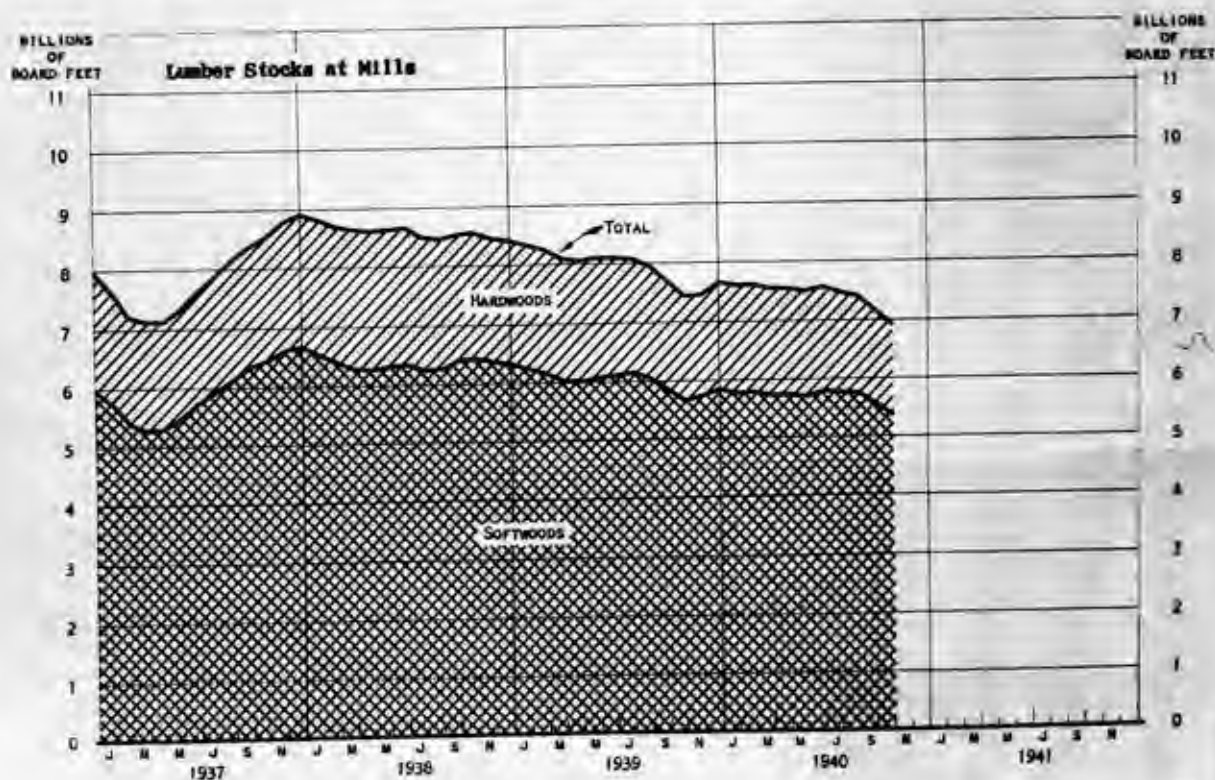
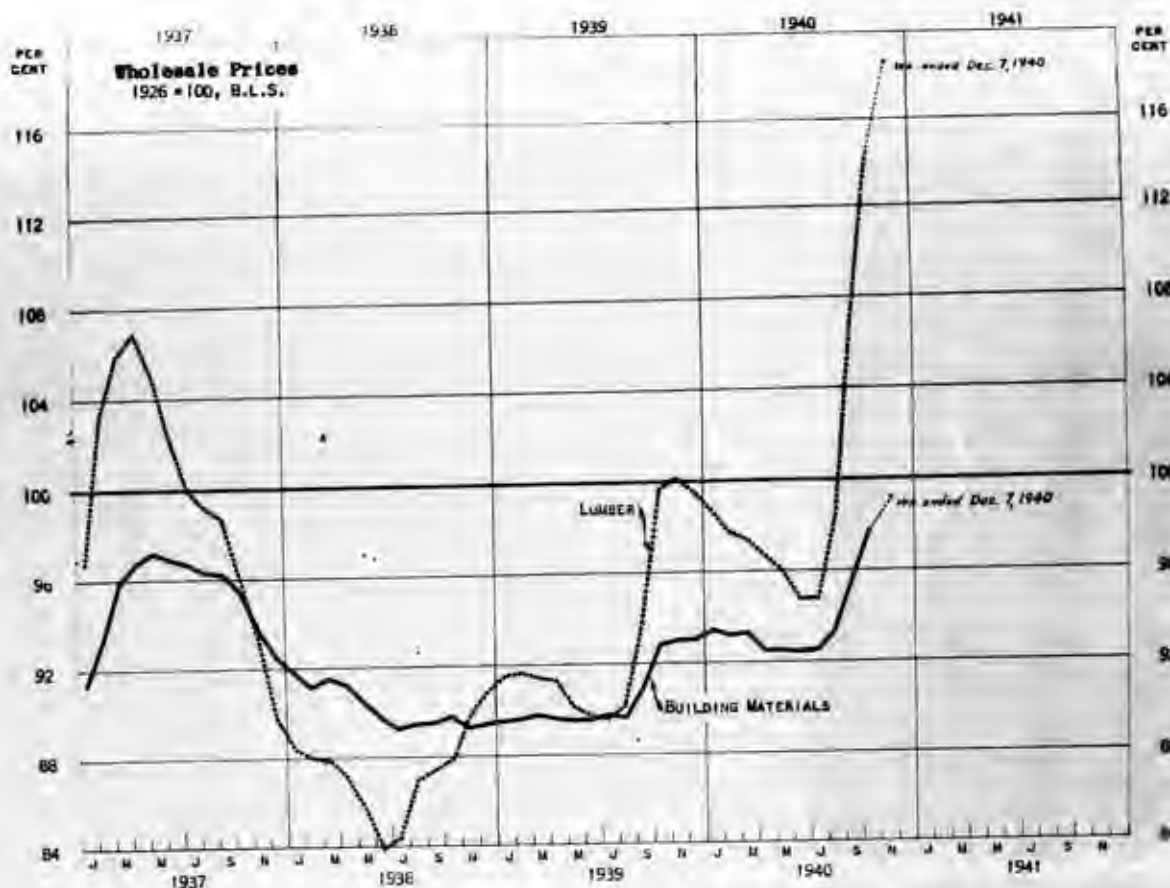


Exhibit 2

Regraded Unclassified

Lumber Prices

LEON HENDERSON, NATIONAL DEFENSE PRICE STABILIZATION COMMISSIONER, SAID TODAY HE FELT LUMBER PRICES SHOULD BE LOWER.

ABOUT 90 PER CENT OF LUMBER FOR ARMY CANTONMENTS HAS BEEN PURCHASED, HE SAID, AND THE REMAINDER WILL BE BOUGHT IN RELATIVELY SMALL LOTS TO RELIEVE PRESSURE ON INDUSTRY.

"THE LUMBER INDUSTRY ITSELF HAS MUCH TO LOSE IN TOO HIGH A PRICE," HENDERSON SAID, "MARKETS LOST TO SUBSTITUTES TAKE YEARS TO REGAIN. HIGH PRICES ALWAYS HAVE HAD THE EFFECT OF ENCOURAGING SUBSTITUTES.

12/20--R205P

George H. ...

Wall Street Journal
December 21, 1940

Lumber Prices Still Too High, Henderson of NDAC Believes

WASHINGTON — A public statement by Leon Henderson, member of the National Defense Advisory Commission in charge of price stabilization, carried the viewpoint that lumber prices are still too high.

Although lumber prices have settled back to some extent from their recent high levels, Mr. Henderson said, it is believed that a further recession is necessary in order to bring such prices to a reasonable level.

According to the commission statement, the fact that approximately 90% of the lumber for cantonments has been purchased and the remainder will be in relatively small lots has relieved pressure on the industry. Hence, said Mr. Henderson, prices should recede to a more stable level early in the coming year.

"The lumber industry itself has much to lose in too high a price," Mr. Henderson asserted. "since markets lost to substitutes take years to regain, and high prices have always had the effect of encouraging substitutes."

December 23, 1940
12:09 p.m.

72

H.M.Jr: Hello.

Operator: Secretary Stimson.

H.M.Jr: Hello.

Henry L. Stimson: Hello, Henry.

H.M.Jr: Talking.

S: I haven't had time these last three days to catch my breath enough to tell you that I've had a very welcome reinforcement here that I want you to get acquainted with as quickly as you can on the subject of airplanes.

H.M.Jr: Oh, yes.

S: That's the new Special Assistant that I was speaking to the President one day - I think you heard me, perhaps. It's Robert Lovett.

H.M.Jr: Oh, yes.

S: He's got a great deal of knowledge about the plane situation. Coming in from a detached standpoint and having made a study as he has not only of the situation abroad but he spent his summer last summer going through our air plants here that is very helpful. And I'd like him to get acquainted with you and with Philip Young and I'm going to have him - I'm putting him in charge of Palmer, as a guide, to introduce him over there to your office.

H.M.Jr: Good.

S: And I think anything that you can give him will be of help in the general cause that we both have in mind.

H.M.Jr: Well, you have him come on over and I'd love to meet him.

S: All right, I will. I'd bring him over myself if I

- 2 -

H.M.Jr: No, no, just tell him to call up and I'll be
delighted

S: All right. Thank you very much.

H.M.Jr: Thank you.

December 23, 1940
3:09 p.m.

H.M.Jr: Hello.

Arthur
Purvis: Hello. Is that you Henry? Arthur speaking.

H.M.Jr: Hello, Arthur?

P: Yes. I just got in about ten minutes ago.

H.M.Jr: Oh, for heaven sakes.

P: And I thought I'd give you a ring.

H.M.Jr: Well, that's very nice. I can hardly hear you.

P: I can hear you fairly well - not very well.

H.M.Jr: You sound as though you were in Europe.

P: (Laughs). No, I'm much nearer than that now.

H.M.Jr: I see.

P: Henry, I thought of coming down tonight in the hope that tomorrow morning that I might be able to see you for a few minutes.

H.M.Jr: Well, that's perfectly possible. Hello?

P: Hello.

H.M.Jr: I could see you - what time would you be down?

P: Well, I think I shall catch a plane out of here about 6:00 or 7:00 o'clock.

H.M.Jr: Tonight.

P: Tonight.

H.M.Jr: Well, I could see you at 9:15.

P: That would be simply grand.

- 2 -

H.M.Jr: I look forward to seeing you.

P: That will be very nice. I thought that if it were only just for a few minutes I thought I would like to have a word with you and if possible then I'm hoping to go up just for one day to see my wife and boy.

H.M.Jr: Well, I think that's most important.

P: (Laughs). It's getting to be important to me.

H.M.Jr: Right. Well, I'll look forward to seeing you tomorrow.

P: Thank you very much, Henry.

H.M.Jr: Good-bye.

P: Good-bye.

THE SECRETARY OF THE NAVY
WASHINGTON

December 23, 1940

My dear Mr. Secretary:

Thank you for your letter of December 9
and for the communications from Air Commodore Slesser.
I am very glad indeed to have these documents and will,
of course, respect their confidential nature.

Yours sincerely,

A handwritten signature in cursive script, reading "Frank Knox". The signature is written in dark ink and is positioned to the right of the typed name.

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

December 23, 1940
4:30 p.m.

RE BRITISH PURCHASING PROGRAM

Present: Mr. Young
Mr. White
Mr. Cochran
Mr. Phillips
Mr. Fairey
Mr. Self

H.M.Jr: When I saw the President I told him about the three hundred planes and the hundred planes for the Chinese in January, February, and March; and he gave it his blessing.

Now, do you want me to explain this thing, Philip, or how do you want to handle this?

Young: Whatever you think about it. I will explain it. It doesn't make any difference to me.

H.M.Jr: I would rather you would. I will simply say I am checking it. I will say to you, "Do you mind going over this thing to make sure we understand it?" When you do it it doesn't look as though I was correcting you.

Young: Well, it is just the same except that they get the additional fifty.

H.M.Jr: Well, that is fifty more planes.

Young: Yes. Here is the last word on the Greek planes (handing memorandum to Secretary). It is rather an incoherent telephone message with the State Department.

- 2 -

H.M.Jr: Why does he have to get in on this thing?

Young: After all, Joe Green's department isn't in the State Department.

Cochran: I have a couple of interesting telegrams on gold. The French wouldn't give Mathews any sort of a story on that Dakar-Casa Blanca gold. They don't want the British to find out about it and all that. Do you want to take them?

H.M.Jr: Do you mind sending them out to the house?

Cochran: All right, fine.

H.M.Jr: What I am going to do is, I will talk about the planes first and whoever is interested in planes, you (Young) can escort them out, and I will ask you two gentlemen to say behind and to impress upon him the secrecy I won't have any Stenotype.

(Sir Frederick Phillips, Mr. Fairey, and Sir Henry Self entered the conference)

H.M.Jr: Sit down, gentlemen. I thought we might do this in two sections, do the planes first and then I would like to see Sir Frederick afterward on another matter.

No, do you (Young) mind just restating this thing?

Young: Yes, I will be delighted to. In going back over our conversation this morning, there is one minor point in there which was not clear, which I would like to straighten out. The understanding was this, that these three hundred P-40's which come along in May, June, and July, you will place an order for now, immediately, and subject to an allocation or a deferment of current deliveries on British orders of 50 in January, 25 in February, and 25 in March to the Chinese, making a total of a hundred that you will give up, for which you

- 3 -

will pick up 300 in May, June, and July, leaving a net gain of 200. This morning I made the statement that 50 of the net gain of 200 that you picked up might be allocated at a future date. That is not so. You pick up the full 200, so that you gain 2 planes for every one that you give up for that time.

Self: That is a very welcome statement.

H.M.Jr: Well, Philip and I went over our notes together and that is the way - that was the understanding, that you would gain two for one.

Self: I have a telegram already to go to London. I was going to show it to Sir Frederick Phillips. Our people have been in touch with Curtiss people. They say that they are quite happy if the contract is prepared for signature. I told them they must have it signed tomorrow. Curtiss themselves suggested the pressure on typing, getting this long document, from their standpoint should wait over until after Christmas, but I told them we must go ahead and get the thing done tomorrow.

Fairey: The firm accepted our assurance that the order would be placed.

Self: Because it would be better to sign a simple letter rather than to let it stand over.

H.M.Jr: If the Curtiss company feel they can go ahead between now and tomorrow night and send their orders out for material, that is the principal thing. You feel that they can?

Fairey: Yes. Well, we will take all steps necessary to see that they do.

H.M.Jr: I saw Guy Vaughn in New York Friday, and he impressed on me the importance of - that if he is going to carry out this delivery and not lose production that he must know by today or tomorrow.

- 4 -

Fairey: Well, the first thing we did when we left Mr. Young this morning was to ring up Curtiss from New York.

Self: I shall issue instructions in that case, Mr. Secretary, that if they can't get the full contract document finished in time for signature tomorrow, they must issue a letter making quite sure the contract is firm.

May I submit that there is one point in Mr. Young's statement which I should like to be put on the record, and that is that I asked you to recognize that I would have to get an approval of this from London and that in putting the matter to them I would make it clear that you were asking for this deferment of deliveries on behalf of the Chinese. If they could accept that from their standpoint, so much the better as a clearer arrangement. But if not, then the allocation of these planes to us was an entirely open matter and you would have to reconsider the ultimate destiny of the planes.

Young: Up to the total number.

H.M.Jr: You have got it perfectly. I don't think it is necessary to put a footnote in the cables that there is such a place as Singapore. But you have got - if they don't do the deferment, then we will have to have a--

Self: There is one point which seems small, but it is a point of substance and that is the guns.

H.M.Jr: I know.

Self: I may submit that whatever the decision is that if we could have a little private talk with Mr. Young, we probably could get the Army to - they have got, I believe, some spare capacity on the .50's. I think we can straighten it out all right.

- 5 -

H.M.Jr: If you can find out what their capacity is, I will certainly go to town for you, because the Army - if there is something there that they are holding back on me, I would love to go after it for you. I would love to do it.

Self: We can count a certain shortage of guns on our aircraft delivery to England because, as we know, some of the aircraft are in the second line. As long as you have got guns on the front line, you can probably work the trick by taking the guns off and putting them on the aircraft from the other line. If the Chinese have to have aircraft they certainly must have guns with them.

H.M.Jr: True, and ammunition. That was discussed. But if you know where there is some spare - some place we can pick up some production on these .50 calibers, we would love to know about it. And if there is any other airplane company that is similarly situated to Curtiss, where they are beginning to run out, and they have got a good plane, I would be glad to hear about that. Now, did Philip Young tell you about these hundred and fifty engines?

Self: Yes. We will follow that up.

H.M.Jr: Mightn't those be useful for spares?

Self: They certainly would be useful in this, that they would probably have to stop taking some of the existing engines to get spares; but, if we took this hundred and fifty of the spares and let the main line run, we could probably get a hundred and fifty extra engines that way.

H.M.Jr: And he made it clear that General Motors would put its name and backing on these hundred and fifty just the same?

Self: Yes.

- 6 -

H.M.Jr: I don't see why they shouldn't be all right, do you?

Fairey: No.

H.M.Jr: If they will guarantee it.

Fairey: It comes to the same thing.

H.M.Jr: As I understand it, they will take the good parts which haven't been rejected and assemble the engines; and, if they are willing to give their guarantee, you can naturally have your own inspector there.

Fairey: Yes.

H.M.Jr: But it seems too bad not to pick up those hundred and fifty.

Fairey: Yes. Well, we are not so short on C engines. We could manage our present commitments on C's.

H.M.Jr: Well, they are there anyway for the asking.

Fairey: Yes.

H.M.Jr: All right. Arthur Purvis called me up from New York. He sounded quite chipper. He is coming in here at a quarter past nine tomorrow morning. He gets into Washington tonight.

Phillips: Yes. I heard he was coming in.

H.M.Jr: I will be glad to see him. Thank you.

December 23, 1940

Mr. Fable

Mr. Conkran

Considering the facilities which your organization now possesses, I am relinquishing to you the task of making such copies and effecting such distribution as you may see fit of memoranda received from the British Embassy in regard to transmissions of possible interest to Foreign Funds Control. I have arranged with the British Embassy to continue to send such material to me, in duplicate. I will forward the original immediately to you and retain the one copy for the files of my office. Any further distribution is left to you.

The Department of State sends to me certain information of interest to Foreign Funds Control. This includes messages from Foreign Service Officers abroad and communications from foreign diplomatic officers in the United States. Since it has been the established policy that my office should be responsible for distributing as well as receiving State Department cablegrams, I shall continue to receive, make copies of and distribute telegraphic messages. When written despatches, letters or memoranda are involved, as apart from telegraphic messages, I shall refer these to Foreign Funds Control, without making copies; I shall keep no check list on such communications. I shall, however, continue a check list on cablegrams received from abroad which are referred by me to Foreign Funds Control for attention and reply. I should be provided with copies of the replies made by Foreign Funds Control to telegraphic messages. The distribution to my office of copies of other correspondence prepared in Foreign Funds Control is left to the discretion of that office.



✓
furnished by Mr. Ickes
12/23

84

December 23, 1940.

BY SPECIAL MESSENGER

PERSONAL AND CONFIDENTIAL

Dear Harold:

I would be most obliged if you would
be so good as to send me, for my confidential
information, copy of the memorandum you spoke
of in Cabinet meeting on counter-spying.

With best regards,

Yours sincerely,

/s/ Henry

Honorable Harold L. Ickes,

Department of the Interior.

By Messenger 4³⁰

December 25, 1940.

BY SPECIAL MESSENGER

PERSONAL AND CONFIDENTIAL

Dear Harold:

I would be most obliged if you would be so good as to send me, for my confidential information, copy of the memorandum you spoke of in Cabinet meeting on counter-espionage.

With best regards,

Yours sincerely,

/s/ Henry

Honorable Harold L. Ickes,

Department of the Interior.

By Messenger



THE SECRETARY OF THE INTERIOR
WASHINGTON

86

December 23, 1940.

Handwritten initials

My dear Henry:

I am sending you a copy of the report asked for in your letter of December 23, although you are the only man not a member of the Committee itself that has been given this report. Will you please lock it up in your own personal safe.

Sincerely yours,

Harold L. Peters

Secretary of the Interior.

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

Enclosure.

THE SECRETARY OF THE INTERIOR
WASHINGTON

November 26, 1940.

My dear Mr. President:

The committee appointed by you to consider the advisability and possibility of setting up some machinery to combat subversive activities in this country has had several meetings and, after discussion, has agreed unanimously to submit for your action the following report:

The nation needs adequate defense against subversive propaganda in addition to measures now being taken by the several intelligence services to combat subversive activities, and this need requires the establishment of an agency which will cooperate with those charged with the formulation of foreign policy, the military and naval defenses, and the law officers of the Government who are responsible for domestic peace and tranquility.

It would be the purpose of such an agency to analyze and combat propaganda menacing the national security and defense, to cooperate with the various Federal intelligence services, to fortify the national morale, to create a positive defense for democracy, to let the peoples of other countries know the nature and direction of the American way of life, and to acquaint the people of this country with the nature and sources of the present threats to their liberties, civil, economic and political.

The transcendent importance of the educational effort involved indicates that this agency should be set up and operated by the Government of the United States, but that it should work closely with all voluntary civic organizations having a common purpose.

The new agency should be set up in the Executive Office of the President, and the following plan of organization is recommended to the President:

1. A Committee of members of the Cabinet, selected by the President, to be responsible for the policies and program of the agency.
2. An Advisory Council of distinguished citizens to be appointed by the President, with whom the Director of the agency may consult.
3. A Director to be appointed by the President after consultation with the Advisory Council and the Cabinet Committee, to have direct administrative responsibility for the operation of the agency.
4. Appropriate divisions for carrying on the various activities of the agency to be set up by the Director. In some instances, depending upon the nature of the activity, cooperating advisory committees should be named to work with the Director and with chiefs of divisions.

It is important to emphasize the fact that the proposed new agency is not to interfere with the operations of any existing department or agency concerned with combating subversive activity, but it should

maintain close contact with all of them in order that the information they severally obtain with respect to particular cases of propaganda and sabotage may be translated into general categories which may be made public, and on which plans for countervailing the results of falsehood may be based.

It is also important to emphasize the fact that the proposed new agency, which has for its purpose the dissemination of information among the people of this and other countries concerning the aims of democracy and the threats to the preservation of democracy, should be kept entirely separate from any other informational agency having to do with the dissemination of news either of the rearmament defense effort or of the ordinary operations of the Federal Government.

In order to maintain the work of the proposed new agency at this level of high national policy, the suggested Advisory Council should be composed of leaders of thought about whose patriotism and democracy no question could arise.

In informal discussion, the members of the committee have come back to the primary consideration of the names of distinguished educators and of a few citizens whose activities have been directed along political and governmental lines. Among the names discussed have been the following, which are included as being indicative of the type of citizen service required for this task:

President Conant of Harvard University

President Sproul of the University of California

President Ford of the University of Minnesota

President Elliott of Purdue University

President Baxter of Williams College

President King of Amherst College

President Bryan of William and Mary College

President Graham of the University of North Carolina

Former Governor Bass of New Hampshire

Mr. Charles P. Taft of Cincinnati

Former Governor James M. Cox of Ohio

Mrs. Emmaus Elaine of Chicago

Former Governor John G. Winant of New Hampshire

No positive recommendation is made at this time with respect to the size of the Advisory Council, although it is the opinion of the committee that it should be small. It has been deemed wise, however, to leave the final determination to the President and the members of the Cabinet Committee when he has selected them.

The Director, in the opinion of the committee, should be a man of great executive ability, trained in one of the major fields of public information and relations, with a wide knowledge of foreign affairs. It is essential, in the opinion of the committee, that he be a man recognized as having no active partisan affiliations. While a few names have been canvassed, it seems to the members of the committee that, for a position of this very great importance, no name should be decided upon without the most careful scrutiny and investigation, and that this

choice should be deferred until the Cabinet Committee and the Advisory Council have been set up, so that the President in making the selection will have the greatest possible amount of counsel and advice.

Similarly, certain over-all considerations affecting the purpose of the new unit, such as its name, the circumstances of its creation, the public announcement of its purposes and plans, and the devices for its protection from assault, should be deferred until after the Cabinet Committee, the Advisory Council and the Director have been chosen. All of this indicates, of course, that the original choices will have to be made by the President, and the various steps in organization taken before public announcement is made.

At the same time, the relationship of the proposed new agency to other informational activities of the Government should be sharply clarified and determined in the same Executive Order in which the President would set up the new agency.

Finally, it is the belief of the committee that there is adequate authorization in existing law for the creation of this agency by Executive Order of the President, and that funds already appropriated are available for its financial support.

Sincerely yours,

(Sgd.) Harold L. ICKES

Secretary of the Interior.

The President,
The White House.

December 23, 1940

TO: Mr. Bell

FROM: The Secretary

Jones says he can not go ahead with his loan to China until we do. He says money cannot be used for war materials. Does that mean that our Stabilization money will be used for war materials?

JUN 23 1940

My dear Mr. Secretary:

If you perceive of no objection, would you be good enough to enter into negotiations with the Government of Denmark for the purchase, or long term charter (with ultimate purchase) of the Danish training ship DANMARK, for the use of cadets at the Coast Guard Academy.

There is an immediate acute need for a training ship for use of cadets at the Coast Guard Academy during the coming summer, and for the years following. The Treasury Department would like to have the transfer made in sufficient time to prepare the vessel to sail from New London, Connecticut, on a cruise beginning about 25 May, 1941. Two training ships of schooner rig heretofore used for this purpose were lost in the hurricane of September 1938. Coast Guard cutters have been taken from active service during the summer months to fill the needs of training vessels. During the coming summer, no Coast Guard craft can be spared for this purpose, due to additional duties being thrown upon the Service, including the assignment of one cutter to European Waters to replace a Naval vessel; the proposed assignment of four Coast Guard cutters for a patrol of the West Indies; several Coast Guard cutters carrying on the Weather Observation Patrol for the protection of trans-Atlantic aircraft; and the assignment of vessels for duty in Greenland Waters. The joint Congressional Board of Visitors to the Coast Guard Academy has formerly recommended that an appropriate training ship be supplied the Coast Guard Academy.

The DANMARK, a square rigged sailing vessel with auxiliary Diesel power, was built at Helsingør, Denmark, in 1933, and was especially designed as a training ship. She has a length of 188 feet, and a gross tonnage of 876 tons. Upon the invasion of Denmark in April, 1940, the vessel put in at Jacksonville, Florida, and has remained there. About one hundred Danish cadets are now on board, but because of the vessel's inability to cruise, she has not been put to proper use as a training ship.

The acquisition of a training ship for the Coast Guard Academy is urgent and an important part of the program of preparing the Coast Guard for national defense and, therefore, I would appreciate it very much if you could give this request early attention.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable,
The Secretary of State.

File to Mr. Thompson

By Messenger 4³²

DEC 23 1940

My dear Mr. Secretary:

If you perceive of no objection, would you be good enough to enter into negotiations with the Government of Denmark for the purchase, or long term charter (with ultimate purchase) of the Danish training ship DANMARK, for the use of cadets at the Coast Guard Academy.

There is an immediate acute need for a training ship for use of cadets at the Coast Guard Academy during the coming summer, and for the years following. The Treasury Department would like to have the transfer made in sufficient time to prepare the vessel to sail from New London, Connecticut, on a cruise beginning about 25 May, 1941. Two training ships of schooner rig heretofore used for this purpose were lost in the hurricane of September 1938. Coast Guard cutters have been taken from active service during the summer months to fill the needs of training vessels. During the coming summer, no Coast Guard craft can be spared for this purpose, due to additional duties being thrown upon the Service, including the assignment of one cutter to European Waters to replace a Naval vessel; the proposed assignment of four Coast Guard cutters for a patrol of the West Indies; several Coast Guard cutters carrying on the Weather Observation Patrol for the protection of trans-Atlantic aircraft; and the assignment of vessels for duty in Greenland Waters. The joint Congressional Board of Visitors to the Coast Guard Academy has formerly recommended that an appropriate training ship be supplied the Coast Guard Academy.

The DANMARK, a square rigged sailing vessel with auxiliary Diesel power, was built at Nakskov, Denmark, in 1933, and was especially designed as a training ship. She has a length of 168 feet, and a gross tonnage of 676 tons. Upon the invasion of Denmark in April, 1940, the vessel put in at Jacksonville, Florida, and has remained there. About one hundred Danish cadets are now on board, but because of the vessel's inability to cruise, she has not been put to proper use as a training ship.

The acquisition of a training ship for the Coast Guard Academy is urgent and an important part of the program of preparing the Coast Guard for national defense and, therefore, I would appreciate it very much if you could give this request early attention.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable,
The Secretary of State.

By ~~Morgenthau~~
File to Mr. Thompson

December 23, 1940

Dear Arthur:

I thought you might be interested in having the inclosed copy of "Inventory of Idle Plants" which was prepared by the Division of State Planning of New York City.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Arthur B. Purvis,
British Purchasing Commission,
Willard Hotel,
Washington, D. C.

By Messenger 9¹⁰ m 12/24

December 23, 1949

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Washington, D. C.

By Messenger



STATE OF NEW YORK
EXECUTIVE CHAMBER
ALBANY

THOMAS L.J. CORCORAN
ASSISTANT COUNSEL TO THE GOVERNOR

*send to British
Purchasing
Com?
- 4 - 6 7 8*

December 16, 1940.

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

My dear Mr. Secretary:

At the direction of Governor Lehman,
I am enclosing a copy of the Inventory of Idle
Plants prepared by the Division of State Planning
of New York City.

Very sincerely yours,

Thomas J. Corcoran

Enclosure

Gray P.

(11)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

~~ORIGINAL CONFIDENTIAL~~

DATE December 23, 1940

TO Secretary Morgenthau

FROM Mr. Klaus

FBI reports:

December 7. Belgian official funds in San Francisco are being monitored.

December 9. Special Agent's report, Italian funds, San Francisco, reveals cash withdrawals from the Italian Consul's account of \$4,500 in October and November.

December 17. Dr. Thomsen has apparently reported to his government that 30 American ships have been sold to Britain and that either 135 or 185 (figure not clear) additional ships would be available for Great Britain next year.

December 17. Two New Mexicans are attempting to sell the British Purchasing Commission Icelandic Spar (useful in connection with range finders and other lens work) and have indicated they will sell to the Japanese if the British refuse to purchase.

December 18. It is reported that the Japanese are carrying in diplomatic pouches for transmittal through Siberia voluminous packages of mail delivered by the German and Italian Embassies.

December 19. Rumors of strike threats among A.F. of L. longshoremen and dock workers in San Juan, Puerto Rico, demanding wage increases. "There is no indication at this time that this strike is Communistic inspired." The unions, it is said, will permit national defense materials to go through unaffected by the strike.

OK.

TREASURY DEPARTMENT

100

INTER OFFICE COMMUNICATION

DATE December 23, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns.....£62,000
Purchased from commercial concerns.....£ 1,000

The Federal Reserve Bank of New York sold £10,000 in registered sterling to a non-reporting bank.

Open market sterling remained at 4.03-3/4. Transactions of the reporting banks were as follows:

Sold to commercial concerns.....£ 6,000
Purchased from commercial concerns..... -0-

The Canadian dollar, which improved last week from 13-9/16% discount to 13-1/4%, returned to 13-9/16% today.

Except for a slight weakening in the Argentine free peso and Cuban peso, the other currencies experienced little movement. Closing quotations were:

Swiss franc	.2321
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2355
Brazilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	2-3/4% discount

A rate of 5-3/8¢ for the yuan was received from Shanghai this morning, representing a decline of 11/32¢ from Saturday's level. The downward movement of the yuan, which is the national currency of the Chungking Government, no doubt reflected the Nanking Government's recent announcement that a new Central Reserve Bank of China would be opened on January 6 with the power to issue legal tender currency to circulate at par with the yuan. This announcement has apparently created the fear that the new Nanking notes will have unfavorable repercussions upon the value of the yuan.

There were no gold transactions consummated by us today.

No new gold engagements were reported.

The New York banks received no gold or silver prices from Bombay today.

In London, the prices fixed for spot and forward silver both advanced 1/16d. to 23-1/8d and 23-1/16d respectively. The dollar equivalents were 41.99¢ and 41.88¢.

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

We also purchased 345,000 ounces of silver from the Bank of Canada under our regular monthly agreement, raising the total bought from that source so far this month to 845,000 ounces, as against the agreed monthly limit of 1,200,000 ounces.

The Federal Reserve Bank's report of December 12, listing deposits of banks in Asia with the New York agencies of Japanese banks, showed that such deposits totaled \$98,755,000, a decrease of \$3,140,000 since December 11. As usual, nearly all 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 18:

	December 18	Change from Dec. 11
Liabilities: Deposits for Japan & Manchuria.....	\$50,493,000	- \$2,868,000
Deposits for China.....	36,103,000	- 225,000
" : U.S. Treas. bills, comm. paper, etc.	31,915,000	+ 728,000
Claims : Loans.....	\$35,182,000	-\$5,087,000
: Other - mainly Jap. import bills....	14,248,000	- 3,643,000

It will be observed that changes in the last three categories listed above, referring almost entirely to Japanese banks in Japan and Manchuria, reflected the use of \$9,458,000 of the deposits standing to the account of such banks. The fact that these deposits declined only \$2,868,000 is explained in large part by the receipt of funds from San Francisco, representing advance payments on \$4,261,000 worth of gold which was imported from Japan during the week under review.

BMF
CONFIDENTIAL

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE December 23, 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 Banca Commerciale Italiana, N.Y., maintained with the National City Bank.

<u>Date</u>	<u>Amount Debited</u>	<u>Paid To</u>
December 23	\$400,000	National City Bank, N.Y., for account of Stockholms Enskilda Bank, Stockholm



TO:

12/24

103

Report returned
personally to Mr
Allen at direction
of the Secretary
D E M

From: LT. COMDR. McKAY

THE DAILY
WASHINGTON MERRY-GO-ROUND
WASHINGTON, D. C.

ROBERT S. ALLEN
1525 Twenty-Eighth Street

DREW PEARSON
2520 Dumbarton Avenue

December 23rd.

Dear Mr. Secretary:

It occurred to me you might be interested in this confidential report. I would like to have it back for my files when you are finished with it.

Sincerely



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

STATE DEPARTMENT BUILDING
WASHINGTON, D. C.

December 23, 1940

MEMORANDUM FOR: The Honorable Henry Morgenthau, Jr.
FROM: Nelson A. Rockefeller

You will find, herewith, for your confidential information a copy of our weekly digest of the current activities of the various departments and agencies handling matters on inter-American concern.

Attachment

CONFIDENTIAL

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

STATE DEPARTMENT BUILDING
WASHINGTON, D. C.

December 23, 1940

WEEKLY PROGRESS REPORT

ON ACTIVITIES IN RELATION TO THE OTHER AMERICAN REPUBLICS

COMMERCIALAvailability of U. S. Goods and Shipping for Latin America

With the alleviation of exchange shortage through loan assistance from the Export-Import Bank, concentrated study is now being given to the effect of our defense effort on prices, availability of U.S. goods, and shipping facilities for Latin American requirements. The Coordinator stated at the Interdepartmental meeting last Tuesday that these problems might become the most important hemisphere economic questions in 1941.

Availability of Goods: Preliminary estimates prepared in Coordinator's office indicate that Latin America will require \$800,000,000 to \$900,000,000 worth of U.S. goods in 1941 as against \$750,000,000 in 1940 and a normal figure of \$500,000,000. These requirements present at least two problems: (1) the purchasing ability of Latin America; and (2) our defense effort, which may restrict our exports, raise prices, etc.

Shipping Facilities: As previously pointed out, there is a possibility of a prospective shipping shortage next year. In this connection, negotiations are being continued for the release of Danish ships now inactive in U.S. ports, the Maritime Commission has indicated its intention to work actively on the resolutions of the Inter-American Maritime Conference, and a sub-committee of the Inter-American Advisory Committee is preparing a report on these resolutions and making plans for carrying on the work called for by the resolutions.

Commodities

The approaching holidays find few developments in the field of commodities. Developments include:

Copper: The announcement that the Metals Reserve Corporation has contracted to purchase 100,000 tons of Latin American copper was made last week.

Zinc: It is understood that action will be taken on question of zinc imports from Mexico because of immediate shortage, as soon as information is received from American Embassy in Mexico City on the labor dispute at the Rosita smelter.

Peruvian Long-staple Cotton: Coordinator's office, Tariff Commission, and Agriculture are discussing the possibility of permitting Peruvian imports to replace those of Egypt.

Page 2
December 23, 1940

Synthetic Rubber: Agriculture is concerned over the long-term effects of the synthetic rubber plant recommended by Defense on its rubber program in South America. The proposed plants which would take at least eighteen months to build would be capable of producing 100,000 tons a year.

Cocoa and Cotton: The cocoa and cotton sub-committees of the Inter-American Financial and Economic Advisory Committee are studying these commodities.

State has indicated to Federal Surplus Commodities Corporation of the Department of Agriculture that it sees no objection to a bill which would extend existing authority to include the exchange of surplus U.S. products for surplus products of Latin America suitable for distribution in relief programs. This bill has already been approved by the Bureau of the Budget.

Peru Receives \$10,000,000 Credit

The Export-Import Bank has approved the extension of a \$10,000,000 credit to Peru, available in monthly installments. It has also reduced the interest rate of the Nicaraguan credit from 5% to 4%.

Two further financial matters reported by State are of interest:

1. Discussions have opened for a permanent Colombian debt settlement to supplant the temporary settlement which will expire shortly.
2. The new Panamanian administration is actively considering the plan for refunding Panama's external debt.

Agriculture Sends Representatives to Cuba and Dominican Republic

Two Latin American countries have asked Agriculture for representatives. At the request of the Cuban Government, Cole (Veterinarian) will go to Cuba after January second in connection with tick eradication problems; and Bevin, Director of Tropical Forest Experiment Station in Puerto Rico, is in Dominican Republic to give advice on reforestation problems at Settlement Association.

Commerce Activities

Regional Information has prepared a memorandum on Latin American exports of scrap iron and steel and a list of reference publications concerning U.S. political, economic, and financial relations with Latin America. Feedstuffs has initiated comprehensive study on aspects of cocoa arrangements in connection with State's study. Electrical is making available communication maps on Latin American countries to FCC, furnishing War with information on Mexican power plants, and is correlating information on international short-wave broadcasts.

WEEKLY PROGRESS REPORT, Part II

Page 3
December 23, 1940

CULTURALUniversity Facilities for Latin American Students

Coordinator's office continues to investigate the problem of extra students that the Grace Line is bringing from South America in connection with the special winter session at the University of North Carolina. Although the office has made no commitments to any universities, it is seeking further information from officials of the Grace Line and is pointing out the Line's responsibility for the students' educational facilities and hospitality.

Dr. Stephen Duggan has agreed to make recommendations for the reception of twenty-nine additional Chilean students that Mrs. James (Pan American Union) reports are on their way to U.S.

Latin American Lectures in U. S. Universities

Harvard, Yale, Williams, and Catholic University are considering a plan for lectures on Latin American subjects at selected universities. Caldwell (Coordinator) has been authorized to assist ten universities for a series of fifteen lectures in each.

Agricultural and Medical Magazines

1. The Office of Foreign Agricultural Relations has been authorized to publish a monthly magazine to be entitled "Agriculture in the Americas." It is hoped that each issue of the magazine, which will be published on the twentieth of each month, will contain articles on complementary products, hemispheric agricultural surplus problems, agricultural education, cultural relations, and news items of general interest.
2. Coordinator's office is interested in the proposal to publish a small edition of the American Medical Association journal in Spanish. Most medical information of this sort is available in Latin America only in German.

COMMUNICATIONSAssemble Data on Spanish and Portuguese Broadcasts

Coordinator's office has asked the six short-wave broadcasting companies to provide a list of their news broadcasts in Spanish and Portuguese, showing time of day, frequency, and call letters. Estimates are being secured on the cost of newspaper advertising in Latin America to promote these American news broadcasts and build up audiences for them.

Guy Hiecock, formerly program director for short-wave broadcasts of the National Broadcasting Company, has joined communications staff to work on program plans. Francisco (Communications) has sailed for Latin America.

Page 4
December 23, 1940

Motion Picture Plan Developed

A complete plan has been developed for the production and distribution of non-theatrical 16MM films throughout Latin America. This plan will start with the equipment of thirty U.S. diplomatic missions in Latin America with sound projection machines.

Several Press Developments

1. Negotiations are under way with a magazine publishing company for the production and distribution of the magazine on defense which will probably be called "En Marche".
2. Bickel (Coordinator) held a meeting of a half dozen leading newspaper syndicates to organize methods by which we may distribute material through them.

Travel Staff Formed

A director, writer, art director, and space buyer, all experienced in Latin American advertising, have been located for the proposed travel promotion project and are ready to go to work as soon as the formalities of their employment can be cleared.

Note: The next Weekly Progress Report will appear on Monday, January 6th, 1941.

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BRITISH EMBASSY,
WASHINGTON, D.C.
December 23rd, 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,

Harle Butler

The Honourable

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

Telegram from London dated December 21st.

Naval.

Hurricane offensive patrols covering troops and ships discharging at Sollun shot down one S.79.

2. Attack by aircraft on convoy off Scottish coast p.m. December 20th, was repulsed by gunfire from the escorting vessels.

3. In addition to the attack by gun boat on Bardia the port has been bombarded frequently from December 13th to December 18th by Monitors and gun boat covered by destroyers. Although fire returned by coastal batteries none of our ships were hit.

4. Naval aircraft attacked Rhodes Stampalia and Scarpanto a.m. December 17th. Fires started. All aircraft returned.

5. Week ending December 14th, 904, 673 tons reported in convoy compared with 571,979 tons the previous seven days and average of 822, 773 tons on the previous ten weeks.

6. On December 20th at Palermo were two cruisers, two destroyers, At Reggio Calabria two destroyers.

7. Two merchant vessels attacked by aircraft inside Irish territorial waters in St. Georges channel.

8. Two more town class destroyers Rockingham and Stanley arrived at Belfast p.m. December 20th.

9. H.M.S. "Berkeley" damaged by mine in Thames estuary a.m. December 20th. Arrived Sheerness on December 20th.

10. Royal Air Force. Western frontier.

Night of December 18th/19th. Ten heavy bombers attacked Derna causing fires and violent explosions. 13 medium bombers attacked enemy forces in Bardia area.

December/

RECEIVED

-2-

December 19th. Hurricanes maintained offensive patrols over Sollum area and destroying, unconfirmed 5 enemy aircraft.

11. Greece. December 19th.

Six Blenheims bombed barracks innumerable dumps and motor transport parks at Valona. Twelve gladiators intercepted five Savoia bombers probably destroyed one.

One of our fighters destroyed and two damaged but all pilots safe.

12. Italy.

Night of December 19th/20th. Three Wellingtons attacked oil tanks and railways at Brindisi causing large fires and many explosions.

13. Daylight December 20th.

A direct hit amidships was registered on a 5000 ton merchant ship at Boulogne by a coastal command aircraft, six medium bombers attacked railways and aerodromes in Northern France and Low countries. A large building, believed headquarters or officers' mess, near gun positions at Gris Nez was destroyed. All our machines returned.

14. Night of December 20th/December 21st. 142 aircraft despatched for the following operations.

<u>Locality</u>	<u>Targets</u>	<u>Number of aircraft</u>
Berlin	Railway stations & aerodromes, engine factories	26 heavy bombers 11 heavy bombers
Gelsenkirchen	oil	26 medium "
Cologne	oil	22 heavy "
Antwerp	oil	4 heavy bombers
Rotterdam, Havre and Dunkirk docks	barge and shipping	18 heavy & 19 medium bombers
Brest	submarine & naval dockyard	12 coastal

15/

Regraded Unclassified

-3-

15. German Air Force.

Daylight December 20th. Only single aircraft engaged on bombing reconnaissance ventured inland. About 45 enemy aircraft were engaged on the sea reconnaissances - 1 damaged by our fighters.

16. Night of December 20th/21st.

About 320 enemy aircraft came over between 5 p.m. and 2 a.m. Liverpool main objective and aerodromes on a fairly heavy scale, but many aircraft strayed from their course and bombing was widely scattered. Mine laying on a larger scale than recently. In Liverpool area several fires started in warehouses and timber yards and also in docks where two ships damaged. Private property suffered heavily and casualties at present reported are 39 persons killed and 80 injured.

17. Bombs were dropped in vicinity of Dublin at about 7.30 p.m. on December 20th. Eighteen aircraft casualties in operations over and from British Isles, enemy one bomber damaged, British one medium bomber missing.

uns Klotz: Give Kamark 114

CONFIDENTIAL

of White's office item #5
on tounge. Att

Paraphrase of Code Cables Received
at the War Department 12:01 P.M.
December 23, 1940.

AM

Hand #5 given to
White for
Kamark 12/30/40

London, filed 17:00, December 23, 1940.

1. A total of 112 coastal type and heavy bombers were involved in the British attack on the night of December 19-20. No planes were lost or missing. On the following night, December 20-21, 142 medium and heavy bombers were used and one medium bomber failed to return. During the night of December 21-22, 100 planes were operated. During daylight hours of December 22 the Coastal Command sent out 30 patrols, and 72 patrols were operated by the Fighter Command. One plane of the Coastal Command was lost. That night 91 patrols were dispatched by the Fighter Command and two Fighter planes were lost.

2. The Germans operated about 50 bombers on the night of December 19-20. One plane was destroyed and one other was probably destroyed. The following night an estimated 120 German planes were used and one bomber was probably damaged. On the night of December 21-22 about 350 German planes were operated. Forty-three of them were mine layers. Two bombers and one fighter were destroyed. During daylight hours of December 22 a total of 96 sorties were over the coasts on reconnaissance missions. That night the Manchester area and Liverpool suffered severe attacks. Planes from the Channel Islands and from the direction of Dieppe made up the bulk of the attackers.

CONFIDENTIAL

CONFIDENTIAL

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3. The German raid on the night of December 20-21 directed at Liverpool damaged five merchant vessels. The German attack on the night of December 21-22 started a number of fires along the Mersey side. It is believed that no serious damage was inflicted on industrial establishments. Several vessels were damaged and one was sunk in the Mersey River. The docks on the Mersey River suffered considerable damage. A total of 220 individuals were killed or seriously injured.

4. Orders have been issued for the immediate departure of two additional divisions to the Middle Eastern theater.

5. During the week, December 8-14, convoys totalling 904,000 tons came into Britain. During the preceding week 571,000 tons came in and the average for the previous ten weeks is 520,000 tons.

6. The report that the Kiel Canal has been closed is supported by the report of a collision in the Canal which caused the sinking of a ship. Photographs made by reconnaissance planes on December 21 reveal that shipping is congested in the eastern part of the Canal and that the German 10,000-ton heavy cruiser, LUTZOW, and seven other cruisers are in this end of the Canal.

LEE

Distributions:

Military Aide to the President
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
WPD
ONI
AC
G-3

CONFIDENTIAL

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Transmittal of Code Sublogram Received
at the War Department 12:01 P.M.,
December 23, 1940.

London, filed 27:00, December 23, 1940.

EXTRACT

1. The Director of Supplies and Transport in the War Office gave Lt. Col. R. A. Gamm, Q.M.C., of this office, the following accurate information of motor transport in the British Army as of December 14, 1940.

Fighting vehicles	10,000
Civilian vehicles, impressed, requisitioned, and purchased locally	29,000
Standard cargo and passenger vehicles	128,000
Motorcycles	<u>30,000</u>
Total	197,000

2. The British consider that motorcycles are their most reliable means of communication and they are used in all theaters of war. They are frequently operated by officers as well as by enlisted dispatch riders. Standing orders issued recently require that every Army officer below the grade of colonel be a proficient motorcycle operator. The Army has on hand only about 1,100 combination or side-car motorcycles and use them very little.

CONFIDENTIAL

3. The British lost 403 non-fighting and 23 fighting vehicles in the Norwegian campaign.

4. The following vehicles were lost in the fighting in France and Belgium:

Machine gun carriers of all types	1,657	
Cruiser and Infantry tanks	284	
Light tanks	439	
Other fighter vehicles	<u>281</u>	
Total fighting vehicles		2,661
Expressed vehicles	4,800	
Expressed motorcycles	2,400	
Standard trucks and passenger vehicles	27,200	
Army motorcycles	<u>12,400</u>	
Total losses		42,242

LEE

C-2 Note: The British Army has a present estimated strength of about 1,900,000, exclusive of the Home Guard of about 2,000,000. It is probable that this last named force has but limited motor transportation assigned.

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
G-2
G-3
G-4
G-5

CONFIDENTIAL

CONFIDENTIAL

SPECIAL BULLETIN
No. 30
G-2/2657-231

MILITARY INTELLIGENCE DIVISION
WAR DEPARTMENT
Washington, December 23, 1940

NOTICE

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

This document is being given an approved distribution, and no additional copies are available in the Military Intelligence Division. For provisions governing its reproduction see Letter TAG 350.05 (9-19-40) M-B-M.

CHARACTERISTICS OF MACHINE
GUNS USED BY GERMANY

SOURCE

The information contained in this bulletin is from a British official source as of October 10, 1940.

CONTENTS

1. MACHINE GUNS FOR LAND SERVICE
2. MACHINE GUNS FOR AIR SERVICE
3. MACHINE GUNS OF OCCUPIED COUNTRIES

CONFIDENTIAL

CONFIDENTIAL1. MACHINE GUNS FOR LAND SERVICEa. Dual Purpose Machine Gun 3/4

Caliber: 7.92 mm.
 Year of service: 1934.
 Weight: 27 pounds on tripod.
 Maximum range: Direct, 320 yards.
 Indirect, 3800 yards.
 Effective range: 1500 yards.
 Mountings: Bipod, tripod, and antiaircraft.
 Practical rate of fire: On bipod, 110 to 120 rounds
 per minute.
 On tripod, 250 to 350 rounds
 per minute.
 Sights: Leaf and Barleycorn: optical and antiaircraft
 ring sight.
 Ammunition: Ball, tracer, armor piercing, and armor
 piercing incendiary.
 Method of cooling: Air.
 Method of operation: Short recoil.
 Ammunition feed: Belt or drums for antiaircraft fire.

b. Dreyse Light Machine Gun 13

Caliber: 7.92 mm.
 Year of service: 1913.
 Weight: 26.5 pounds.
 Maximum range: 2180 yards.
 Effective range: 1000 yards.
 Mountings: Bipod and antiaircraft.
 Practical rate of fire: 120 rounds per minute.
 Sights: Leaf and Barleycorn; antiaircraft ring sight.
 Ammunition: Ball, tracer, armor piercing, and armor
 piercing incendiary.
 Method of cooling: Air.
 Method of operation: Short recoil.
 Ammunition feed: Box magazine or drum.

c. BSW Light Machine Gun

Caliber: 7.92 mm.
 Year of service: 1936.
 Weight: 27 pounds.
 Mountings: Bipod and antiaircraft.
 Practical rate of fire: 150 rounds per minute.
 Sights: Aperture and antiaircraft ring sight.

CONFIDENTIAL

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Ammunition: Ball, tracer, armor piercing, and armor
piercing incendiary.
Method of cooling: Air.
Method of operation: Short recoil.
Ammunition feed: Metallic belt.

d. Light Machine Gun OG/15

Caliber: 7.92 mm.
Year of service: 1915.
Weight: 39.75 pounds.
Effective range: 800 yards.
Mountings: Tripod and antiaircraft. (The gun can
also be fired without mounting).
Practical rate of fire: 150 rounds per minute.
Sights: Leaf and Barleycorn.
Ammunition: Ball, tracer, armor piercing, and armor
piercing incendiary.
Method of cooling: Water.
Method of operation: Maxim principle.
Ammunition feed: Metallic belt or drums.

e. Heavy Machine Gun /08

Caliber: 7.92 mm.
Year of service: 1908.
Weight: With cradle mounting, 141 pounds.
With tripod mounting, 123 pounds.
Maximum range: 3800 yards.
Mountings: Cradle or tripod.
Practical rate of fire: 300 rounds per minute.
Sights: Optical.
Ammunition: Ball, tracer, armor piercing, and armor
piercing incendiary.
Method of cooling: Water.
Method of operation: Maxim principle.
Ammunition feed: Metallic belt.

f. Knorr-Bremse Light Machine Gun

Caliber: 7.92 mm.
Year of service: 1939.
Weight: 22 pounds.
Maximum range: 2100 yards.
Mountings: Bipod.
Practical rate of fire: 300 to 400 rounds per minute.
Ammunition: Ball tracer, armor piercing, and armor
piercing incendiary.
Method of cooling: Air.

CONFIDENTIAL

CONFIDENTIAL

Ammunition feed: Magazine.

g. Schwarzlose M 7/12 Heavy Machine Gun

Caliber: 7.92 mm.

Year of service: 1912.

Weight: 84.75 pounds.

Maximum range: 5450 yards.

Effective range: Direct, 2600 yards.

Indirect, 3500 yards.

Mountings: Tripod.

Practical rate of fire: 300 rounds per minute.

Sights: Optical.

Ammunition: Ball, tracer, armor piercing, and armor piercing incendiary.

Method of cooling: Water.

Method of operation: Inertia.

Ammunition feed: Belt.

2. MACHINE GUNS FOR AIR SERVICE

a. Machine Gun 17, Dreiser

Caliber: 7.92 mm.

Weight: 27.75 pounds.

Mountings: Ball swivel.

Sights: Aircraft ring sight.

Ammunition: Ball, armor piercing, armor piercing incendiary, tracer, armor piercing tracer, explosive.

Method of cooling: Air.

Method of operation: Recoil.

Ammunition feed: Metallic belt.

b. Machine Gun 15

Caliber: 7.92 mm.

Weight: 15.75 pounds.

Mountings: Ball swivel.

Practical rate of fire: 600 rounds per minute.

Sights: Ring foresight, pillar backsight.

Ammunition: Ball, armor piercing, armor piercing incendiary, tracer, armor piercing tracer, explosive.

Method of cooling: Air.

Method of operation: Recoil.

Ammunition feed: Saddle type drum magazines.

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c. T.6-200

Caliber: 7.92 mm.

Weight: 22 pounds.

Mountings: Fixed aircraft.

Practical rate of fire: 1100 to 1200 rounds per minute uncontrolled.

Sights: Reflex Rev1 3a.

Ammunition: Ball, armor piercing, armor piercing incendiary, tracer, armor piercing tracer, explosive.

Method of cooling: Air.

Method of operation: Short recoil.

Ammunition feed: Disintegrating metal belts.

d. T.6-220

Caliber: 7.92 mm.

Weight: 15.8 pounds.

Mountings: Movable aircraft.

Practical rate of fire: 1000 to 1100 rounds per minute uncontrolled.

Sights: Reflex FZ or Reflex Visier 6a.

Ammunition: Ball, armor piercing, armor piercing incendiary, tracer, armor piercing tracer, explosive.

Method of cooling: Air.

Method of operation: Short recoil.

Ammunition feed: Twin drums.

e. Machine Gun 131

Caliber: 12.7 mm.

Ammunition: Armor piercing, armor piercing incendiary, tracer.

Method of cooling: Air.

Ammunition feed: Belt.

3. MACHINE GUNS OF OCCUPIED COUNTRIES*

a. Madsen M. 29

Caliber: 8 mm.

Weight: 69.5 pounds with tripod.

Maximum range: 4900 yards.

* Only those guns which are likely to be used are included under this heading. All of them are guns for land service.

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Effective range: Direct, 1300 yards.
 Indirect, 3200 yards.
 Mountings: Bipod, tripod, and antiaircraft.
 Method of cooling: Air.
 Method of operation: Short recoil.
 Ammunition feed: Box magazine.

b. Madsen M.24

Caliber: 8 mm.
 Weight: 47.5 pounds.
 Maximum range: 4900 yards.
 Effective range: 1300 yards.
 Mountings: Bipod, tripod, and antiaircraft.
 Practical rate of fire: 300 rounds per minute.
 Method of cooling: Air.
 Method of operation: Short recoil.
 Ammunition feed: Box magazine.

c. Madsen Heavy Machine Gun

Caliber: 20 mm.
 Weight: Without mounting, 121 pounds.
 With universal mounting, 780 pounds.
 Maximum range: 6500 yards.
 Effective range: 4300 yards.
 Mountings: Universal and field mounting with wheels.
 Practical rate of fire: 125 rounds per minute.
 Sights: Optical ground sight, Madsen optical anti-aircraft sight, and antiaircraft ring sight.
 Ammunition: High explosive, armor piercing, and tracer.
 Method of cooling: Air.
 Method of operation: Short recoil.
 Ammunition feed: Drum magazines.

d. Czech 2.B L/36

Caliber: 15 mm.
 Year of service: 1938.
 Weight: 125 pounds.
 Maximum range: 1600 yards (vertical).
 Mountings: Mobile antiaircraft, collapsible wheels.
 Practical rate of fire: 400 rounds per minute.
 Sights: Ring and optical antiaircraft.
 Ammunition: High explosive, tracer.
 Method of cooling: Air.
 Method of operation: Gas.
 Ammunition feed: Belt.

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G-2/2657-220

RESTRICTED

M.I.D., W.D.

December 23, 1940.

No. 277

SITUATION REPORT

12:00 M.

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.

I. Western Theater of War.1. Air Force Operations.

On the 21st and 22d German daylight offensive activity was apparently low. On the night of the 21st-22d a large-scale attack was made on the Liverpool area and last night Manchester was heavily bombed. On both nights the Germans made secondary raids on London and other cities. Last night the important aluminum works at Fort William, Scotland, was raided.

On the night of December 21-22 the R.A.F. operated normally over western Germany and the occupied territories. Last night these operations were continued; and a fairly heavy attack was made upon Mannheim.

II. Greek Theater of War.

No change in the situation. On the 21st a fairly stiff air action between pursuit occurred over northern Greece.

III. Mediterranean and African Theaters of War.

The Italians are making a determined stand at Bardia, probably to gain time for the organization of the Tobruk position.

On the night of the 21st-22d the R.A.F. bombed Porto Marghera near Venice, and other points in this vicinity.

RESTRICTED

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE December 23, 1940

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending December 21, 1940

Summary

(1) The Reserve Board now estimates industrial production in November somewhat higher than previously indicated, placing the FRB index at 132. This is 3 points above October and compares with the previous record peak of 126 last December.

(2) The rising trend of activity has continued in December, according to weekly business indexes. The New York Times index rose somewhat higher in the week ended December 14, despite a substantial decline in the index of lumber production. Carloadings made an especially favorable showing, and automobile production rose contra-seasonally.

(3) Basic commodity prices have continued to level out. Wool prices gained 1 per cent during the past week, but other basic industrial materials were little changed. Foodstuff prices showed wider variations.

- - - - -

The general situation

The level of industrial activity reached in November was somewhat higher than had been indicated by preliminary data of the Federal Reserve Board, and the FRB index for that month is now placed at 132. This is 3 points higher than the October index, and compares with the previous record peak of 126 reached last December.

The industries associated with the national defense, of course, are largely responsible for establishing the new record level of industrial activity. (See Chart 1.) Thus, the production of iron and steel, machinery, non-ferrous metals, textiles, and chemicals, among the major groups, have noticeably exceeded the previous peaks reached in the 1937-39 period and in 1929.

In the principal non-defense industries, on the other hand, production during November was in nearly all cases lower than the peak reached in the earlier periods. This discrepancy between the two groups, however, may be overcome in the course of the next year. The sharply rising payrolls in the defense industries will largely be spent for products of the consumer-goods industries, and the coming year may see a marked expansion of production in this industrial group. The chief beneficiaries of increased consumer spending, however, are likely to be certain of these industries that are already concerned in the defense program -- notably automobiles, building materials, and textiles -- which may raise problems of capacity and prices.

The economic improvement resulting from the defense program will be somewhat unevenly distributed, with a considerable section of the population receiving little or no benefit. This seems likely to result in a slower rise in national income than could ordinarily be expected from the prospective increase in industrial production. Wheat and cotton growers, for example, confronted with large world surpluses, can expect little increase in incomes. Producers of livestock and livestock products, however, will doubtless benefit from increased consumer demand.

Business rise continues in December

Weekly business indexes show that the improvement noted in November has continued through the first half of December. The New York Times index in the week ended December 14 (see Chart 2, upper section) rose 0.6 point to 114.9, despite a substantial decline in lumber production. This carries the index to the highest level on record, with the exception of one week last month when the index was distorted by holiday adjustments. Barron's index in the same week rose 1.2 points to 124.4. Carloadings and electric power production have been the principal strengthening factors in the New York Times index during December.

Preliminary data for the week ended December 21 reveal a decline of 2 points in the adjusted index of steel ingot production, and a less than seasonal decline in automobile output which will result in a gain of over 3 points in the adjusted index of automobile production.

Carloadings gaining over previous year

In line with previous expectations, the decline in freight carloadings from the October peak has been much less abrupt than a year ago. (See Chart 2, lower section.) While this year's seasonal peak was nearly 19,000 cars below the 1939 high, by the week ended December 14 total freight carloadings were 58,000 cars (9 per cent) above year-earlier levels. Over one half of this gain in the week mentioned was accounted for by miscellaneous freight, with coal and lumber making up the greater part of the balance. Reflecting the high level of industrial production and strong consumer buying, miscellaneous freight has shown considerably less decline from peak levels than is usual at this season.

The relatively moderate decline in total freight carloadings this fall has in large part been due to distortion in the normal loadings of coal resulting from the establishment of minimum prices for bituminous grades on October 1. This factor caused advanced stocking up in coal, thus tending to distort the normal shipping movement before and after the date mentioned. This influence is clearly shown in the production of bituminous coal. (Shown in Chart 2.) It will be noted that after a pronounced dip in production in October, coal production in recent weeks has again climbed above year-earlier levels. It is of interest that bituminous coal production for the current year through the middle of December has totaled about 15 per cent more than in the corresponding period of 1939.

Electric power production at record high

While coal production has been recovering from the October decline above mentioned, electric power production has been steadily expanding to new high levels. (Refer to Chart 2.) The last three weekly figures have successively broken all previous records, and electric power production in the week ended December 14 was 10 per cent above the corresponding week in 1939. Part of this rise must be attributed to seasonal factors, since the consumption of electric power normally reaches its annual peak in December. Nevertheless, after allowance for seasonal factors, electric power production still has shown a noticeable expansion. In view of the increased power demands, recent press reports have indicated that the industry is planning a substantial increase in its construction budget for the coming year, which will add to the already unusually heavy backlogs of the electrical equipment industry.

Commodity prices hold level trend

Basic commodity prices have continued to level out, showing no appreciable further gains in the combined averages over the last five weeks. (See Chart 3.) During the past week, no important price changes were registered among the 16 basic industrial materials, with the possible exception of a 1 per cent gain in wool prices. Foodstuffs, however, showed more pronounced price changes, with substantial increases in cocoa and corn prices, and a sharp drop in the price of butter. (Lower section of Chart 3.)

In the wool market, Army orders continue to be the principal strengthening factor. Trade comments last week mentioned that millmen were puzzled as to why Army orders are specifying wool for neckties, rather than spun rayon or cotton. It is stated that the Marine Corps has long found cotton ties to be satisfactory.

While hide prices last week remained unchanged, higher prices may result if British imports of beef from Argentina should be curtailed because of shipping difficulties, since the number of hides depends on the number of cattle slaughtered. The supply of hides in Argentina is reported smaller than last year.

Cocoa prices continue to rise in response to restricted shipping facilities from Africa. Arrivals of cocoa in the United States, however, have been unusually heavy in recent weeks, and for the year to date they have exceeded the record total of the full year 1939.

A gain in corn prices, despite lower prices for wheat and other grains, was due to wintry weather over the corn belt, which reduced country marketings and at the same time increased the demand for corn for feeding.

Butter prices have dropped rather sharply, owing to a heavy accumulation of receipts in response to the recent price advance.

Some prices now at 1937 peaks

The dispersion chart (lower section of Chart 3) showing price changes since August, does not indicate the full extent of price advances for certain products, such as steel scrap and zinc. On the other hand, it over-emphasizes the increases for certain other products, notably hides, which were at a depressed level in August.

The extent of the over-all advance in prices of four important defense materials -- zinc, lumber, steel scrap, and wool -- is indicated in Chart 4, in comparison with the advance in the BLS combined index for 28 basic commodities. It will be noted that, while the combined index has risen only moderately, prices of steel scrap and zinc are now at their 1937 peaks, lumber prices have substantially exceeded that level, and wool prices are not far below the 1937 high. The spot price of zinc, furthermore, is a nominal price and does not reflect the full extent of the upturn shown in the futures market.

Lumber prices hold steady

Lumber prices, on the whole, have levelled out during the past two weeks, as shown by the BLS wholesale price index for 44 lumber items, but no appreciable decline has occurred.

The price situation for the various groups of building materials is indicated in Chart 5. It will be noted that the combined index of building material prices (upper section of chart) now exceeds the peak reached in 1937. An examination of prices for the various types of building materials, however (lower section of chart), reveals that practically the entire recent advance in building material prices has been due to the extreme rise in prices of lumber.

Steel orders hold above capacity

Despite the approach of the year-end slack period, steel orders continue to be booked in a volume exceeding production capacity, and unfilled orders are rising further. New orders reported by the U. S. Steel Corporation for the week ended December 12 were at 134 per cent of capacity, only moderately below the high figure of 142 per cent in the previous week.

Steel output this week is scheduled at 80.8 per cent of capacity, as compared with 96.8 per cent last week, the reduction being due to the Christmas holiday. Advantages will be taken of the shutdowns to make some needed repairs to steel furnaces, while blast furnaces, as usual, will continue in operation through the holiday.

New orders index shows year-end slackening

Our index of new orders for the second week of December continued the decline noted in previous weeks, largely reflecting a low volume of textile orders, some decline in steel orders and a further reduction in orders for other products. (See Chart 6.) A decline in orders during November and December is a usual seasonal occurrence, and (as shown on the chart) was noticeable in both 1938 and 1939.

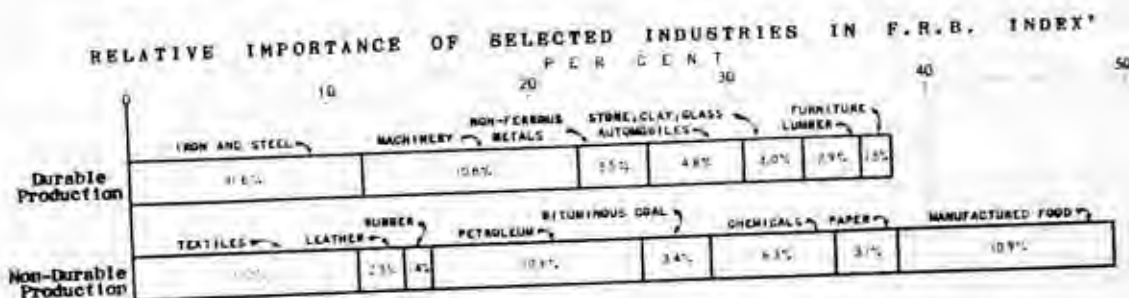
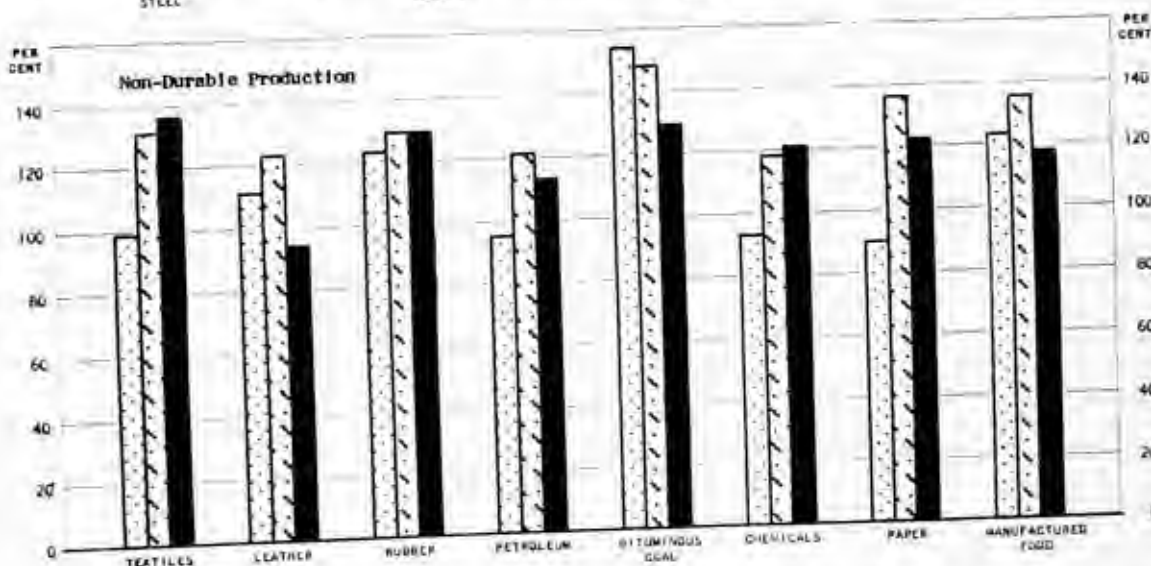
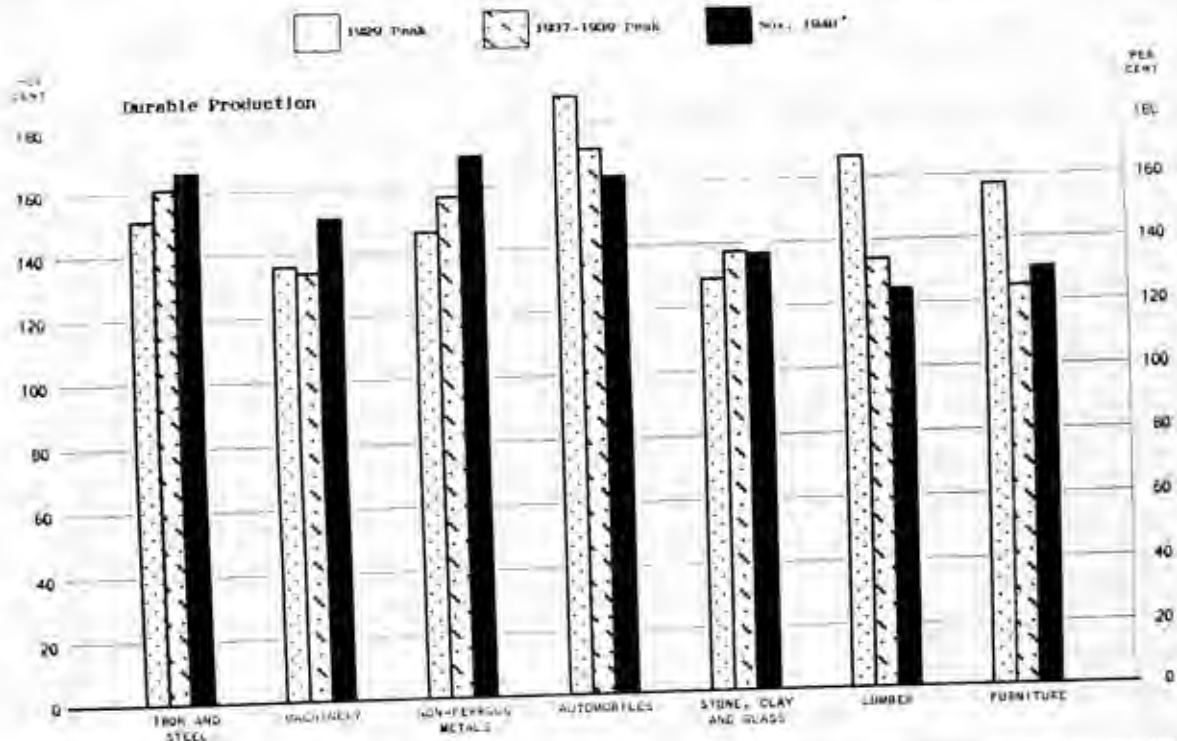
Heavy construction contracts rise

Heavy construction contract awards, as reported by the Engineering News Record, rose to \$131,000,000 during the week ended December 19. This is the highest level since the second week in November, which was one of the best weeks in the entire year. It now appears that heavy engineering contracts for the year 1940 will approximate \$4,000,000,000 as compared with \$3,000,000,000 in 1939, and \$3,950,000,000 in 1929, the previous peak year.

Among the more important contracts awarded during the week were those covering a \$12,000,000 factory project in New Jersey and a \$10,000,000 Curtiss-Wright Corporation airplane plant in Missouri. In addition, it is of interest that a contract was let for the construction of a manganese mill in New Mexico.

Orders placed for construction steel also rose during the week, reaching 42,000 tons, as compared with 31,000 tons in the previous week. The principal orders included in the total were one of 10,000 tons for the projected addition to the Consolidated Aircraft plant mentioned a week ago, and another of 8,000 tons for transmission line towers in connection with the Grand Coulee Dam.

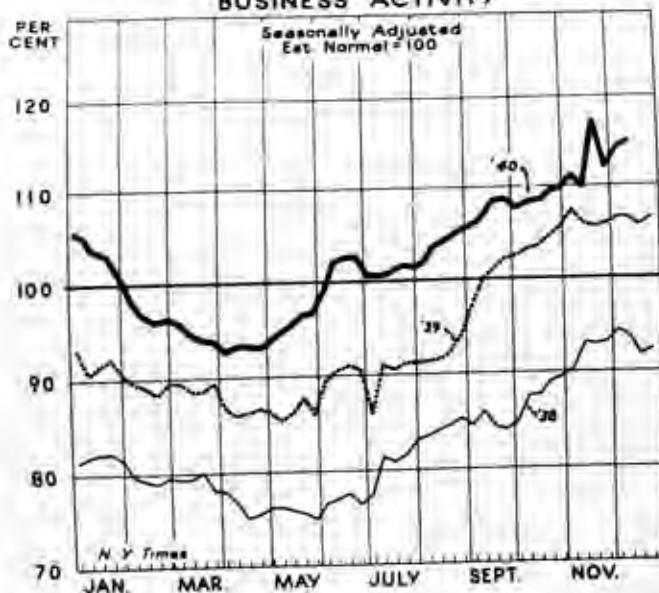
F. R. B. INDUSTRIAL PRODUCTION IN SELECTED INDUSTRIES
November 1940 Compared with Peak Month in 1929 and Peak Month in Period 1937-1939



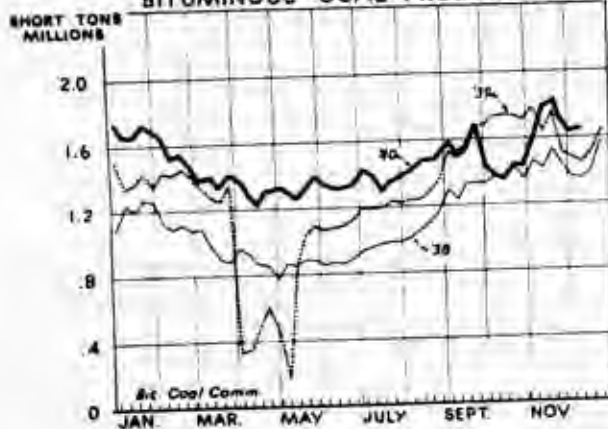
* LATEST AVAILABLE FIGURES. FIGURES IN PARENTHESES ARE PRELIMINARY OR ESTIMATED.
* WEIGHTS ON THE INDIVIDUAL ITEMS INCLUDE BOTH MANUFACTURING AND PRIMARY PRODUCTION

SELECTED BUSINESS INDICES

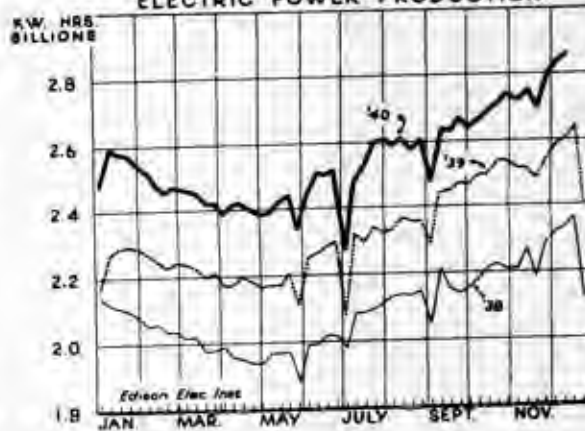
BUSINESS ACTIVITY



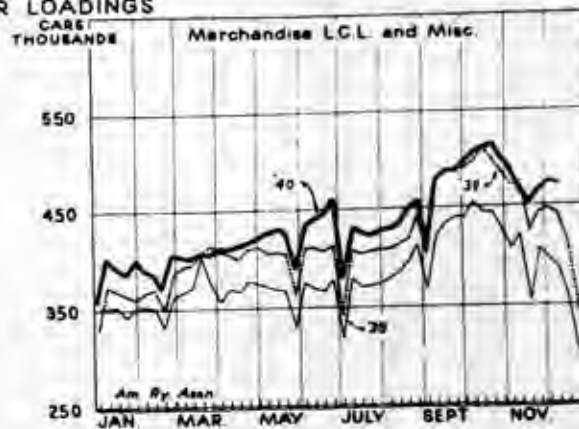
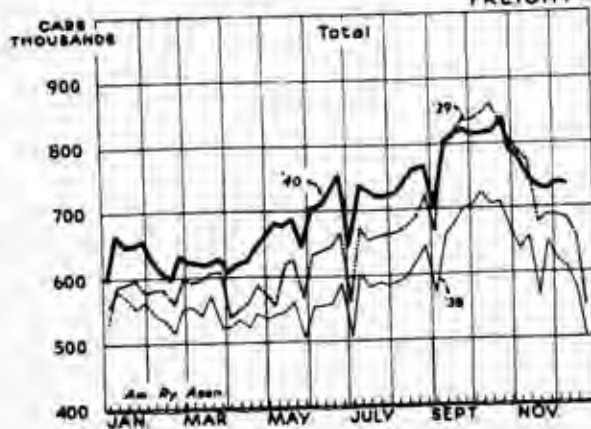
BITUMINOUS COAL PRODUCTION



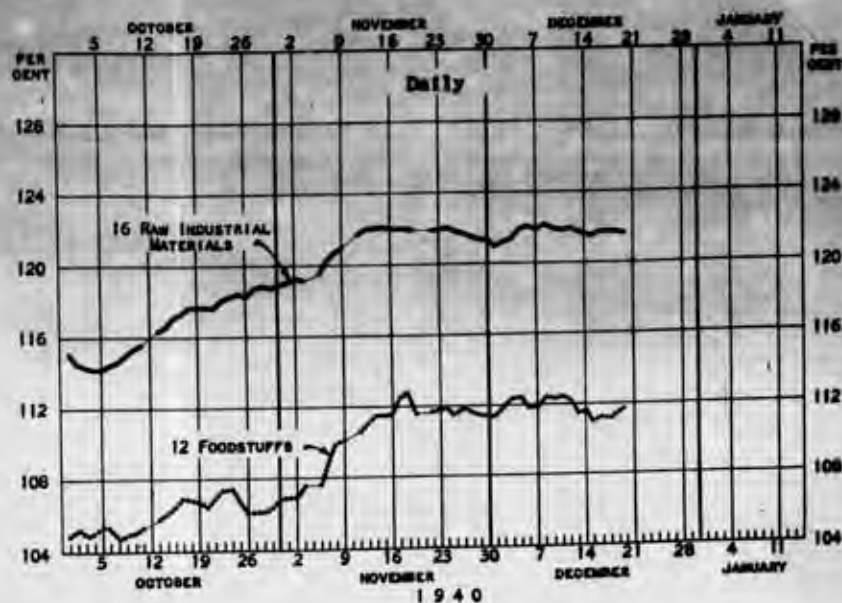
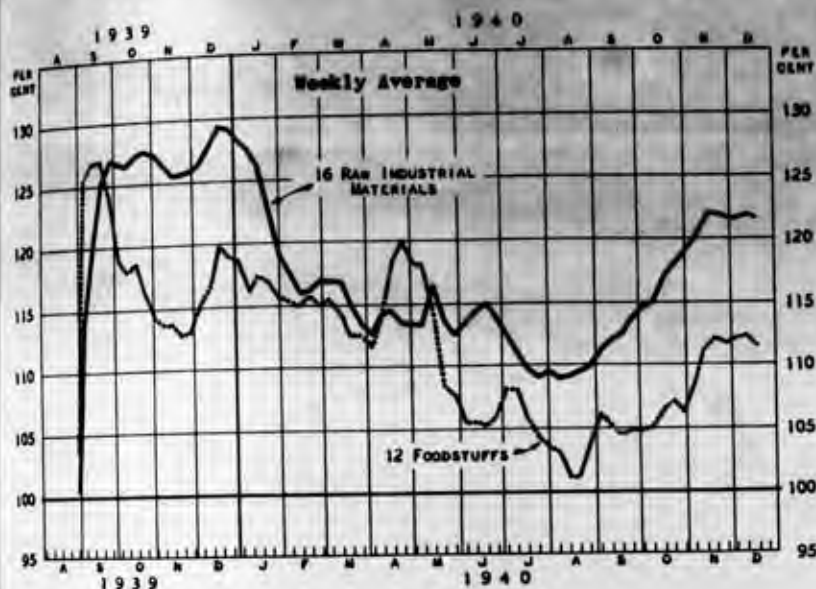
ELECTRIC POWER PRODUCTION



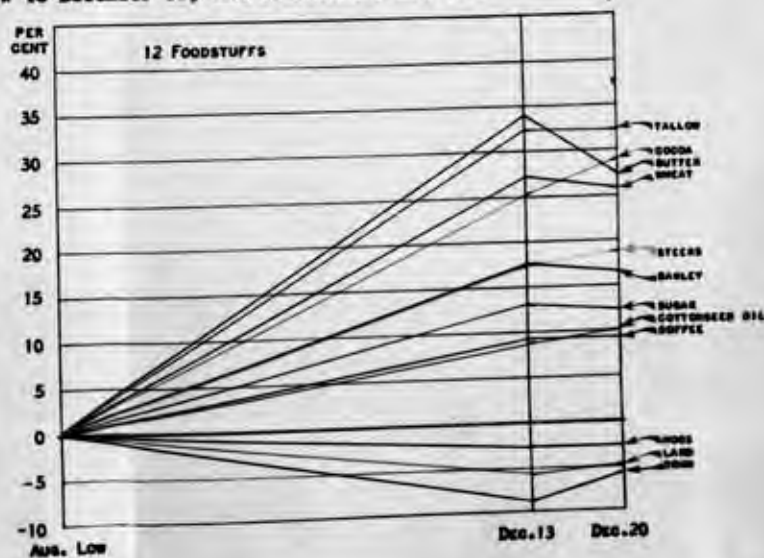
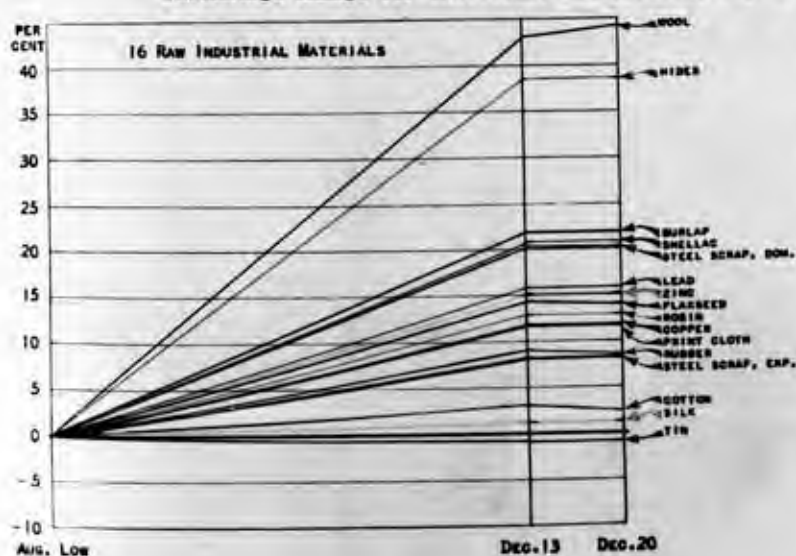
FREIGHT CAR LOADINGS

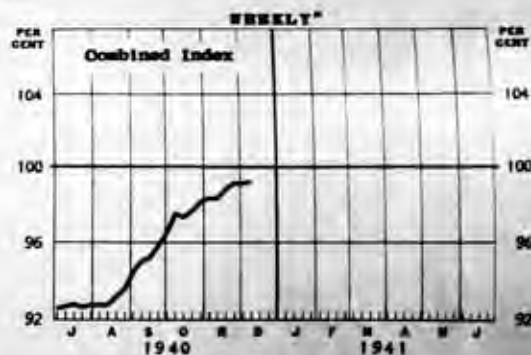


MOVEMENT OF BASIC COMMODITY PRICES AUGUST 1939 = 100

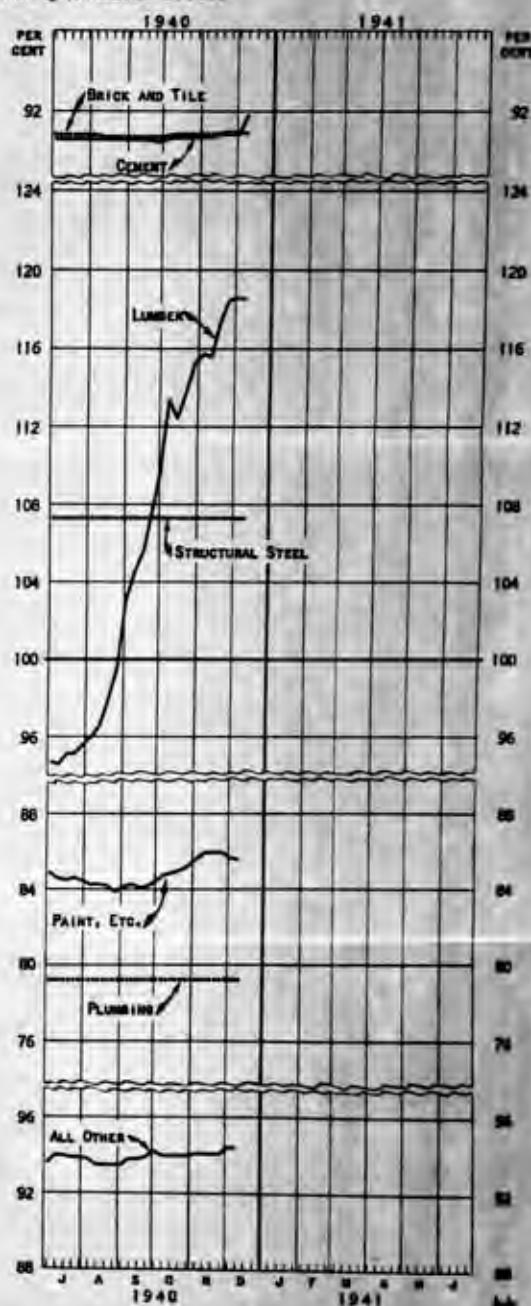
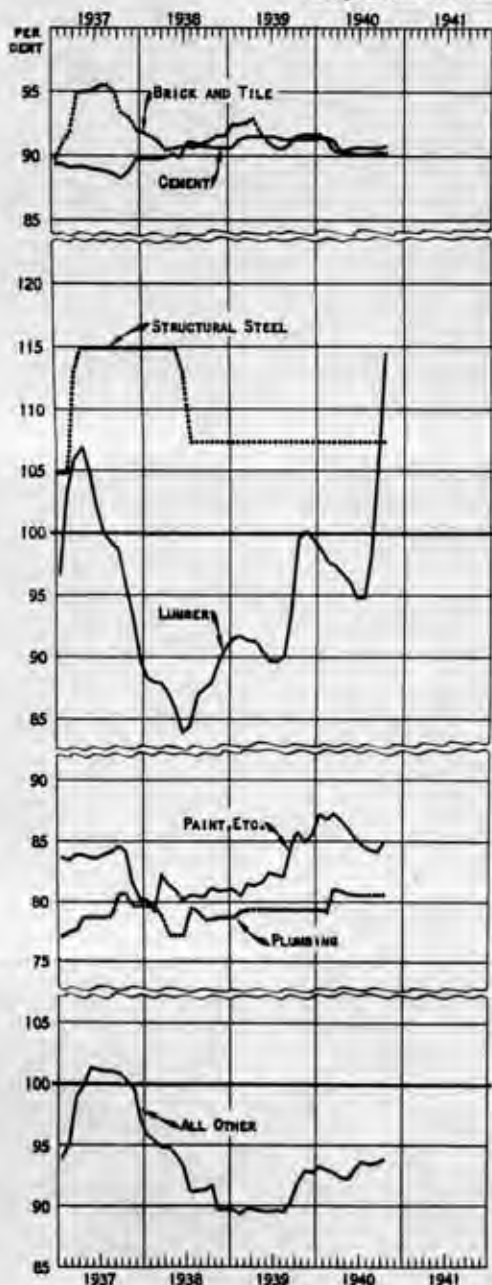


Percentage Change for Individual Commodities, August Low to December 13, and to December 20, 1940

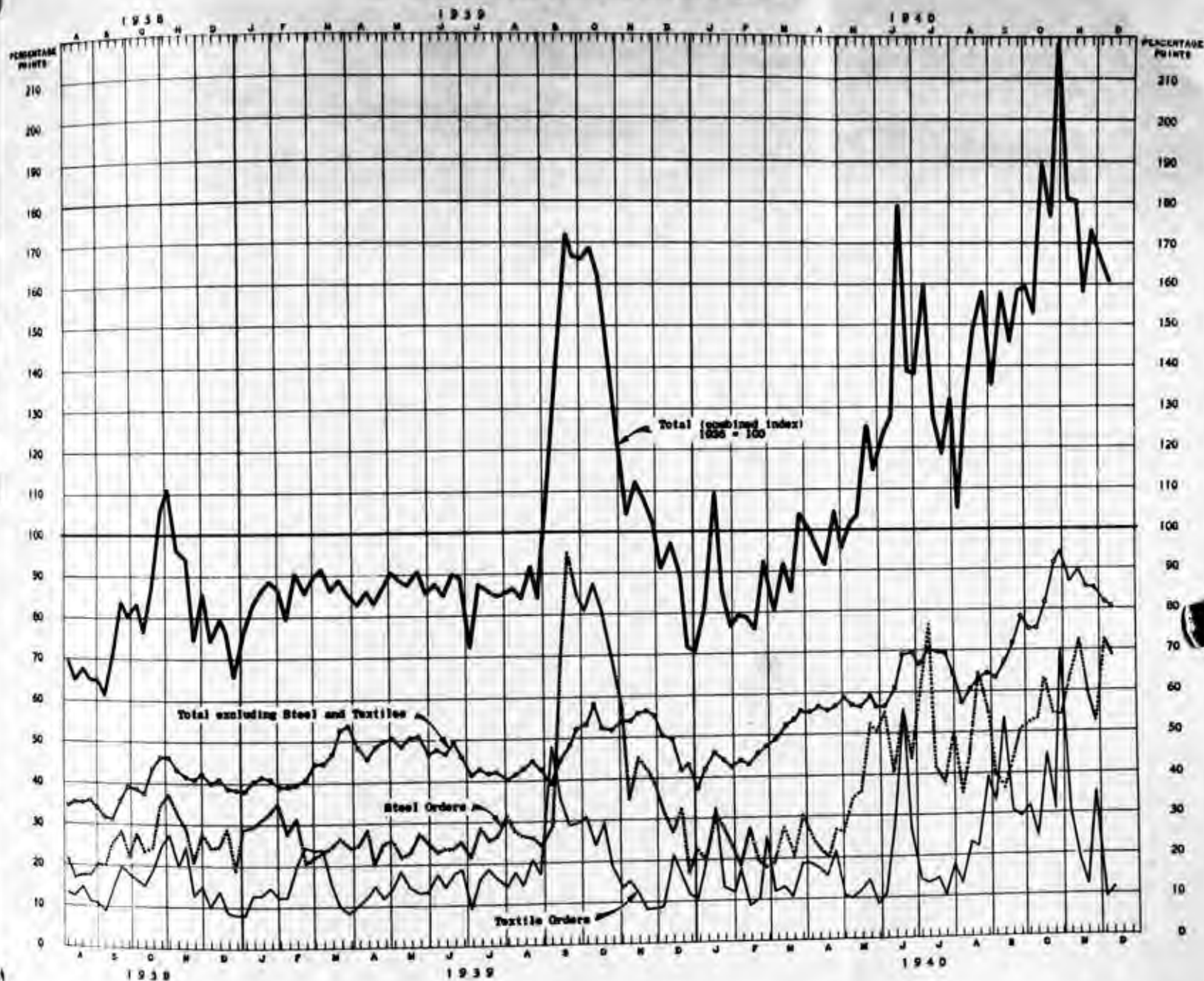




Components of Index of Building Material Prices

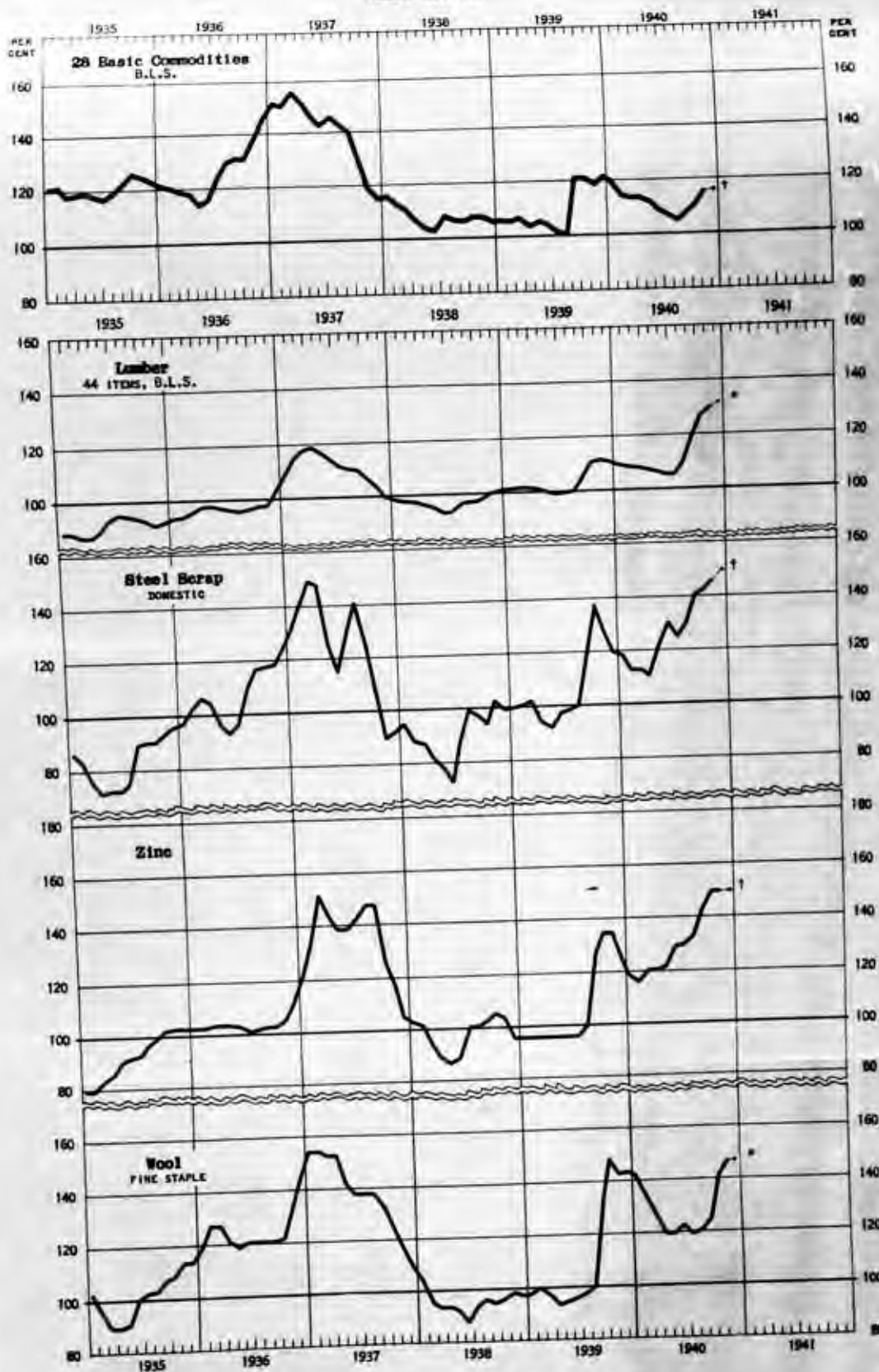


INDICES OF NEW ORDERS Combined Index of New Orders and Selected Components



INDEXES OF BASIC COMMODITY PRICES AND OF INDIVIDUAL
PRICES OF ZINC, LUMBER, SCRAP STEEL, AND WOOL

AUGUST 1939 = 100



* WEEK ENDED DEC. 14

† WEEK ENDED DEC. 21

SHANGHAI, NR.

Dated December 23, 1940

Rec'd 5:25 p.m.

Secretary of State,
Washington.

December 23, 3 p.m.

Your December 21, 4 p.m.

Local Japanese consul official states that his office has no (repeat no) official information of regulations in question, observing that there have heretofore been no (repeat no) regulations governing transportation of funds from Shanghai to Hankow similar to those controlling transportation between North and Central China. He promises investigation. A Reuter report of December 19 under Hankow date line, although not explicit, would indicate that the regulations are applicable to traffic both ways.

Sent to the Department, Hankow, repeated to Peiping and Chungking.

LOCKHART

JR

GRAY

Stockholm

Dated December 23, 1940

Rec'd 7:15 p.m.

Secretary of State,
Washington.

1130, December 23, 4 p.m.

At the request of the Foreign Office following power of attorney is quoted for transmission to the Federal Reserve Bank of New York. Original of document is in the hands of the Legation and will be forwarded by pouch.

"We, the undersigned, Governor and Secretary General of Sveriges Riksbank, in accordance with a decision taken today unanimously by the Board of Directors of Sveriges Riksbank, hereby transfer to Mr. Wollmar Bostrom, Swedish Minister in Washington, and Mr. Harry Eriksson, Commercial Counselor at the Swedish Legation in Washington, acting jointly, full and exclusive power of attorney to dispose of any and all gold, and any and all dollar funds (including the proceeds of the sale of any gold), which have been or may hereafter be, pursuant to this instruction or otherwise transferred to, or deposited or placed in, the gold or dollar accounts with the Federal Reserve Bank of New York in the name of Mr. Wollmar Bostrom and Mr. Harry Eriksson acting jointly; and hereby

request

-2- #1130, December 23, 4 p.m., from Stockholm.

request and instruct the Federal Reserve Bank of New York to transfer to, and receive and place in, such gold accounts all gold which it has since October 21, 1940 received, or which it may hereafter receive, from or for the account or in the name of, Sveriges Riksbank.

We reserve for ourselves the right to give instructions to the effect that Mr. Wollmar Bostrom or Mr. Harry Eriksson shall be entitled to dispose of the gold and dollars in the above mentioned accounts with the Federal Reserve Bank of New York only jointly with one or more persons whom the Swedish Government may nominate. In such case Mr. Harry Eriksson will be requested to act as the alternate of Harry Wollmar Bostrom. Such instructions will enter into force only if and when they have been received by the Federal Reserve Bank of New York through the State Department in Washington.

This power of attorney is intended to supplement the power of attorney dated May 16, 1940, executed by the undersigned on behalf of Sveriges Riksbank to Mr. Wollmar Bostrom and Mr. Harry Eriksson; and such power of attorney, dated May 16, is continued in full force and effect and is hereby approved, ratified and confirmed in all respects, and all of the acts of Mr. Wollmar Bostrom and Mr. Harry

Eriksson

-3- #1130, December 23, 4 p.m., from Stockholm.

Eriksson thereunder, and all of the acts of the Federal Reserve Bank of New York in reliance thereon, are hereby approved, ratified and confirmed.

This message is to be considered as number 408 to the Federal Reserve Bank of New York from Sveriges Riksbank and test number 209.

Stockholm, December 5, 1940.

Signed Ivar Rooth signed Hjalmar Ekengren.

I, Gosta Engzell, Chief of the Judicial Department of the Royal Swedish Ministry for Foreign Affairs, do hereby certify that Mr. Ivar Rooth, Governor of Sveriges Riksbank, and Mr. Hjalmar Ekengren, Secretary General of said bank, who are personally known to me, have hereabove signed their names.

And I do further certify that said persons are duly qualified to sign the above power of attorney in behalf of the Board of Directors of Sveriges Riksbank.

In witness whereof I have hereunto set my hand and affixed the official seal of the Royal Ministry for Foreign Affairs.

Stockholm this 21st day of December 1940 sealed and signed Gosta Engzell.

I, S. Walter Washington, Consul of the United States of America at the City of Stockholm, in the Kingdom of Sweden, duly commissioned and qualified, do hereby certify that

-4- #1130, December 23, 4 p.m., from Stockholm.

that Gosta Engzell, whose signature and official seal are subscribed to and affixed to the foregoing document, and Ivar Rooth and Hjalmar Ekengren, whose true signatures are subscribed thereto, were on the dates indicated Chief of the Judicial Department of the Royal Swedish Ministry for Foreign Affairs, Governor of Sveriges Riksbank and Secretary General of Sveriges Riksbank, respectively, to whose official acts faith and credit are due.

In witness whereof I have hereupon set my hand and seal this 23rd day of December, 1940.

Sealed and signed S. Walter Washington Consul of the United States of America."

STERLING

KLP

December 24, 1940

From his home in New York, Secretary Stimson phoned HM,Jr today at 10:45 a. m., the call coming through the White House. The following is HM,Jr's end of the conversation:

"I thought you were on a vacation.

Only what I saw in the newspapers. I do not know anything else, as Will Rogers says. I cannot help you.

Just a minute and I will get the operator for you."

When the conversation was concluded, HM,Jr said, "He wanted to know what I knew as to what the President was going to do with Phil Murray on planes. I told him I knew nothing."

December 24, 1940
12:21 p.m.

H.M.Jr: Hello.

Operator: Mr. Stewart.

Walter Stewart: Hello, Henry.

H.M.Jr: Hello, Walter.

S: How are you?

H.M.Jr: Oh, I'm alive.

S: Sorry to bother you on a day like this but I got a telephone call last night that I wanted to check with you on.

H.M.Jr: Please.

S: Marriner Eccles called me and wanted to know if I'd become a Class B director of the Federal Reserve Bank in New York, and I wanted to ask you before I gave any answer partly to find out whether it's a place where I could be of any use, whether I run any risk of getting between Treasury and Reserve Board or whether you've any observations on it.

H.M.Jr: Well, let me come back and ask you. Do you care very much about it?

S: No, I don't care a thing about it. I don't care about it unless it's some place where I might be of use. I don't want to divide, you see. I want to multiply.

H.M.Jr: Well, if you want

S: Unless I can be of use there in the general picture, I'd just as soon not do it.

H.M.Jr: Well, Walter, it may be this - if it's selfish, forget about it, but I'm afraid that we're already in a clash with them, oh, on the whole question of excess reserves. See?

- 2 -

S: I thought that might be in the background.

H.M.Jr: No, my mind is open but he's riding one hobby again and he's taking the attitude excess reserves is the answer to the whole thing. Well, I think it's one of maybe two dozen things.

S: Right.

H.M.Jr: What?

S: I agree.

H.M.Jr: But that's - I don't hear you.

S: I agree, I say.

H.M.Jr: Well, now that's the fight - the Federal Reserve and Washington and New York - they've all lined up on that. See?

S: Yeah.

H.M.Jr: So if it was left to me, any spare energy that you've got, I'd like it.

S: Right. That's my ambition.

H.M.Jr: What?

S: That's my ambition.

H.M.Jr: But if you think I'm selfish, forget about it.

S: I don't think so at all. I think that even on the point that you raised I can be of more use there with you than I can with their Board where there are twelve people.

H.M.Jr: Well, I think that that's an understatement.

S: (Laughs). Right. All right. Well, that settles it.

H.M.Jr: That was a nice meeting the other night.

S: I enjoyed it. I thought it was a nice pleasant personal thing to do and I was amused and a little disturbed at some of the comment.

H.M.Jr: Well

S: I thought your end of it went very well.

H.M.Jr: Thank you.

S: Right. Merry Christmas to you.

H.M.Jr: Same to you.

S: Thank you. Bye, bye.

CONFIDENTIAL

(Confidential)

PARAPHRASE

A telegram (no. 633) of December 24, 1940, from the American Ambassador at Chungking reads substantially as follows:

Neither official nor banking circles in Chungking feel any anxiety on account of the establishment at Nanking of a new central bank, according to information received by a member of the Embassy staff from the Vice Minister of Finance. Expressing confidence that the new bank will be not in position to endanger the national currency, the Vice Minister stated that he felt sure that the issuance of the new notes will not affect the exchange rate of the Chinese national dollar. The Vice Minister stated also that since the American and British Governments made loans to China the official Chinese national dollar is in a very strong position. At the present time the note issue has a seventy percent coverage and by merely increasing the note issue without the coverage falling below forty to fifty percent all of the cost of carrying on military operations during 1941 can be met, according to the Vice Minister.

AS THE
LEADERSHIP
OF THE
CHINESE
NATIONAL
DOLLAR
IS IN A
VERY STRONG
POSITION
AT THE PRESENT
TIME THE
NOTE ISSUE
HAS A SEVENTY
PERCENT
COVERAGE
AND BY
MERELY
INCREASING
THE NOTE
ISSUE
WITHOUT
THE
COVERAGE
FALLING
BELOW
FORTY
TO FIFTY
PERCENT
ALL OF
THE COST
OF CARRYING
ON MILITARY
OPERATIONS
DURING
1941 CAN
BE MET,
ACCORDING
TO THE
VICE
MINISTER.

THE ADVISORY COMMISSION TO THE COUNCIL OF NATIONAL DEFENSE
FEDERAL RESERVE BUILDING
WASHINGTON, D. C.

24 December 1940

My dear Mr. Secretary,

I fear that you may feel that I have fallen down on my promise of Saturday regarding certain data on Kansas City.

I found on Monday that the information on production capacity was taken back to Kansas City by one of the engineers. I have wired him to air mail the material back to Washington and on its arrival I shall see to it that it gets to you. I am leaving for an Economic Association meeting in New Orleans but I have left word that the data be delivered to you as soon as it gets here.

Sincerely,
Arthur Tamm

TREASURY DEPARTMENT

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Noted

G. W. Cochran

INTER OFFICE COMMUNICATION

DATE December 24, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

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Registered sterling transactions of the reporting banks were as follows:

Sold to commercial concerns	£72,000
Purchased from commercial concerns	£ 4,000

Open market sterling was steady at 4.03-3/4, and transactions of the reporting banks were as follows:

Sold to commercial concerns	£10,000
Purchased from commercial concerns	£ 3,000

Closing quotations for the other currencies were:

Canadian dollar	13-9/16% discount
Swiss franc	.2321
Swedish krona	.2385
Reichsmark	.4005
Lira	.0505
Argentine peso (free)	.2355
Brasilian milreis (free)	.0505
Mexican peso	.2070
Cuban peso	8-11/16% discount

The yuan in Shanghai was quoted at 5-1/2¢, a gain of 1/8¢.

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada would ship \$1,581,000 in gold from Canada to the Federal for account of His Britannic Majesty's Government. The disposition of this shipment is unknown at the present time.

There was a holiday in Bombay today, and no gold or silver prices were received from that center.

In London, the prices fixed for spot and forward silver both advanced 1/8d, to 23-1/4d and 23-3/16d respectively. The dollar equivalents were 42.22¢ and 42.10¢.

Hendy 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¢.

There were no silver purchases made by us today.

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The report of December 18 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 \$9,675,000, a decrease of \$338,000 in the short position. Net changes were as follows:

Country	Short Position December 11	Short Position December 18	Change in Short Position*
England**	\$ 1,389,000	\$ 594,000	-\$795,000
Europe	3,114,000	3,538,000	+ 424,000
Canada	373,000 (Long)	283,000 (Long)	+ 90,000
Latin America	374,000	238,000	- 136,000
Japan	4,093,000	4,217,000	+ 124,000
Other Asia	1,428,000	1,367,000	- 61,000
All others	12,000 (Long)	4,000	+ 16,000
Total	\$10,013,000	\$9,675,000	-\$338,000

*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.

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BRITISH EMBASSY,
WASHINGTON, D.C.

Personal and Secret

December 24th, 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 despatched from
London dated December 23rd, 1940.

Naval.

Convoy was shelled while passing Dover evening of December 21st. Sixteen shells were fired. No damage or casualties have been reported.

2. During the night of December 21st Naval aircraft attacked Tripoli harbour. Raid was successful. Direct hits were obtained on seaplane base hangars and slipway and on the northern mole and warehouses. All our aircraft returned.

3. One enemy aircraft raided Alexandria 3 a.m. December 19th. All bombs fell in the sea. Aircraft was shot down.

4. An air attack was carried out on Brest harbour early on December 21st. Many bombs were dropped in the target area but results were difficult to observe.

5. It is reported that vessel laden with iron ore has been sunk by collision in Kiel Canal.

6. Ships bound out of the Baltic to North sea ports have been ordered to Trelleborg for orders.

7. This information supports previous report of closing of the Canal received December 19th.

8. Photographic reconnaissance on December 21st at Kiel shows two battle cruisers in floating docks Lutzow and two Schleisen class three cruisers in harbour. Eastern end of the Canal appeared to be congested by shipping.

9 In air raid on Liverpool night of December 20th-
December 21st three merchant vessels received damage from
high/

- H -

high explosive bombs and two from incendiary bombs.

10. One of the above has an unexploded bomb in the cargo in No.3 hold.

11. Military. Western Desert and Libya Enemy forces holding Bardia defences are being harrassed by our artillery fire. Our troops continue to be re-inforced and are clearing the areas to the Northwest and West. Nine hundred additional prisoners and four guns have been captured. Our armoured car patrols have reached the coast 25 miles Northwest of Bardia.

12. During the night of the 19th Hurricanes patrolling in Bardia area shot down two aircraft confirmed one unconfirmed and damaged seven.

13. On the night of December 19th-December 20th eight Wellingtons bombed Berka aerodrome scoring direct hits on hangars and aircraft. Tobruk and Gazala aerodromes also attacked. One British aircraft missing.

14. On night of December 20th-21st nine Wellingtons attacked Castelbenito aerodrome (South Tripoli) dropping four tons of H.E. bombs and over 5,000 incendiaries. Nineteen aircraft on the ground destroyed in addition to the hangars and buildings. An ammunition dump was set on fire.

15. Greco. Greek forces have advanced roughly four kilometres in coastal sector capturing prisoners (including Lt. Colonel) and seven guns.

16. On December 20th nine Gladiators intercepted enemy bombers with fighter escorts and shot down three bombers.

17. Royal Air Force. Operations on night of December 20-21 referred to in my immediately preceding telegram were very successful and all aircraft returned safely/

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safely. Bomb hits reports on targets allocated are all satisfactory. In Berlin one aircraft dropped 1,000 lbs. of bombs from 900 feet direct on to Schlesischer Station and a fire half a mile long was seen burning in another railway goods yard.

18. During the night of December 21st-22nd one hundred aircraft despatched to attack oil targets in Holland and Germany, Italy, docks and shipping electric power station. Mine laying was also carried out. Landing reports not yet available.

19. German Air Force. During December 21st isolated raids and reconnaissances took place and one aircraft was shot down by Royal Air Force ground defences. During afternoon many aircraft circled over the Straits and French coast as if for a major attack but none developed. Our fighters destroyed two. We lost two fighters but both pilots are safe.

20. During the night of December 21-22 about 250 enemy bombers including 45 mine-layers were operating. Liverpool was again the main objective with occasional attacks on London, mid East Anglia and Yorkshire areas. Raids lasted from six p.m. to six a.m. Considerable damage occurred in Mersey docks and one ship was sunk and several damaged. Birkenhead dock area Wallasey and Bootle were also attacked. Many fires were caused but on Mersey side in general (with the exception of docks area where full particulars are not yet available) industrial damage is not believed to have been serious. Preliminary reports assess casualties (killed and seriously injured) at about 220.

21./

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21. Aircraft casualties in the above-mentioned operations over and from British Isles.

Enemy: 1 fighter and 2 bombers destroyed.

British: 2 fighters shot down (both pilots safe)

One coastal-command aircraft missing.

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Paraphrase of Code Radiogram
Received at the War Department
at 11:22 A.M., December 24, 1940

London, filed 14:03, December 24, 1940.

1. On Monday, December 23, 23 patrols of the Coastal Command and 55 patrols of the Fighter Command were operated by the British. The previous night 59 British bombers were used in attacks and 57 patrols were dispatched over the coast. During the night of December 21-22 five British bombers were destroyed; the crews from three of which were saved.

2. German air activity during daylight hours of December 23 consisted of 109 sorties on reconnaissance missions over the coast. British planes attempted to intercept them but were unable to do so. That night over 200 German bombers were plotted over the Liverpool-Manchester area. On the night of December 22-23 a total of 56 German mine laying air craft and 320 bombers were active. The Germans lost two of the bombers.

3. During the night of December 22-23 German raiders started about 70 large fires and approximately 330 smaller ones in Manchester. During the same night in Liverpool one munitions plant was set on fire and several other fires were started in the water-front area.

4. Fairly large scale evacuations became necessary in Liverpool as a result of the use of parachute mines in the raid during the night of December 21-22. Manufacturing establishments, utility

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plants and the dock area suffered considerable damage and railway traffic was dislocated. One hundred and twenty-eight individuals were seriously injured and 23 were killed.

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Distribution:

Military Aide to the President
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff - 2
War Plans Division
Office of Naval Intelligence
AS - 2
S-3, 1

+

CONFIDENTIAL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: December 25, 1940, 3 p.m.

NO.: 4207

A British Treasury official, during a recent call at the Treasury, made reference to conversations held in the United States with Sir Frederick Phillips - evidently assuming that the Embassy is cognizant of the general tenor of those conversations.

If the Department could inform me briefly of the present position in the above regard, it would be appreciated by the Embassy.

JOHNSON.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

960 DEC 31 PM 5 21

RECEIVED
BY DEPARTMENT

EA:LWW

December 26, 1940
9:30 a.m.

GROUP MEETING

Present: Mr. Young
Mr. Pehle
Mr. Wiley
Mr. Graves
Mr. Thompson
Mr. Gaston
Mr. White
Mr. Foley
Mr. Kuhn
Mrs. Klotz

H.M.Jr: Herbert? You look all right.

Gaston: It is a merry day after Christmas. That is all I know.

Foley: I have this comparison of our draft and Glass' bill on Bank Holding Companies, showing the differences. His bill, of course, does not abolish the holding companies, but it does require them to dispose of stock in banks. Would you suggest that Mr. Delano and I call Glass and see if we can come down to Lynchburg tomorrow and see him?

H.M.Jr: Is that the only principal difference?

Foley: Well, that is the principal difference, of course. That is the difference between what you want to do and not doing very much.

H.M.Jr: I would go ahead with it. I would go down and see him.

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Foley: Mr. Delano is over in Baltimore, and he will be back around noon time. When he gets back, I will call him.

H.M.Jr: All right. I wish Gaston and Foley and you (Young) would stay behind on that ship business. Also Kuhn, will you please?

Foley: We are drafting an Executive Order to carry out the suggestions in that letter that you sent to the White House of Harold's.

H.M.Jr: I would like that so if and when the next time the President sees me - I would like to be able to take it over myself.

Foley: All right. Would that be some time today?

H.M.Jr: No. He won't see me today, but he might see me tomorrow.

Foley: I think we can be ready if we can have a chance to go over it finally with you, some time.

H.M.Jr: When will you be ready?

Foley: We will be ready late this afternoon. Not too late. (Laughter)

H.M.Jr: Going down hill a little bit, are you?

Foley: No.

H.M.Jr: In order to make it - is 9:30 tomorrow morning too early?

Foley: No, I hope not.

H.M.Jr: All right. We will do it at 9:30 tomorrow. Graves, will you be ready?

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Graves: Yes, sir.

H.M.Jr.: And those interested --

Foley: I think Phil Young ought to be here.

H.M.Jr.: Oh God, yes, he is the works. I say you are the works.

Young: Yes, sir. (Laughter)

H.M.Jr.: What else?

Foley: That is all.

H.M.Jr.: Chick, don't come too near me with that cold.

Schwarz: I will be careful. If I can have your initials on this, I will give it to you right after press conference.

H.M.Jr.: Has Kuhn seen this?

Schwarz: He has seen it. We might make one minor correction on it. And there was quite a story yesterday in the Herald Tribune of Randolph Paul talking on taxes. We sent it down to Sullivan and haven't got it back yet. If you would like to see it, I will send it down.

H.M.Jr.: No, I think Sullivan will handle it.

Schwarz: Good. He will get it all right.

H.M.Jr.: Incidentally, there was a good story today in Kintner and Alsop which I worked very hard on Tuesday.

Foley: Can I have another chance? On your testimony before the Appropriations Committee, Keith raised the question about the Johnson Act, and the

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Neutrality Act, and then I called him and talked with him about it, and he said that that was satisfactory and gave him the legal background that he wanted. Then he compared questions in so far as the application of the Johnson Act and in so far as the application of the Neutrality Act are concerned, and asked the Chairman of the Subcommittee to have them inserted in the record and Mark Shields, the clerk, sent them down here with a statement that you should have an opportunity to look them over and make any comment if you desire to do so.

Is it your wish that in order to complete the record we answer those questions and then put an asterisk and say that the Secretary was not present when these questions were answered, but that the questions were submitted by the committee and answers are - I think the answers are all right.

H.M.Jr: What do you recommend?

Foley: Well, I think if we want a complete record, that is the way to do it.

(Unrecorded telephone conversation with "Pa" Watson.)

H.M.Jr: He sounds all right. It is nice to hear somebody cheerful. Are you through?

Foley: I am through this time.

H.M.Jr: Wiley?

Wiley: Nothing this morning.

H.M.Jr: Kuhn, if you could find out from somebody - maybe Schwarz can tell you - this Miss Blackmore - I

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think you ought to find out what she turns out. There is an editorial clipping service that she gets out, and I think it might even be worth it to go over and just call on her and get acquainted. She has an editorial clipping service which I don't think anybody reads.

Schwarz: I can tell him about it.

H.M.Jr: Nobody reads it, and I used to read it; but I really think it would be worth going over. You might want to get special stuff. She does a very good job. If you could get that service, it gives you the whole editorial. It is mostly the editorial things.

Gaston: She gets out a daily digest.

H.M.Jr: Whatever she gets, if you would get it and merely read it, you see.

Schwarz: They do the magazines also, once a week. It is a very good job.

H.M.Jr: I think if you went over and called on her and simply said that you are here and you want everything she has got and why, and then if you want anything special, you see. It will keep you busy.

Pehle: There is a very important matter coming up on IT&T and the selling Roumanian interests which consists of 87 percent of the Roumanian Telephone Company. The thing is now coming to a head and it involves the release of about 14 million dollars worth of gold which the Roumanian Government has on deposit here, which is about a fourth, possibly, of their total dollar assets. IT&T have been discussing the matter with the State Department, and they have also written a long letter to you describing the arrangement.

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- H.M.Jr: They got full cooperation from State, didn't they?
- Pehle: They got very full cooperation from State at the outset, and Berle called Bell and told him that he thought this was a perfectly wonderful thing and it ought to go through. At that time Bell mentioned it to me, and I had some qualms about it because it involves giving a sizable chunk of the Roumanian assets to one American company, but at that time the deal was only in the preliminary negotiation state. Since then, Berle called back and said that State has talked some more about it and they are beginning to have some doubts and would we please not do anything until we heard from them. And then I understand they were getting up a memorandum which might go to the President describing the effect of the arrangement. We have this long letter to you now, which describes it in detail. We are contemplating sending it over to State Department for their views in writing, which would probably bring the matter to a head.
- H.M.Jr: Send it - address it to Mr. Hull, though, for my signature.
- Pehle: Yes, sir.
- H.M.Jr: It should go to Mr. Hull.
- Pehle: We send everything to the Secretary. We don't try to distinguish who it is going to go to over there.
- H.M.Jr: No, but addressed to the Secretary of State.
- Pehle: To the Secretary.
- H.M.Jr: Who gets there first, the Army or IT&T? I mean the German army?

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- Pehle: That is the plea of IT&T here. They say that here they have a chance to get 14 million dollars out, and they might very well not get anything, which is perfectly true. On the other hand, the oil companies and other people who have interests in Roumania probably aren't going to get anything, and we may be put in the position of preferring IT&T over the others.
- White: How much would IT&T have got if we hadn't blocked the funds?
- Pehle: Very little if anything. This deal wouldn't have gone through.
- H.M.Jr: Why couldn't Harry give me an idea - his remark - why couldn't the thing be set up - all right, how much has Roumania got here all together?
- Pehle: Fifty-three million.
- H.M.Jr: All right, 53. We will put IT&T aside, 14 million. Then we will wade through Standard Oil Company and all the rest of them, and we will hold them all, and then we will allot them on a percentage basis later on.
- Pehle: That is what you would do if you had a general claims settlement.
- H.M.Jr: Why not think along those lines, Ed, you see. Just because IT&T can rush its own through - now, Socony has got these tremendous investments. There must be automobile companies who have investments and machinery companies. Then if we are going to have this on a set off basis --
- White: But then there are small claims, too.
- Pehle: There are small claims getting paid every day. That is one of the difficulties in all these

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countries. In other words, there are American creditors who from the very beginning on April 10 have been paid their claims by these various countries.

H.M.Jr: What do you call a small one?

White: Two thousand dollars.

Pehle: From a hundred dollars up to many hundred thousand dollars. Usually they were current bills rather than selling a whole establishment like this.

H.M.Jr: Well, that would - the Socony would be - there they have a whole property which was taken away from them. I think it needs careful thought.

Pehle: Do you agree we write State in the meantime?

H.M.Jr: To get them in writing. Wonderful.

White: Why should State Department write the President before --

H.M.Jr: They won't, and if the President did, it would come back here. On the frozen funds thing, he won't do a thing without talking to me. He never has. Isn't that right? He has never - everything he does, he always throws it back at us.

Pehle: There is a French diplomatic case that Welles took up with him, and Welles called you back.

H.M.Jr: Do we or don't we give the French Embassy money for Havas Agency?

Pehle: We have been giving it to them month by month and consulting State each time because State gave us the idea that they were about ready to close them down. Now I understand there is a letter which came over saying that the matter

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has been discussed with the President and that they agreed to give them some more funds.

H.M.Jr: Philip?

Young: I have run onto another story on the Martinique planes which I don't know whether it has been called to your attention or not. We were approached by representatives of the Bellanca Aircraft Corporation which wanted to know if we had any objection to their reconditioning the planes in Martinique, providing they are brought up here. So we asked to get more information on that, and the picture is still not clear. Evidently - presumably representatives of the Vichy Government have approached Ladenburg Thalman in New York to act as their agent and the idea is they want to sell the Martinique planes to Cuba, for which they will be paid in food stuffs which Cuba will buy in the United States.

H.M.Jr: Listen, Philip, do you mind - this is the day after Christmas. Have a heart, man.

Young: Well anyway, that is all I know about it.

H.M.Jr: Well, it is most likely a phony. Who brought it to you?

Young: Bellanca.

H.M.Jr: I am sure it is a phony.

Young: Well, it was brought to us by the only decent fellow in the outfit.

H.M.Jr: I will tell you something funny. Mrs. Bellanca is an ardent Democrat, and according to Mrs. Morgenthau, a very nice woman. She worked very hard for Roosevelt at the headquarters. Mrs. Bellanca, they say, is terribly nice. Well,

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you can watch it.

Young: I gather we have no objection if the planes are brought back into the country.

H.M.Jr: No, but I know that the Navy have got the people down there and I certainly would ask the Navy about it. They have a naval officer there at Martinique as an observer there.

Phil, those lists of things you took over to State last Monday, on those things like one engine to one country in South America and some parts, can't those little odds and ends be cleaned up? Five training planes and things like that?

Young: Well, of course we are having a lot of trouble on the commercial stuff because Nelson issued these orders, the Priorities Board, to the effect that there wouldn't be any commercial shipments, exports.

H.M.Jr: What I wish you would do is, look that thing over, you see. If my memory is right, one country wanted an engine. Another country wanted five little training planes, see? If you will just let's take the South American thing. If you will separate that for me and refresh your own memory, I would like to go to town on some of those things.

Young: All right.

H.M.Jr: So just as soon as you get it to me. Will you do that?

Young: Yes, sir.

H.M.Jr: What? I mean, the fact that South America had no friends at that meeting the other day - I know there are a lot of little things that we could do and I think we ought to do.

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Young: Yes, I am sure of it. There has always been quite a lack of coordination between the aircraft engine people on parts and the Defense Commission in that when they allocated capacity they didn't allow for the aircraft companies holding out a certain amount of their parts for South America business, which they did.

H.M.Jr: Now, what I would like you to do is in order to get an ally on the Defense Commission, before I see you bring Nelson Rockefeller up to date, see, and when we do it, bring him in with you and you and I will sit down with him and we will get him in on this thing, see?

Young: You will find Meigs at the Defense Commission very cooperative indeed on this thing. He has been a great help on it.

H.M.Jr: All right. If you want to bring him in on it too --

Young: I think it would be a good idea.

H.M.Jr: Why not bring him in and Nelson Rockefeller and yourself, you see, and then Young Duggan.

Young: All right.

H.M.Jr: Any time you are ready I will do it. That will be South and Central America.

Young: Yes, sir. You want to do it today or tomorrow or next week?

H.M.Jr: You won't be ready. Whenever you are ready. I want you to have a preliminary meeting with those people first.

Young: All right.

H.M.Jr: Do you see, Phil?

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Young: Yes, sir.

H.M.Jr: I will be ready when you are.

Young: We ought to be ready tomorrow on it.

H.M.Jr: Well, if you are, tell McKay.

Harry?

White: I have to bring your attention to a matter on the Argentine Trade Agreement, because unless I do I think it is going to go right between Hull and yourself. There hasn't been agreement lower down on a question which involves the inclusion in a trade agreement of a most favored nation clause which our legal division justly objected to on the grounds that it tied our hands. They came back with a counter proposition of an escape clause which partly did away with the restriction. We modified it. They are willing to accept an escape clause as we have written it, which in their opinion and in their written statement to us makes the most favored nation clause null and void if we wish to make it so at any time for any reason.

Gaston: This is on Foreign Exchange, monetary control?

Foley: Yes.

White: Now, we had another meeting, Mr. Gaston and the Legal Division and myself, in which we went over it and we decided that even with the escape clause, it wasn't satisfactory. We went back to their meeting and the whole Trade Agreements Committee, with the exception of the Treasury representative, opposed our position and took the position that the escape clause was quite adequate and they were willing to write a letter, which they did and sent to me, to that effect. I am reraising

the question here to get your permission, if we can get agreement here, that their position is satisfactory, even though it may restrict us very slightly, is it all right?

H.M.Jr: Oh, yes. You have got to finish that Argentinian thing this week. All these things are unimportant compared with the goodwill behind the thing.

White: I don't think that is involved with the Argentine. It is the State Department that wants it, not the Argentine, but if we don't agree with them, it is going to come to an argument between Hull and yourself, and we want to avoid that.

H.M.Jr: I want the thing signed.

White: The trade agreement?

H.M.Jr: No, the whole business, our loan.

White: This is not a directly related matter.

Foley: No, this is the trade agreement.

H.M.Jr: I thought it was part of the loan.

Foley: They negotiated it for the best of a year and--

White: Then anything we decide will be all right?

H.M.Jr: It doesn't interest me. I thought the State Department was holding up our loan and trading with us on this.

Foley: No, this--

H.M.Jr: They have nothing to do with each other?

White: I shouldn't think so.

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Foley: They want to get them both completed while this mission is up here.

H.M.Jr: Let me restate my position. I would like to get our stabilization loan through and signed this week.

White: It should be possible to do it any day you want to now.

H.M.Jr: I am ready today.

White: They are waiting on you, I think. Mr. Bell isn't here. They have presented the papers.

H.M.Jr: No one has given me a thing on it. I don't know anything about it except that it isn't accomplished.

White: All right. If you want to set a time either today or tomorrow we can bring you completely up to date and you can finish it off any time you want to.

H.M.Jr: I want to finish it any time.

White: All right.

H.M.Jr: When are you ready, when is the thing finished?

White: It is finished with the one exception that they are getting certain papers, which is a matter of form, but as far as your acquiescence is concerned, your agreement is concerned, it is ready at any time.

H.M.Jr: Eleven-thirty?

White: Eleven-thirty will be quite all right.

H.M.Jr: Are you ready?

White: Yes, with the exception of that one state paper, we are ready to get your agreement.

H.M.Jr: I don't want it to come in until it is all finished.

White: When you say it is all finished, do you want the actual signature with the movie man and so on? They have a movie group waiting to take your signature. (Laughter)

H.M.Jr: That is right. I just want to sign it.

White: Well, if it is a question of signature, I am not sure it will be ready at eleven-thirty, but I will find out and let you know. We have to wait until they get a special letter from their government to satisfy certain technical requirements.

H.M.Jr: When you are ready, I am ready to face the movies.

Schwarz: You mean, Harry, they are not authorized to sign until they have that paper?

White: That is right.

You may be interested in the fact that India is going to replace her present silver coins, and she has the largest amount of silver coins outstanding, with new coins that contain half the silver, but along with that you may be interested in knowing that the Dutch East Indies are buying six million ounces of silver to have new silver coins minted here, so there is still business being done.

H.M.Jr: Wonderful.

White: If at any time--

H.M.Jr: I have re-examined that Dutch mission.

White: The interesting point is, did you (Pehle) get a request for permission to use that money for the purchase of silver from the Dutch East Indies?

Pehle: No, but they have various accounts which are so free that they might very well use it that way.

White: Even without its coming to your attention?

Pehle: It might.

White: Any time you are interested in going into the oil situation, we have got material.

As I think I mentioned, we are getting up memoranda on each one of the direct investments separately of the British Government. Do you want to see them individually or do you merely want to know that we have them? In the light of what you said to Phillips, I don't know whether you are interested in any of the specific--

H.M.Jr: There is nobody here in charge of the selling, so until that man arrives there is not much use of my looking at it.

White: We just have them, then, any time you want them. That is all.

Thompson: I wonder whether you saw the recent newspaper story that Mr. Julian brought suit against Charles West for \$2500 on an overdue note?

H.M.Jr: For what? Personally, you mean?

Thompson: Personally. We are following the story. A letter came in from an attorney here in town representing one of the banks stating that they had a four thousand dollar claim.

H.M.Jr: Do you mean to say he touched old Julian for \$2500?

Thompson: Yes, and a bank for four thousand. After the newspaper story came out the request for aid in collecting the four thousand dollar note came in. He left here on the 29th of October.

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Schwarz: We told them he was no longer in the Treasury.

H.M.Jr: Would you mind having them write the story, "Former Undersecretary of the Interior"? Seriously, if you could get - if there was some way to get that, even over the ticker, and then I would want to call up Harold Ickes. (Laughter) I mean, if it comes up, could the boys do it and somehow or other - Harold Ickes ribs me on having Charlie West, the man that he threw out--

Schwarz: He was there longer than he was here.

H.M.Jr: I know. If there was some way of getting that, it would be a nice New Year's present for me. Wouldn't Harold love it?

Foley: Sure. You had better do it right away. He is going to Florida tomorrow.

H.M.Jr: Well, if it could be "the former Undersecretary of the Interior," it would be worth a lot to me. (Laughter)

Klotz: You (Reporter) had better write the word "laughter."

H.M.Jr: It would be worth a lot to me.

Thompson: I have a deferment case in Secret Service. I think it is a very meritorious case.

H.M.Jr: What do you mean, a deferment case?

Thompson: He is under selective service. Chief Wilson feels very strongly that an exemption should be granted for the agent. He has lost six of his best men. The man is now engaged in running down a \$10 counterfeit case.

H.M.Jr: O.K. Where do I sign?

Thompson: Your initials there.

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Foley: That one of mine that you turned down was rejected by the draft board, so we still have him.

H.M.Jr: I was sure he would be, but I would much rather have it come that way.

Gaston: We had the same thing happen with one of the Customs boys.

H.M.Jr: I was sure he would be. And I am sure he feels much better than way.

Thompson: There have been a half dozen more cases come in.

H.M.Jr: All right.

December 26, 1940
10:00 a.m.

RE DANISH SHIPS

Present: Mr. Foley
Mr. Pehle
Mr. Young
Mr. Gaston
Mr. Kuhn

Foley: You said something last Thursday after the Cabinet meeting about Hull reading a long memorandum and the President turning it down, saying he didn't want to do it that way and then giving the thing to somebody else.

H.M.Jr: Bob Jackson. Well, it is very funny. He didn't give it to Bob Jackson. He gave it - he said he wanted Townsend.

Foley: Townsend is Bob's man.

H.M.Jr: Hackworth, it was. He wanted him to handle it. But Bob Jackson really sort of picked the thing up and I think he is going to carry the ball. But the President wanted Townsend and Hackworth to be a committee of two to report on this thing.

Foley: They worked on that memorandum that Hull read over there.

H.M.Jr: How do you suppose he knew it?

Foley: I don't know.

H.M.Jr: So - have you had a copy of that memorandum?

- 2 -

Gaston: Yes.

Foley: I have got it right here. We didn't get it until after the Cabinet meeting. We asked for it, you know, and they were supposed to send it over here but we didn't get it until 5 o'clock that afternoon, and when I saw you after the Cabinet meeting I hadn't received it.

H.M.Jr: Well, what I am saying here today, the President put us in on this thing, but I am declaring myself in because I know damn well unless the Treasury gets in on this thing, England isn't going to get anything in time to do her any good. And that goes for these Danish ships, too.

Gaston: There are two ways they might get more ships. One is a negotiated deal with the Danish, that is the quickest way, and then build more ships.

H.M.Jr: Well, let's do the quickest one first. Who knows where the Danish deal stands now?

Gaston: All we know is that we had a conference - we talked to the man Ryan who represents Moller, and we got Captain Sherman over here for the Navy Department and we are going to try to get him here on the thing again. It lies between the Navy and the Maritime Commission. The question of what use will be made and how the trades will be made for the ships if they are bought - the Navy could acquire them and they could acquire them on bare boat charters. Then they can do anything they want to with them. They can sail them under the American flag or some other flag. It is perfectly feasible for them to get them. They can probably get not only the Isbrandtsen Moller ships, but the Lauritsen and some other lines.

H.M.Jr: How much tonnage is represented?

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Foley: A hundred and fifty-eight thousand tons, 14 Danish ships.

Gaston: Not all in the United States.

Foley: No, they are not all here. Now, there are of that number about 15 of them in our ports.

Gaston: If you negotiated you could get the whole mess. If you tried the other route of taking, why, you would only get about 15.

H.M.Jr: Well, the President is going to ask about the tonnage and the description and all that. He likes that.

Foley: Yes. We have got that.

H.M.Jr: And how much speed and so forth and so on. Well now, let's start this - have you been in on this at all, Philip?

Young: No.

H.M.Jr: Where is Admiral Land on this thing?

Foley: Admiral Land is all right. It is Max Truitt over there on his Commission that he has difficulty with. I think the Admiral has talked with the President and the President has told him emphatically that this is what he wants done, one way or another, and the Admiral seems to have responded.

H.M.Jr: Well, couldn't we get some kind of a memorandum and then I will try to get Land and Knox to initial it.

Foley: In so far as these Danish ships are concerned, a basis for going ahead and negotiating with them on this thing. Yes, we can do that.

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Gaston: It is Navy and Land who ought to do the negotiation, but we can push them along.

H.M.Jr: These people are ready to turn over the boats right this minute. Somebody will take them.

Foley: And this dispute between Moller and Isbrandtsen, Ryan indicated on behalf of Isbrandtsen, might be eliminated in so far as this kind of a deal is concerned by getting young Moller to join in the charter. It is to their interest to do it.

H.M.Jr: All I know is until they get - who told you --

Gaston: He said that Sandy Kline and one other man told him that they got the story from there.

H.M.Jr: Well, did anybody every say anything in the room here that we were going to take the Axis ships?

Gaston: That was discussed, yes, and somebody over in the State Department told the whole thing.

H.M.Jr: Well, this has got nothing to do with it.

Foley: Well, here is the tonnage, you see.

Gaston: There are two different ways of proceeding. One is by seizing and requisitioning all foreign ships in our ports, and the other is to negotiate.

H.M.Jr: Well, if we did the Danish thing on a lease basis, that wouldn't change anything on getting the legislation to get the others, would it?

Foley: No.

H.M.Jr: That is what I wanted to know. I thought I was right.

Foley: Yes.

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- H.M.Jr: Now, if the Navy chartered them, how would she get them into the hands of the English?
- Foley: She could turn right around and recharter them to the British.
- H.M.Jr: That would be perfect.
- Gaston: Or they could recharter them back to Isbrandtsen and Moller or anybody else and put them on certain runs or run them as tramps. They wouldn't have to recharter to the British. They could shift things around with the help of the Maritime Commission so they could give Great Britain an equal tonnage.
- H.M.Jr: Now, how can we go to town? This other thing is just going to bog down.
- Gaston: I think the way you suggested, don't you, Ed, the memo on what could be done with --
- Foley: Then you could call Land and Knox and ask them to come over and we will present them with a memorandum and see what their reaction is.
- H.M.Jr: And give them the memorandum before they come over here.
- Foley: All right, we will send it to them and then ask them to come over and discuss it.
- H.M.Jr: Yes.
- Gaston: I think those fellows deliberately torpedoed this thing over there just as they did the frozen funds to get another story.
- H.M.Jr: The way I have it now, Bob Jackson is working on a plan for legislation to take all the ships, which may or may not go through. I am talking

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just about the Danish ships, getting that. If that works - now, if you have got that and then could lease them to the English, the President would be tickled to death. You know his plan that he developed in Cabinet, that they form a Pan-American Union Corporation and try to get all these countries in so that the blame would be divided over North and South America and form this corporation, say, under the Panama flag and these Axis ships would be received by this Panama corporation, in which maybe 15 nations would be stockholders. Well, of course, by the time you get a thing like that through, the war will be over.

Gaston: You can only see it on the basis of the sovereignty of an individual nation.

H.M.Jr: If you could get me up a memo on this, I could get hold of Knox and Land and have them phone me here and the three of us could get together. Then possibly --

Foley: Present something to the President.

Gaston: You have got to get Knox and Land personally.

H.M.Jr: That is right. Then I would have to take it to see Mr. Hull, too.

Foley: That could be done afterward.

H.M.Jr: Yes. How long will it take you to get that up?

Foley: We can get it up this morning.

Gaston: Huntington put somebody to work on that.

H.M.Jr: Okay, gents. Thank you.

STRICTLY CONFIDENTIAL

MEMORANDUM

For the Secretary of State:

Subject: Vessel Tonnage

It is the consensus of representatives of the Departments of State, Treasury, War, Justice, and Navy, and of the Maritime Commission, after informal discussion, that destruction and disruption of world shipping tonnage caused by current war in Europe have reached conditions in amount and in degree of intensity sufficient to warrant immediate administrative consideration.

Tonnage Destruction

Strictly confidential official sources indicate that from September 3, 1939 to November 24, 1940,

tonnage

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tonnage destruction has been:

British	2,729,000 gross tons
Foreign	<u>1,898,000</u> " "
Total	4,627,000 " "

Average rate of British loss per week from June 10 to November 24, 1940, 99,000 gross tons, or approximately 14,000 gross tons per day.

Tonnage Immobilization

There are in United States ports (including outlying possessions) 112 vessels of foreign registry totalling 615,000 gross tons which are immobilized by reason of war conditions. They are as follows:

Totals by Flags

	<u>No.</u>	<u>Gross Tons</u>
Danish	41	158,561
French	15	164,018
Italian	27	145,489
Norwegian	6	41,928
Belgian	1	6,429
Greek	4	24,515
Hungarian	1	3,938
Lithuanian	1	1,255
Yugoslav	3	11,642
Latvian	3	10,761
Estonian	3	5,997
Rumanian	2	7,209
Swedish	3	24,601
German	<u>2</u>	<u>9,087</u>
Total	112	615,430

There

Regraded Unclassified

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There remains of the 112 vessels in the Maritime Commission's laid-up fleet at the outbreak of the war, a total of 46 vessels, 24 of which are up for bid for purchase without restriction, 2 are up for bid restricted to purchase by American citizens for domestic operation, and the remaining 20 vessels are either undergoing reconditioning or are to be reconditioned for use as may be required.

Tonnage Shortage and Reserve

The Maritime Commission is of the opinion that there is not now nor has there been acute shortage of commercial tonnage available for the requirements of the United States overseas commerce. It is generally agreed that it is impossible to predict with any certainty future tonnage requirements. It is obvious in the light of previous experience during war conditions that the Government of the United States must maintain some reserve tonnage.

Shipping Requirements of Government Agencies

The present additional peace time shipping

requirements

requirements of government agencies other than those of the Maritime Commission are summarized as follows:

War Department: 7 vessels of transport class and
5 vessels of supply class.

Navy Department: 15 combination vessels and
10 cargo supply vessels.

The Maritime Commission has already turned over to the War Department 13 vessels--7 combination vessels and 6 cargo vessels, and there are under construction for the account of the Commission for delivery to the War Department two C-3 type transports. The Maritime Commission has made arrangements for acquisition by the Navy or has turned over directly to the Navy 38 vessels--14 combination vessels, 12 new cargo vessels of the C-2 and C-3 type, and 12 new national defense tankers. The Commission has received bids for the construction of five additional new national defense tankers for the Navy.

Problems

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Problems

On the surface, it might appear that we could take over these foreign vessels amounting to over six hundred thousand tons and release the equivalent of that tonnage to the British. This does not necessarily follow. It is a question as to how many of these vessels are desirable or economically suitable for operation in our United States trade. Some of the problems involved are as follows:

1. The acquisition of these vessels and their operation as merchant vessels under the American flag will necessitate, under existing law, alterations to meet our inspection requirements and standard of crews quarters.
2. Being equipped with foreign-built engines, most of which are Diesel, numerous difficulties will be encountered in operation, such as making repairs, securing parts, etcetera.
3. Securing American licensed engineers experienced in operating these engines will be difficult.
4. If these vessels were chartered for commercial operation in our Merchant Marine, it

would

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would probably be necessary to retain at least the Danish engine room personnel. Under existing law, all licensed officers must be American citizens.

5. If, in turn, American vessels were transferred to the Navy or sold to the British, the American crews would be thrown out of work with resultant serious objections by American labor.

6. These vessels, being foreign-built, would not, under existing law, be eligible for subsidy or operation in the domestic trade.

7. Many of these ships are of small tonnage rendering questionable their utility to our Merchant Marine or to the Army or Navy. In the opinion of the Army and Navy, the bulk of these vessels are not suitable for Army or Navy needs. However, they might be very useful to the British.

Desired Objective

1. That such control should now be exercised over foreign tonnage immobilized in United States ports on account of war conditions as will keep it available to this Government for use as may be needed by our various services or for possible release to the British Government.

Existing

Existing Authority to Control and Acquire Foreign Flag Tonnage
under Consideration

1. The Treasury Department has authority to take protective control over the immobilized vessels in our ports and may prevent their departure and protect them against acts of sabotage. (U.S.C., Title 30, Chapter 12) An existing presidential proclamation is sufficient basis for the exercise of this authority.

2. The Navy Department has authority to acquire and convert vessels for naval auxiliaries. It may charter or purchase vessels for naval auxiliaries but does not have authority to requisition. (Second Supplemental National Defense Appropriation Act, 1941 (Public No. 781))

3. The Maritime Commission is the requisitioning agency of the Government with respect to American-owned vessels but it does not, under existing statutes, have authority to purchase, charter, or requisition foreign-owned, foreign flag tonnage. (Section 902, Merchant Marine Act, 1936)

Recommendations

1. That the President designate one man as Chief Coordinator under the President for the activities of the various Departments and independent agencies of the Government concerned in

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the problem of dealing with the immobilized vessels, tonnage supply and other related emergency problems.

2. That the Secretary of the Treasury, in cooperation with the Chief Coordinator, immediately take such steps as may be necessary to control and safeguard the immobilized vessels now in our ports, including ports of the insular possessions.

3. That the Coordinator ascertain if the immobilized vessels can be requisitioned or otherwise acquired by the Government under existing law.

4. That the Navy proceed, in cooperation with the Chief Coordinator, to exercise the authority which it now has to buy or charter any of the tonnage under consideration that may be needed for its purposes.

5. If existing law does not authorize the requisition of immobilized vessels and if the President submits legislation to the Congress in line with the policy recently announced with respect to granting aid to the British, there be included a section giving him specific authority to acquire or requisition foreign owned foreign flag vessels immobilized by reason of war conditions, found in United States jurisdiction, together with such authority as may be necessary to make such use or disposition thereof as he shall determine.

It

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It will of course be appreciated that any request for legislative authority to acquire immobilized foreign vessels will at once raise the question as to why such authority is needed at a time when we are selling vessels, and also whether the purpose in obtaining such authority is to enable us to turn these or other vessels over to the British Government or to keep available reserve tonnage for national needs. Any opposition would perhaps be more pronounced in connection with an independent bill for this purpose than it would be if a section for the same purpose were included in other legislation of a general character concerning aid to the British.

Le:GHH
IN:JES:FMD

December 26, 1940
10:28 a.m.

H.M.Jr: Hello.

Operator: Leon Henderson.

H.M.Jr: Hello, Leon.

Leon Henderson: Yes, Henry.

H.M.Jr: How are you? Henry.

H: Pretty good.

H.M.Jr: All right after yesterday?

H: Yes. If I felt any better, I knew I wouldn't have enjoyed myself and if I felt any worse I would have stayed home. (Laughs).

H.M.Jr: Leon, I want to get together with you on some of these prices.

H: All right.

H.M.Jr: If you don't mind my saying it, I just don't think public statements are going to do it.

H: Well, I don't either but, Henry, every time I've talked to the Boss about doing anything formal why he says bring them in to me and so forth.

H.M.Jr: Well, this lumber thing: there's no excuse for that.

H: Well, we've got several things underway on that that are not just talking.

H.M.Jr: Well, I mean, the Fed Commission waits until Northrop comes out and tells the story about aluminum forgings. The story is correct but I hate to see it break that way - then everybody scrambles around and gets busy.

H: That's right.

- 2 -

H.M.Jr: What?

H: That's right.

H.M.Jr: Now on the things - on lumber, steel scrap, zinc, wool, cocoa - all of those things are completely out of line and I really think something can be done on all of them.

H: Well, now on wool: we're not going to have much more trouble on that.

H.M.Jr: Why?

H: Because most of the Government buying is out of the way.

H.M.Jr: Oh. Yeah, but it's up 40%. I've got a swell idea on wool. I'd like to talk to you about it.

H: When - would you like to talk this afternoon?

H.M.Jr: Well - sure. I'm ready at 4:00 o'clock if you are.

H: 4:00 o'clock. I'll be over.

H.M.Jr: Let me give you the idea that I have on wool, Leon, which you might be thinking about.

H: All right.

H.M.Jr: I've got a complete list of everything the Army buys of wool. Now a lot of those things could be made from cotton. To give you a ridiculous example: the Army buys woolen neckties. Hello?

H: Yeah.

H.M.Jr: Now, why in the hell can't we - a lot of those things could be made out of cotton, and God knows the cotton situation is bad and it's popular and would help with the farmers and everything else, and I think a lot of those things - and I don't want to start something. I don't mind going after you because you're my friend, but I don't want to do anything publicly.

- 3 -

H: Uh-huh.

H.M.Jr: But I'm sure with this list that if we gave it to cotton experts who knew cotton and they could say, well, we could make this, we could make this, we could make this.

H: Well, I think what we could do - I'll talk it over with you - I think we could get Don to do it.

H.M.Jr: Well, I just don't know who the fellow

H: Well, Don Nelson is the fellow who can get specifications changed. He's done a lot of it. I finally had to get into the wool situation.

H.M.Jr: Well, this thing, I think, is good enough that if there's a plan, we ought to give the President first chance to take the credit for it.

H: Well, I'll come over and see you about 4:00 o'clock.

H.M.Jr: But that's the thing. And cocoa for instance: plenty of cocoa in the country. They've just run the price up.

H: Well, the British did that.

H.M.Jr: Well, hell, we can - there's cocoa in Central and South America. There's all the cocoa we want. We can get all the cocoa - I think we've got to crack down on somebody publicly and make a demonstration.

H: Well

H.M.Jr: Because we haven't done a damn thing.

H: Well, I disagree with you there. What do you mean, we haven't done a damn thing. I can tell you what we've done on at least sixteen commodities.

H.M.Jr: Well, I mean

H: It isn't any accident that the price index hasn't gone up, Henry.

- 4 -

H.M.Jr: What?

H: It isn't any accident that the price index hasn't gone up.

H.M.Jr: But these particular things: there's nothing dramatic been done.

H: Oh, well, I admit that but

H.M.Jr: Well, I mean, these things - here they are - 15 up to 40% and certainly the public and me - I'm part of the public - I don't know what's being done.

H: Well, I'll come over and talk to you about the whole thing about 4:00 o'clock.

H.M.Jr: Fair enough. I'd like to be educated.....

H: All right, Henry.

H.M.Jr: because I'm a doubter.

H: (Laughs). Right.

H.M.Jr: All right.

H: Good-bye, Henry.

December 21, 1940

Mr. Cochran

Mr. Dietrich

At 10:40 a.m. Mr. Fehle called and said that he had just received a call from Fred Liversay who in turn had received a call from Mr. Feis stating that Mr. James Dunn of the State Department was keenly interested in the situation in Hungary, that is, the reported movement of German troops through Hungary to Rumania. Mr. Liversay said that the State Department would like to have a watch kept on the movement of funds in Hungarian accounts.

I immediately called Mr. Knabe regarding this matter but as he was away from his desk at a meeting I left word that he phone me as soon as possible. At 11:25 Mr. Knabe called and I requested that he take the necessary steps to have the banks follow the activities in Hungarian accounts, especially the account of the Central Corporation of Banking Companies, Budapest, maintained with the First National Bank of Boston. I asked Mr. Knabe to let us know of any unusual activities which the bank may report to him.

I called Mr. Wiley and told him of the interest of the State Department in Hungarian transactions and that as reports are received by us we will forward a copy of our memorandum to him.

FD-12, 26, 40

December 26, 1940
11:57 a.m.

H.M.Jr: Hello.

Operator: Chester Davis.

H.M.Jr: Hello.

Chester Davis: Good morning, Mr. Secretary.

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

D: Well, I'm all right.

H.M.Jr: Chester, can you talk a couple of minutes.

D: Yeah. All the time you want.

H.M.Jr: Right. Got your feet on the desk.

D: Yeah.

H.M.Jr: I've got mine up.

D: All right, thank you.

H.M.Jr: Chester, there are a couple of things, and I just don't know who is responsible and who isn't. Now, No. 1 - because I heard that you were interested in this and I don't know whether you are - this thing for instance of getting the contracts in the Middle West into the hands of small businesses. What about that?

D: Well, I am definitely interested. I've been making it the chief point of my work here on this Commission, making it the object to try to get new plants located outside the areas of heavy industrial production wherever we possibly can and of getting the contracts so handled that they can make use of facilities and unemployed trained or semi-trained labor all over the country where they exist because I'm confident that that's the only way we can do it without any degree of disturbance in mass migration across the country and crowding them into areas that are going to be heavily overtaxed anyway - the only way we can do it.

- 2 -

- H.M.Jr: Well, Chester, where do you and Lubin stand on this in relation to each other?
- D: Well, we agree on it but our leverage has been rather slight, as you see. I've had no differences with Hillman's division on that general policy.
- H.M.Jr: Well, the point is this: I talked to the President about this the other day and he told me to talk to Knudsen and Nelson, but before I did I wanted to talk to you. My interest is in the fundamental problem, but I have another one and that is: I understand that Lubin has a survey of Kansas City and Milwaukee showing that there are no contracts there and lots of opportunity.
- D: Yes.
- H.M.Jr: Well, now, we need backing very badly on this bill that's going to go up there - aid to England - and if contracts could be placed after the first 30 days in January - could be given to the Kansas City area and Milwaukee and St. Paul and Omaha where the strongest German sympathies lie - you see - I thought it would be very helpful, and the President did too.
- D: Yes, it undoubtedly will be.
- H.M.Jr: And I know the effect that I had two years ago when the Chinese placed a contract for automobiles and Vandenburg was going to oppose this lending the money to the Chinese, and I had Chen go out there. He talked in Detroit twice - they were crazy about him - he got marvelous publicity, and the Vandenburg opposition melted away.
- D: Yes.
- H.M.Jr: Now, we haven't been doing anything like this and I don't think we can just go up on the Hill and get a favorable vote for what the President is going to suggest unless these people get a little taste of what national defense contracts mean.

- 3 -

D: Well, Knudsen to begin with, while he

H.M.Jr: Now, that's putting it - I can't put it any more frankly, can I.

D: No, no more frankly, and I'm aware of that and I'm also aware of the fact that in the whole general program the more nearly you are assuring these people out there that their men are not going to be drained away from their communities and moved down into the Great Lakes area and the Northeast triangle, the more nearly they are likely to believe that this job is being competently handled.

H.M.Jr: Well, now, what is the best - you sit on the inside and the President told me to carry the ball on this thing, see, he likes the idea, and I want to do it behind the scenes - I don't want to interfere with anybody but still I want to get it done. Now what is the best approach? Hello?

D: Hello. To begin with, Henry, Knudsen's - well he gives us lip sympathy with the proposition

H.M.Jr: He does what?

D: He gives us lip sympathy; that is I mean he'll express an agreement with it. Whenever his weight is thrown - and I'm not surprised at it - whenever he throws his weight, it's in the direction of using the facilities that are known, where the Army and Navy are accustomed to dealing with them, and that's been throwing a disproportionate amount of the business into the areas that

H.M.Jr: Would you talk a little louder?

D: It's been throwing a disproportionate amount of the business into the areas where they're going to be awfully busy anyway and Knudsen won't do much for us on that. Hillman will. I would say that Knox and Stimson are primarily concerned, of course, with getting production and only secondarily concerned in the social and economic aspects of it although I imagine they would be impressed with this point you've

- 4 -

mentioned here. I'm handicapped by not knowing where in the devil the Defense Commission fits into this picture, whether it's going to have any continuing function and if so where it ties in. That has not been made clear, you see.

H.M.Jr:

I see.

D:

And I'm just considering now suggesting to the President some type of organization that would permit us to have some real chance to participate in the selection of sites for new factories. Now, that isn't as important as placing the orders, I mean, in the aggregate it doesn't amount to as much as the orders that are sent out. Now, Nelson is fairly sympathetic with this. He believes as I do that this thing has got to be done, and I know he'll do what he can do, but I don't know what this 4-man Board is going to do.

H.M.Jr:

Well, are you having a meeting today?

D:

No, there are not enough people in town to have a meeting.

H.M.Jr:

Knudsen is not in town is he?

D:

Only two members of the Commission are in town and I suspect that's Leon Henderson and myself.

H.M.Jr:

Yeah. Well, I wish you'd think about this thing hard and let me know. I can talk easily to Stimson and Knox.

D:

Well, I have a memorandum here prepared by one of my boys who has been working on it which I haven't approved - I've just been studying it over. It suggests that a joint Army-Navy Site Board with civilian representation on it be established to pass on all these questions of plant location and to work on this problem of decentralization of the orders to make use of facilities and labor wherever they are. Now, I haven't been able to fit that into the office of production management because I don't know where these things are going to head up. I'm confident that the President is not going to have much time to

give to the Commission as a whole because he'll be - all the time he can spare will go to this new 4-man setup.

H.M.Jr: Well, can you give me anything that I can use?

D: Yes, I can. I don't know how good it will be. I'll get busy on it right away.

H.M.Jr: Will you? Could you give me something I could read over Saturday and Sunday?

D: Oh, indeed I will.

H.M.Jr: Will you do that?

D: I will indeed.

H.M.Jr: I'm very much interested and I'd like to have something to work on over Saturday and Sunday.

D: Well, I've been making something of a nuisance of myself on this general principle, Henry, with the Army and the Navy and with Mr. Knudsen's division because they are less concerned over this aspect of the thing than I am and I've got a world of data and I can draw on some stuff and we can get something over to you probably tomorrow afternoon.

H.M.Jr: Wonderful.

D: Will that be time enough?

H.M.Jr: Oh, yes, because I'll work on it Saturday and Sunday.

D: Fine.

H.M.Jr: Thank you.

D: Fine. Now is that all, Henry?

H.M.Jr: That's enough.

D: Just this one point.

H.M.Jr: That's right.

D: Right. Well, good luck to you.

H.M.Jr: Thank you.

December 26, 1940

My dear General Marshall:

I cannot begin to tell you how pleased I was at receiving your letter of December 23rd. The fact that you believe I have been of assistance in getting the Army program under way is most gratifying to me and encourages me to continue my efforts with renewed enthusiasm.

Our country is most fortunate in having you as Chief of Staff in these most difficult times, and I have considered it a rare privilege to be able to work with you on problems of national defense.

Please accept my best wishes for your continued success. My sincere and fervent hope is that my country will become strong enough in time to defend itself against any aggressor. I know that I am safe in looking to you to bring about this accomplishment.

Yours sincerely,

General George C. Marshall,
Chief of Staff,
Munitions Building,
Washington, D.C.

December 28, 1940

My dear General Marshall:

I cannot begin to tell you how pleased I was at receiving your letter of December 28rd. The fact that you believe I have been of assistance in getting the Army program under way is most gratifying to me and encourages me to continue my efforts with renewed enthusiasm.

Our country is most fortunate in having you as Chief of Staff in these most difficult times, and I have considered it a rare privilege to be able to work with you on problems of national defense.

Please accept my best wishes for your continued success. My sincere and fervent hope is that my country will become strong enough in time to defend itself against any aggressor. I know that I am safe in looking to you to bring about this accomplishment.

Yours sincerely,

General George C. Marshall,
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