

I am giving herewith an outline of a Brazilian-American organization, having for its scope the mobilization of the national resources of Brazil.

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1 - The Brazilian Government will promote the incorporation of a Company, with a capital of Rs. 100,000:000\$000 (one hundred thousand contos). The Brazilian Treasury will subscribe for 50% of the bonds (shares), the remainder being offered for sale to Brazilian and American subscribers.

The seat of the Company will be in Rio de Janeiro, Brazil, and the term of its operation 50 years. The Company will act under the Statutes which will be drafted by mutual accord, and it shall be subject to Brazilian laws.

2 - The Brazilian Government will guarantee 4% annual interest to subscribers.

3 - The dividends of the Company shall not be larger than 3% per annum.

4 - All profits in excess of the 8% limit shall be used yearly:

- a) 20% in the creation of a Reserve Fund;
- b) 80% in the payment of the loan contracted by the Company.

5 - The Company will contract for a loan of \$100,000,000.00 (one hundred million dollars), of which 50 million shall be supplied through the American Government and 50 million by Banks or other American private sources. 50% of the latter quota, i.e., the equivalent of 25 million dollars, may be subscribed by American concerns or citizens possessing accumulated funds in Brazil.

This loan shall be guaranteed under formal responsibility of the Brazilian Treasury, and will perceive 4% annual interest.

6 - The American Government will arrange, in the most practicable manner, to facilitate loans at the same interest rate of 4% per annum, guaranteed by shares subscribed in milreis as

provided for in the foregoing paragraph.

7 - The Company shall apply its capital and the proceeds of loans exclusively for the following purposes:

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- a) rescission of the contract of the Itabira Iron Ore Company;
- b) construction of the Rio Doce Valley railway;
- c) disappropriation of deposits of manganese and iron ore;
- d) installation of smelters for the iron, steel and allied industries;
- e) equipment and renewal of Brazilian railways;
- f) industrialization and export of rubber;
- g) industrialization and export of vegetable oils;
- h) research and exploitation of oil fields.

8 - With the resources furnished by the American Treasury or other agencies, the Company shall buy in the United States, in the manner found to be most practicable, the materials necessary for the execution of the program of economic development.

9 - The Company may engage in the United States the services of technicians needed for the study and application of the measures herein provided for.

10 - The Company will enter into arrangements with American industrial concerns for the purchase by the latter in Brazil, <sup>through the Company,</sup> of raw materials which are imported into the United States, and the production of which in Brazil it is intended to increase <sup>and</sup> systematize through the measures herein set forth.

11 - The Company will give preference to those American firms which, in exchange for orders received, will undertake to acquire, through the Company, and in the largest possible quantity, the raw materials mentioned in the foregoing paragraph, or which will cooperate towards the marketing of the same in the United States of America.

12 - Interest on the loan shall be paid at the end of each semester as from the date of its realization, and the loan shall be redeemed after the fifth year,

a) from the profits of the Company, as provided for in paragraph 4;

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b) by an annual payment of four million dollars, until fully redeemed, should the aforementioned profits be inferior to that sum.

13 - The Brazilian Government shall buy from the Company, as soon as production of the industries created by the Company shall begin, all materials which the Government may need for the various public services - railroads and highways, steamship lines, military supplies, etc.

14 - The Company may only expend on its administrative and clerical payrolls a maximum of 1% per annum of the resources represented by its capital and the proceeds of the loan. A minimum of 70% of such resources shall be invested in materials and in the indemnifications and disappropriations herein provided for.

15 - The Company may promote the incorporation of other Companies for the purposes set forth in No.7, provided control of same by the Company be assured.

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The seat of the Company will be in Rio de Janeiro, Brazil, and the term of its operation 50 years. The Company will act under the Statutes which will be drafted by mutual accord, and it shall be subject to Brazilian laws.

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The Brazilian Government shall buy from the Company, as for the production of the industries created by the Company from the beginning, all materials which the Government may need for various public services - railroads and highways, steamships, military supplies, etc.

The Company may only expend on its administrative and technical payrolls a maximum of 1% per annum of the resources represented by its capital and the proceeds of the loan. A minimum of 70% of such resources shall be invested in materials and in the indemnifications and disappropriations herein provided for.

The Company may promote the incorporation of other Companies for the purposes set forth in No.7, provided control of the same by the Company be assured.

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POLICY TO BE FOLLOWED IN ORGANIZING THE CENTRAL RESERVE

BANK OF BRAZIL



CAPITAL: The Central Reserve Bank of Brazil shall have an initial capital of 50,000 contos, with the possibility of it being increased.

There is no necessity of establishing the bank with too large a capital, as this would cause a tendency for obtaining large profits, capable of remunerating a number of shares excessively high, which would defeat the purpose of establishing a cheap credit for legitimate economic activities.

Later, after it has been proved in a practical manner that the bank operating under normal conditions is able to take care of its running expenses and to pay a reasonable dividend, the capital could be increased.

GOLD RESERVE: Assuming that the minimum gold reserve (gold and currency) would be 30% of the total amount of the paper currency in circulation and other immediate obligations and since Brazil at the present time does not dispose of the necessary resources to fully establish such reserve, it should be built up gradually in the following manner:

- a) Gold which will be delivered by the Federal Government as part payment of the debt arising from the transfer of the responsibility of the currency circulation;
- b) Obligations to be issued by the Federal Government to a total which will cover the difference between the minimum gold reserve amount and the gold value mentioned under item "a".

These obligations may only be sold by the Bank in the free market to buy currency, provided that the situation of both the capital and exchange markets will stand such an operation. The currency bought in this manner will revert, then, to the gold reserve

reserve balance, with the faculty of being transferred into metal, as guaranteed by the recent agreement with the United States Government.

The Brazilian Government can also, by purchasing gold mined in Brazil, which will be delivered to the bank, redeem the obligations issued in values corresponding to the metal thus delivered. However, it shall in any way redeem, annually, a certain part of the aforesaid obligations.

In this manner the total issues of bonds will only tend to decrease and to be transformed gradually into gold.

BANKING LEGISLATION: In the banking legislation which is to be passed simultaneously with the creation of the Central Reserve Bank, the commercial banks shall be obliged to have minimum reserves for their current accounts and time deposits, 50% of which will be compulsorily deposited in the Central Reserve Bank.

In the same manner as the United States Federal Reserve System adopted through the Act of 1935, the Central Bank of Brazil will have the faculty of modifying the minimum limits of these reserves.

GOVERNMENTAL CONTROL: As has been found advisable in view of present world trends, the Federal Government must have a preponderant influence in the management of the Bank, so as to place it in tune with the legitimate economic interests of the country.

## THE ECONOMIC EQUIPMENT OF BRAZIL

I - Brazil is a new country in the economic sense of the word, and it is therefore a debtor country. Its exports consist chiefly of raw materials and foodstuffs, and this fact compels it to compete in world markets with the produce of colonial regions.

II - The economic development of Brazil had been proceeding up to the time of the crisis of 1929, in the same manner as that of all new countries, namely, through the cooperation of foreign capital secured by loans, both public and private. In accordance with the logic of the system, funds obtained in this manner should contribute toward the expansion of the economic equipment of such countries, resulting in a gradual increment in their exportable production, until a situation were reached in which the increasing balances should permit them to take care of the annual service of their respective foreign debts.

Brazil had not yet attained this stage when the system under which its economic evolution was being processed was abruptly interrupted by the cessation of international loans. The prices of raw materials, by reason of the crisis, underwent a deep depreciation, and the economic equipment of the country became greatly diminished, with a constant corresponding reduction in its trade balances. The present situation constitutes a vicious circle: the heavy reduction in the gold value of exports does not permit purchase abroad of materials necessary for renewal and expansion of the economic equipment, while, on the other hand, the inadequacy of the present economic equipment prevents the increase of the exportable production through industrialization of certain products in respect to which Brazil



Rail offers immense potentialities.

III - The following items will convey an idea of the deficiencies in the present economic equipment of Brazil:

- a) The railways in operation at present in the country, - about 33,000 kilometers (20,600 miles) - require yearly for track maintenance from 150 to 220 thousand tons of rails, but these necessary renewals have not been made in recent years, to the enormous detriment of the transportation industry.
- b) Rolling stock, comprising at present 5,000 locomotives and 70,000 passenger and freight cars, must be renewed at the yearly rate of 180 locomotives and 3,500 cars, which is impossible under present circumstances.
- c) Briefly, it would not be an exaggeration to estimate requirements for yearly renewals at 200,000 tons of rails, 200 locomotives and 4,000 cars. In order to carry out its railway program, the Brazilian government would have to build an average of 10,000 kilometers yearly, and for such new construction it would need one million tons of rails, bridge materials, etc., besides 50 locomotives and 1,000 cars to serve these extensions. This in respect to railways alone, without consideration of the necessities of national defense as well as requirements in other departments, such as civil aeronautics, ports and shipping, drought prevention, radio and telegraphic communications, etc.

IV - It is urgent therefore that Brazil attack the overshadowing problem of providing the country with an economic equipment equal to the requirements of production and consumption of a population of 45 million. Brazil is today in an economic situation comparable to that of Russia at the end of

of the World War: an economy based on production and export of raw materials and foodstuffs, compelled through loan obligations to pay abroad yearly sums fixed on a gold standard, and yet unable to do so owing to insufficient trade balances. - The Russian government understood at once the necessity of equipping the country economically. Approaching Germany at Rapallo in 1922, Russia initiated, through the Piatakoff agreements, a policy of intense cooperation with the former, by means of which it was made possible to acquire in exchange for raw materials the products indispensable to the execution of the Russian plans for economic restoration. In the same manner, without the cooperation of a highly industrialized country possessing advanced technological qualifications, Brazil will be unable to carry out with the necessary speed its economic reconstruction, an essential condition for the elevation of the social level of its people. Such cooperation, which would consist of facilities for procurement of the necessary economic equipment in return for raw materials, - the only form of payment within its power, - has been offered to Brazil on sundry occasions by the totalitarian countries, Germany, Italy and Japan, which are under pressing need for these materials. Motives of a political nature, and fear of the influence which these countries might exercise over the economy of Brazil, led the government to decline these offers.

V - Will the United States be disposed to extend its cooperation in order to enable Brazil to overcome the deficiencies in its equipment?

The complementary position which characterizes the economy of the two countries lends to such a cooperation a multiplicity of aspects and presents enormous latent possibilities. Not only could the industries of America procure in Brazil many raw



materials which they need, and which are not produced or do not exist in sufficient quantities in the United States, - rubber, iron, manganese and other ores, vegetable oils, fibers, etc., - but the economic progress which Brazil would reap from this cooperation would result in the broadening of the Brazilian market for American manufactures, thus creating a close economic interdependence, the immense political scope of which cannot be gainsaid, between the two countries having the largest population on the Continent.

VI - The cooperation in question could consist of the granting of long term credits intended partly for the immediate purchase in the American market of transportation materials and partly for the installation of an iron and steel industry on a large scale, for which conditions are favorable in Brazil and without which the country cannot accelerate the rhythm of its economic progress.

VII - In accordance with studies which have been made, the installation of iron and steel mills in Brazil must be conjugated with the export of a certain quantity of iron ore, with the purpose not only of ensuring a supply of coal at low prices, but also to finance the installation of smelters and the creation of an ore transportation system. With regard to transportation, two equally possible solutions are presented, namely, either through the Rio Doce Valley to the port of Santa Cruz, which would require the construction of a railway, or else through the Central do Brazil Railway, involving the adaptation of this line to the economical transportation of ore. The payment of the credits in question could be guaranteed by the income from the transportation of ore, with the cooperation of American metallurgical centers, which could only profit through the importation of high grade Brazilian ore.



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VIII - If Brazil finds it cannot count upon the cooperation of the United States for the realization of this enterprise, so vital to its development, it will be compelled to accept association with another industrial country. The expansion of our trade with Germany during recent years reveals the necessity in which Brazil is placed of having to equip itself economically and to pay for its equipment with the only coin it possesses - raw materials.

IX - In addition to this association in a plan for the large scale development of the economic equipment of Brazil through the creation of basic industries, a more direct participation by American capital and technicians in the work of mobilization of Brazilian riches imposes itself.

Vast possibilities are open in this direction. The reason for the decline in the trade between the two countries must be sought for also in the scant participation by these elements in the internal development of Brazil, in accordance with the maxim "Trade follows investment". While the Germans, Italians and Japanese partake with growing activity in the organization of Brazilian production, both agricultural and industrial, and in financing exportation, employing many technical men and maintaining commercial banks, in addition to hundreds of thousands of their nationals and descendants of same who are permanently established in Brazil, the United States have invested little in productive activities there; American technicians are few, and there is no commercial bank, for the only American banking establishment in Brazil limits its operations to deposits and exchange. Such indifference and apathy on the part of American interests in Brazil is in ever-growing contrast with the dynamic creative attitude of the nationals of the aforementioned coun-

countries.

As examples of forms of possible participation in the internal development of Brazil the following may be mentioned:

- 1) Investment in the production and export of articles needed by the American market: - rubber, vegetable oils, fibers, iron, manganese, nickel and other ores;
- 2) Establishment of commercial banks for the financing of production.
- 3) Participation by a group of American banks, under the direction of the Federal Reserve Bank, in the financing of trade with Brazil, through the concession of credits.
- 4) Colonization of certain regions in São Paulo and Rio Grande do Sul by American citizens who may wish to purchase and cultivate lands in these regions.

February 10, 1939

Present

Mr. Hanes  
Mr. Gaston  
Mr. McReynolds  
Mrs. Klotz

HM, Jr: I had a very successful meeting with Sumner Welles on Brazil.

Very briefly, so you can have a little of the background, Brazil's foreign trade is on an even balance, within \$1,000,000. Furthermore, they accumulate through investors who have many investments in Brazil and others who have money there, an amount of \$65,000,000.

Sweeping everything aside, I said that the thing to do was to develop a Brazilian-American development corporation which would help Brazil earn more money for itself and on this basis eventually everybody would get paid. I suggested a \$100,000,000 corporation which would first go to the American corporations who have their money now tied up in Brazil and ask them to subscribe to this corporation. The Export-Import company would take a small piece of it and then go to the American bondholders and ask them to subscribe.

Sumner Welles is very excited about this. Swift & Co., Armour, General Electric have their money down there and can't get it out. If this works out that they can get their money out and help develop Brazil, we would have accomplished something -- provided Congress would authorize us to do it.

In connection with the set-up of their Central Bank, Professor Williams will come down and help them.

Sumner Welles said, "I want you to say something about their debt." (Facetiously, the Secretary said, "I will ask Aranha 'Where do you stand on the Aranha debt settlement?' which was drawn up by Aranha".)

The picture is so bad. Here is this bid country doing \$250,000,000 in and \$250,000,000 out. They have



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\$40,000,000 that they have to pay on their domestic debt. How can we make Brazil a rich enough country so that they can pay \$65,000,000?

(To Mr. Hanes) I bet you can get all of these large countries who have frozen money down in Brazil -- you can have them all come into one room and get a year or no out of them.

Mr. Hanes: Perhaps I could.

HM, Jr: All I can say is that I do not know whether this is good, but Sumner Welles says that this is the best suggestion that has been made yet.

## RE BRAZILIAN NEGOTIATIONS

February 10, 1939.  
10:00 a.m.

Present: Mr. White  
Mr. Schmidt  
Mr. Glasser  
Dr. Shaw  
Mr. Lochhead

White: What would you like to take up first?

H.M.Jr: Well, I want the trade position first.

White: This is a brief summary. I can read it or tell you the highlights, if you like.

H.M.Jr: Now let me - what's her trade position in '38?  
Let me get that thing first.

White: Her favorable balance, that is, her excess of exports, which she's usually had in years gone by, has been declining. Last year it practically disappeared.

H.M.Jr: What was it?

White: It was almost zero.

H.M.Jr: Last year.

Schmidt: Small amount.

White: Very small amount.

H.M.Jr: Let me get this position for '38.

White: They had a slight, negligible - million or so or less - dollars of excess of exports last year.

H.M.Jr: Practically none.

White: Practically nil.

H.M.Jr: Now let me just get this. Now, was it due to a decrease in exports or increase in imports? How did it come about?

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White: Both. They had a decrease in exports ...

H.M.Jr: '...and ..

White: Well, 1937 was also a bad year, compared with the earlier good years. In '37 she also had less than a million excess of imports - in '37.

H.M.Jr: In '37 you show a trade balance of 33 million the first ten months. Is that right?

Schmidt: 'Over the full year it did have an unfavorable ...

H.M.Jr: It says 33 million.

Schmidt: Those are ten months figures. Over the full year - in the fall of '37 they changed coffee policy and the price of coffee fell, so that pushed the balance down for the year '37.

White: We have both full year and ten months. The reason we had the ten months was that no figures were available ....

H.M.Jr: I want approximate figures.

White: Now, how much is her total government debt?

White: Her outstanding foreign debt is a little bit more than a billion.

H.M.Jr: I mean the total. How much does the Brazilian Government owe in toto?

White: Domestic and foreign?

H.M.Jr: Yes. How much is the Federal debt of Brazil?

White: This is swell, to stump Harry. I love this.

White: Well, usually we do that... What is the domestic debt?

Schmidt: A good part of the domestic debt has been liquidated by payment of money ....

H.M.Jr: Just answer my question. I want to know. I mean I - if you ask me what is the debt of the United



States, I can tell you. What's the Federal debt of Brazil?

See, Archie, when I don't do it the way they want it, you know, it's terrible - complete confusion.

Lochhead: Harry figures anything you owe internally, don't worry about.

White: You don't worry.

H.M.Jr: Hell, they've got to pay interest on it, got to take so much money .... I mean you ask me what are my interest payments: my interest payments are a billion dollars a year. It so happens they're internal.

White: I'm sorry, we'll have to get it - five minutes after we leave here.

H.M.Jr: What I want to get is, first, the over-all picture, then break it down. What I want to know is, if I were Secretary of the Treasury of Brazil, how much money would I have to raise to pay the interest on my government's obligations. That's where I want to start from.

White: We'll get it in five minutes after we leave.

H.M.Jr: Well, let's start it now. Let somebody start it.

White: Will you (Schmidt) get it right away?

H.M.Jr: Start it. Can't you start it?

White: Yes.

Schmidt: Have you got the budget here? I think I've got that broken down in my expenditures - public debt.

White: But it isn't a total.

Schmidt: Yes, that's the total. This is the budgetary appropriation for the public debt: 867,000 contos; and a conto is \$50.

White: You get the total. This is the amount of interest which they have to pay.

(Schmidt goes out)

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H.M.Jr: Well, that's what I want. How much is that?

White: 867,000 contos. It's about \$40,000,000.

H.M.Jr: How much?

White: The equivalent of about \$40,000,000.

H.M.Jr: All right. I mean that's where I want to start. \$40,000,000 is in their budget?

White: That's what they're supposed to meet each year, in payment on their total public debt.

H.M.Jr: Payment on debt.

White: It amounts to about one-fifth of their total budget.

H.M.Jr: It amounts to about a fifth?

White: About a fifth.

H.M.Jr: Their total budget is about two hundred million?

White: Yes.

H.M.Jr: What?

Glasser: Yes.

H.M.Jr: Now, the next question is, of the 40 million on their public debt, how much of it do they really pay?

White: Well, that they have paid; that's their budget for next year, in milreis. That's in local currency, got nothing to do with their foreign ....

H.M.Jr: Doesn't 40 million cover the ....

White: I converted it into dollars.

H.M.Jr: Doesn't the \$40,000,000 mean that that's the interest on the total foreign debt of Brazil?

White: Domestic.

H.M.Jr: Do they separate the two?

White: They don't pay the other at all, and it's in foreign currency.

H.M.Jr: That's what I want.

White: The other debt is about a billion dollars; the external debt is about a billion dollars. It's divided into dollars, sterling, and francs. The dollar portion is about 350 million; the exact figure ....

H.M.Jr: And what would the interest rate be on that?

White: Well, they made several settlements, and the last settlement was the Aranha plan, in which they were paying about \$35,000,000 a year.

H.M.Jr: What was that, interest and principal?

White: Well, just scaled way down.

H.M.Jr: I mean is that interest?

White: Interest.

H.M.Jr: They're paying about \$35,000,000.

White: Just a temporary plan to cover - five-year plan.

H.M.Jr: As I understand it - make a note, I want to know whether the Aranha plan was passed by their legislative body and confirmed.

White: As soon as he comes back he can give you all the details; made a very careful study of the foreign debt.

H.M.Jr: Let me just give you - I want to know the starting of the Aranha plan; was it passed, was it confirmed? And I believe it never was put into effect, and why?

White: They started it and they stopped.

H.M.Jr: Well, how much did they start? I want to know when they started it, because the thought - well, I gather they're going to pick up this thing where he left it and say, "We'll take the Aranha plan." See? Now,



did our own domestic - what-you-call-it - settlement group here, the private thing - did they accept it, did they agree to the Aranha plan?

White: Yes, they agreed to the tentative plan.

H.M.Jr: Who negotiated that for the United States?

White: I think Foreign bondholders .....

Shaw: J. Reuben Clark.

H.M.Jr: The money on their domestic debt - do you understand they're paying that?

White: That's my understanding. It's in the budget. We'll recheck to make sure.

H.M.Jr: And the money on their foreign debt ....

White: They defaulted completely.

H.M.Jr: Now, another question that I want you to do. Within the last hundred years, what countries - governments who owe debts to private citizens - is there any precedent for writing down the principal?

White: You'd like to know the precedents in Latin America or all countries?

H.M.Jr: In all countries; because Herbert Feis says there is no precedent - I mean that they'll write down the interest, but when you talk about writing down the principal, why, you're flying in the face of precedent. See? That just isn't done. What?

White: I think he's wrong, but I'll make sure.

H.M.Jr: Because I know what the Germans have done.

Lochhead: It's a question of how you do it.

H.M.Jr: That's the point that I can't get. Herbert Feis says it's perfectly all right if we had a plan to let the Brazilian Government - encourage it, I think he said even lend them money, to help them buy in their own debt at 35 cents on the dollar. "That's all right, but you mustn't write down the

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principal publicly."

Lochhead: Well, I think, of course, that's the general way it's been done - buying in default.

White: Either that or depreciating the currency and accepting the new rate.

H.M.Jr: That's where we're going to come on, because I think it would be - of course, if Dr. Aranha says, "My plan, whatever it was, is all right and I'll stick to that," well, that answers that question. But if they're going to start in again - I mean I personally can't see any difference between a - they say, "Well, we can pay five hundred million dollars," or to help them, assist them - agree to letting them, say, write the interest down from, what is it, five or six percent, to two percent, and then assist them to buy in these bonds at 20, 30, 40 cents on the dollar. Ethically I don't see any difference.

White: I don't see it either.

H.M.Jr: What?

White: I can't see any difference.

Lochhead: Legally there is probably a difference on that.

H.M.Jr: What?

Lochhead: Legally there is a difference, because if you buy in the bonds that are depreciated, the people selling the bonds are the ones that are waiving the par value; otherwise, if you do it the other way, it's a unilateral proposition, just marking them down.

(Schmidt returns)

H.M.Jr: No Cabinet meeting, so I can work at this this afternoon.

White: The latest figures of debt that have been recorded, and we'll have to recheck on that, amounts to about 160 million dollars domestic debt alone. But that means that a portion of the budget which they have



indicated as servicing that debt includes a substantial portion of the sinking fund, and that's what I'd like to check up before we say definitely.

H.M.Jr: Well, I think personally it's very important - I mean if we're going to get into this debt thing - to find out how they treat the internal debt. I mean if they're taking good care of the internal debt and all the rest of that, it makes their position very much weaker if they're going to do something for the people who live outside of their country.

White: Except that in one case it's foreign exchange - a problem - but it does make a difference.

H.M.Jr: I'm looking at it purely from the moral standpoint. I mean if you expect to do business, the fact that the fellow is a foreigner to you - you ought to treat him as well as you do your own citizens, if you expect him to lend you money.

White: If you're raising the moral question, there is this important factor we'd like to bring to your attention. Mr. Schmidt made a very careful study, the best that's ever been made, of their total foreign debt: when they received it, how much they got on what they borrowed, what interest they paid, what happened to it, and so on; and it simmers down to this, very roughly: that the maximum which they got of the approximate two billion dollars which they've borrowed was 20 percent that could be used for productive purposes, and even of that 20 percent probably a substantial portion, even as much as a third or a half, was wasted.

H.M.Jr: You've told me that before. Now, what do you mean? Define "productive purposes."

White: First place, a good deal of that outstanding debt was borrowed in order to pay interest - just refunded. An additional amount was borrowed to pay sinking fund payments; in other words, another refunding. Some of it was borrowed for chronic current expenditures of government that didn't go into productive enterprise. Some went for military purposes. What else?



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Schmidt: Some of it was borrowed ostensibly for productive purposes; they'd have a revolution and it all went to finance the cost of putting down the ....

White: And then the commissions were high and the interest rates were high; so that it's very difficult for them to have productive capacity to meet the outstanding ....

H.M.Jr: Well, that would be an argument on the side of letting them write down their principal.

White: Yes, it's an argument in favor of reducing the amount which they have to pay, because they can claim, "We haven't the capacity; we haven't used these funds."

H.M.Jr: Well, anyway, I'd like to know - not too complicated; I mean one sheet of paper - the domestic debt and how they handle it, what they've done, interest rates, so forth and so on; and on the other side their foreign debt, and break it down as to nationalities, see?

Now, what I'm getting at is this. I read this paper. If I'm correct, they're about \$15,000,000 behind in their commercial payments?

White: They're more than that, if you include other countries. Just the United States, you mean?

H.M.Jr: No, listen, there isn't any use - I think we've got to take the whole ...

White: I think so, too.

H.M.Jr: How much is the whole?

White: 65, isn't it - about \$65,000,000 if you also include the interest dividend remittances which they have. If you take just the blocked trade balance?

H.M.Jr: Just blocked trade.

White: We don't know exactly, but it's probably - my guess would be around 30, 40 million dollars.

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Schmidt: Probably around that.

White: For a total it's between 30 and 40 million dollars, of which ours is about 15.

H.M.Jr: What I'm getting at is this. I mean before I get into many details, what I'm looking at - here's a country that has how much export business? Total last year, roughly, how much?

White: Between 250 and 300 million dollars.

H.M.Jr: They did between 250 and 300 million. And they bought how much?

White: Approximately the same.

H.M.Jr: About the same. And of that business how much did they do with us, how much did they sell us?

White: 23 percent.

Schmidt: They sold us over 30 percent.

White: Did they?

Schmidt: Just about 30 percent.

H.M.Jr: About 75 million.

Glasser: 75 to 90 million dollars.

H.M.Jr: They sold us. And how much did we buy from them? Take this back, Harry, because I want to get certain basic figures in my head.

White: They sold ...

H.M.Jr: How much did they do? They sold us about 75 to 90 million dollars? How much did they sell to us, or how much did we - '38, Brazil, roughly, approximately?

Schmidt: About 33 percent.

H.M.Jr: Don't give me percent. How much in dollars?

White: About 90. Between 90 and 95. Have to guess.

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H.M.Jr: Around 90 million dollars?

White: Yes.

H.M.Jr: All right, and how much did they buy from us?

I do this, Dr. Shaw, I get it in my head, and I don't forget it.

Shaw: Yes, I know by reputation.

H.M.Jr: It's a great pleasure. This is unique. Usually Harry White has all this stuff. I'm having the time of my life.

White: About 70, probably between 65 and 70.

H.M.Jr: That they buy from us?

White: They buy from us.

H.M.Jr: 65 to 70. So they're selling us about 20, 25 million dollars more than they buy.

White: Yes.

H.M.Jr: Now, with the business - 250 million in and out ....

White: Excuse me, that's 35 million dollars excess from our figures.

H.M.Jr: 35.

White: They sell us 97 according to our figures, and they buy about 60. Their figures were a little different; these are our figures.

H.M.Jr: I see. They buy about 60.

White: Buy about 60 and sell about 97.

H.M.Jr: All right, now, the figure that I want to carry in my mind - here's a country that I'm going to put this way from their standpoint: 250 million out, 250 million in. They have a cumulative backlog of foreign exchange that they need of around 60, 65 million dollars, exclusive of any debt payments. Is that right?



White: That's right.

H.M.Jr: So before they pay any debts, they have to find a means of laying their hands on 60 or 65 million dollars, and let's say that they got it - just suppose - in one lump sum; then from that they could clean it all up - then from that point on how much would they need per year?

White: Excluding the debt?

H.M.Jr: Excluding the debt.

White: Approximately zero.

H.M.Jr: Let's say some way was found of bringing up the thing so everything was up. They need 60, 65 million dollars to bring them up, then they could start with a clean slate.

White: They would need, aside from the foreign debt, only money to pay interest and dividends of foreign companies that have businesses there, which in former years, the last two or three years, has amounted to between 60 and 75 million - various forms of remittances.

H.M.Jr: So you mean on a yearly basis they need 60 to 65 million dollars.

White: In addition - I mean exclusive of the public debt.

H.M.Jr: I mean exclusive of the public debt outside of the country. In other words, over and above - their trade is on an "even Stephen" basis.

White: Approximately, now.

H.M.Jr: But they have payments of services; that's what it amounts to.

White: No, these happen to be interest; and the foreign companies build up their milreis balances when they build up profit dividends. Now, if they want to let them pay those, that will amount to, I'd say, between 60 and 70 million.

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- H.M.Jr: You mean that if the foreigners want to withdraw their profits each year, it would take that?
- White: Profits and their private debts, you see.
- H.M.Jr: But would it mean that much each year?
- White: Might mean that or more. Did mean that before.
- H.M.Jr: What?
- Glasser: It's been running about 60 million dollars a year remittances on account of profits and ...
- H.M.Jr: Then that comes first. Then, on top of that, comes the amount - whatever the interest is on the billion dollars.
- White: That's a government debt. You see, that's the Federal, state and municipal - the billion - whereas there are some other debts that are private.
- H.M.Jr: That's a tough picture, isn't it?
- White: It's very bad. The trade picture is bad now. It's hopeful that it may get better. Wide swings. So much of their business depends on the price of cotton and coffee, particularly coffee, and it may be that if there is a good year outside, there'll be a swing of as much as 100 million dollars a year, 150; but if it doesn't they're licked.
- H.M.Jr: Well, a federal reserve bank or central bank for them gives them more perfect machinery, but it isn't going to give them any foreign exchange.
- White: They don't even need a central bank very much. The Bank of Brazil functions almost in identical respect as a central bank, even to the extent of the government control. Isn't that so?
- Schmidt: (Nods yes)
- Lochhead: Yes.
- H.M.Jr: Is it at all like the Bank of Belgium?

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White: No, it's - they're ....

H.M.Jr: Because that one is owned privately.

White: No, the Government owns ....

Schmidt: ... 50 percent of the stock.

H.M.Jr: The Government owns 50 percent.

White: And appoints the directors and appoints the President. The President can be removed and the President has power of veto.

H.M.Jr: What the hell do they need it for then?

White: It's trivial. They want to be like every other country. And there's an internal fight; the group who wants to be in the central bank, thinking they may get a little something ....

H.M.Jr: Well, that isn't going to help anything.

White: No.

Lochhead: As far as the public goes, the Bank of Brazil has been the central bank for years, and it's always been considered, if you do any business, as a government bank. We always thought of it as a government bank. Used to guarantee the Government's obligations. Used to get their ....

White: Not only that, but they have established a foreign exchange department. The Bank of Brazil controls the foreign exchange. But the man in charge is a government man, government-appointed, and responsible to the Government. There are slight advantages in a central bank, but as I say, they are of minor importance.

H.M.Jr: Well, I'd say that's of minor importance.

Now when it comes down to looking at it - I mean I'm starting from - I'm just beginning, Dr. Shaw. What it amounts to is this. The thing for us to try to do in a big way is to do something to help Brazil become more productive. Is that right?



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White: That's the problem. That's the problem.

H.M.Jr: And a central bank isn't going to do it, and backing for their currency isn't going to do it. I mean a silver or gold loan isn't going to help them.

White: Slightly, but it doesn't meet the problem.

H.M.Jr: Doesn't meet the problem.

White: It would be assistance, of course, along with the other. About 13 percent of their note issue is backed by gold.

H.M.Jr: I see; I read that. I thought you said 12 this morning.

White: Maybe it is 12.

H.M.Jr: This is most unusual, and I'm making the most of it. All I did was to read what White wrote. And I read part of yours (Shaw); I haven't read it all yet. It's very interesting.

White: You did get us off balance. We needed another day.

H.M.Jr: What?

Glasser: We were caught off balance.

H.M.Jr: Well, it makes it more fun.

Shaw: Even so, Mr. Secretary, I think you know more about the finances of Brazil than the Minister of Finance down there.

H.M.Jr: No, I don't. But I'm so sick and tired of making these things so terrifically complicated, and I'm not going to get bogged down by doing a lot of window dressing. I mean I went all through that with Brazil last time and spent weeks and weeks, and it was purely window dressing and nothing happened.

Now, I'm just wondering - I mean and I've seen the State Department work and I'm so far behind in my own work - I mean in the sense of decisions that have

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to be made. I mean not - I mean Social Security and that sort of stuff that ....

White: You're asking the basic questions.

H.M.Jr: I don't want to get involved in a month's trading unless there's something in it that's going to do it. Now, here's this country, and all I need is a few basic figures, and what I'm going to do is get hold of Dr. Aranha alone after I get this thing in my head, and simply say - he's a smart fellow.

Now let me get one other picture. As I understand, the picture in the Argentine in relation to the United States is different. Have you got that in mind?

White: Mr. Shaw knows most about that, far more than any of us.

H.M.Jr: I mean can you give me what is their trade in and out, and their business with us?

White: Oh, I see.

H.M.Jr: I mean I'd like - they're the two rivals.

Shaw: No, I don't have the figures.

White: Not the figures, but we can give you that.

H.M.Jr: See, give me the same picture on the Argentine - the annual business in and out, their business with us, their debt picture, how they handle it, see?

White: Yes, we'll do that.

H.M.Jr: Let me just have it, because they're the two opposites and aren't they also the principal rivals?

Shaw: Rivals, exactly.

H.M.Jr: And then this whole question of armament comes up. What proportions of the budgets of Argentine and Brazil go for armaments? I'd like to know that.

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Schmidt: It's rather hard to tell that, because they don't make such things public.

White: We have something.

Schmidt: We have some figures, yes.

H.M.Jr: And then - know what I think, Harry, we could do? We could get Federal Reserve of New York or Washington to carry the bulk of this negotiation for setting up the central bank. Let them do that. I'll let Professor Williams carry that for me.

White: Mr. Schmidt can help. He's been there for years. He made, among other things, a very extensive study of the central bank.

H.M.Jr: I won't have to sit in on that.

White: That's not important.

H.M.Jr: It's not important. Don't see why Schmidt should sit in. "As long as it's not important, let Schmidt sit in on it." I don't think that's nice.

Schmidt: That's all right.

H.M.Jr: How's your Portuguese?

Schmidt: It's in pretty good shape. I have a chance to keep it limbered up.

H.M.Jr: Do you?

Schmidt: I have some Brazilians around town here that I have luncheon engagements with.

H.M.Jr: Is there any restaurant in town where they talk Portuguese?

Schmidt: None that I know of.

H.M.Jr: Do you (Shaw) talk Portuguese?

Shaw: Yes.

H.M.Jr: We have two now. Fine.



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Do you (Glasser) talk Spanish?

Glasser: Not too well.

H.M.Jr: Collado - is that the way you pronounce it - he works closely with us.

Lochhead: Collado, in the State Department.

White: He's in State Department.

H.M.Jr: Professor Williams asked.

White: He used to work with Professor Williams. He's a State Department man.

H.M.Jr: He said if you wanted to use him he'd be available...

White: Collado.

H.M.Jr: ... to Williams.

White: If you need Spanish ....

H.M.Jr: I mean if the big thing is going to be the central bank thing - I mean it's just ... Then the thing really gets down to what productive efforts does Dr. Aranha want to take, and can we finance them?

White: That's the problem.

H.M.Jr: And now that's the nut to the whole thing, the meat.

White: That's right, because unless that's done there's no use of cleaning up their temporary situation, because it will just mean that you'll lend the money in order to clean up their present balances; it doesn't make Brazil any more able to either meet her outstanding obligations or to improve her trade position.

Lochhead: Don't you think the main thing they have in mind is trying to get a gold loan to clean up the present situation with the hope that there will be a commodity rise to lift them out of the depression?

White: That's right. And the State Department's first memo

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practically paid no attention, very little attention, to the productive loan end; they were interested exclusively in clearing up the present blocked balances, from their original memo.

H.M.Jr: Well, I think that I would say, one, a means should be found to bring them current on their foreign exchange, because in that way, if they were current, then they could trade in whatever market was most desirable to them, which would be in their interest; it wouldn't be in our interest.

And then the other thing would be - I don't know how to do that. That's a lot of money, and also we're not interested in lending them money to pay up their back interest to countries other than the United States merchants.

White: Part of that 65 million includes the profits and dividends which private companies have piled up that they want to get out - probably a third of it. So the commercial balances alone, as I say, are about half of that, to all countries.

H.M.Jr: Well, that offers this line of thought. I'm thinking, I'm groping. The thing I'm thinking about is this. Supposing they had a ten million dollar project, a railroad, a factory - and through the Export-Import I think it would be interesting to try to get American interests down there to take part of that stock.

White: With their blocked balances. That's the thing to do.

H.M.Jr: I want a list of the really big concerns who are down there. Swift and those - have you got them - who are the big concerns down there.

Glasser: United States Steel Corporation owns manganese mines, does shipping.

H.M.Jr: Who are the big ones?

Glasser: United States Steel, and the packing companies - Swift - the utilities, Standard Oil Company, DuPont, Westinghouse. Ford's down there.

White: The automobile business is very small.

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Lochness: We used to finance their term contracts. They were tied up on installments; they managed to get most of it out.

Shaw: No, not now.

White: We exported automobiles, 13 million dollars, in 1937. Probably not much more - the '38 figures aren't in. 13 million, but it happens to be our most important single classification of exports. The next highest to that becomes gasoline, which is four million, and then ...

H.M.Jr: Well, I'm thinking if the thing - if there's something could be worked out, as I say, where they had a project and then some of these companies would take some of their blocked money and invest it in the Brazilian thing, and then the Export-Import take part of it and ....

White: And the foreign bondholders - they're the ones with the big blocked balances, they're the ones that are going to make the most fuss about lending them any money unless they make some payments - if they can take a portion of their payment in milreis and then require that those milreis be invested in some companies - enterprises, directly snaring with the Export-Import Bank, and if they promise not to withdraw their dividends for a few years, to give Brazil a chance to get on her feet, they could make a much better settlement than they could make if they insisted on immediate payment.

H.M.Jr: Again groping, I wonder if we could form a hundred million dollar corporation in the United States - Brazilian and United States company to do business between the two countries.

White: I think that's the way to envisage the thing.

H.M.Jr: But the company would be located here or there? It doesn't make any difference.

White: You're dealing with very little ....

H.M.Jr: Let's say a company - they're located in the Panama Canal.



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White: I think the Brazilians would probably have to have a majority of the voting stock.

H.M.Jr: That's all right, and then out of that company, you see, the Export-Import Bank would take a piece, the American companies down there could take a piece, the foreign bondholders could take some. But this company would be solely for the advancing of productive output in Brazil.

White: Reconstruction.

H.M.Jr: Yes.

White: That's right.

H.M.Jr: And then you'd have to make some kind of an earmark basis as to interest, and so forth and so on, and you might even have to put their coffee sales through, or something which would convince the people that this is the number one, the apple of the eye of the Brazilian Government. You see? Something. And I'm just thinking ... Huh?

White: I think that's the approach.

H.M.Jr: What do you think, Archie? Something like that?

Lochhead: I think that - of course, I've been reviewing in my mind that we've been trying to bring the different classifications together that go in there. I mean the export would be cash, the bondholders' payments would be a different form. But I think the main point you're getting down to is the point there that to effect any settlement there we have to think in terms of milreis rather than dollars.

H.M.Jr: What's milreis worth today?

Lochhead: The free is about 6 cents.

Schmidt: The free is 5 cents, 20 to the dollar.

H.M.Jr: What's the free?

Schmidt: 5 cents a milreis.

- H.M.Jr: The free. And internally?
- Schmidt: Internally the official is a little better than 6 cents.
- Lochhead: I think, to be realistic about this, we have to realize, looking over this debt structure, that there is no possible way for them to produce enough export capital to pay for that export money, so therefore whatever goes out has to be worked out in the form of milreis, with the people taking their chance in the future of getting their money out.
- White: Unless there is a war raising the price of cotton.
- Lochhead: Naturally, all the South American countries are commodity countries, and if that happened they'd have a period of flushness.
- White: Only for a few years.
- Lochhead: That's their trouble. As I get their approach, their hope is that there would be some flush period that would take them out; which does not solve their problem.
- White: That's a hundred percent right.
- H.M.Jr: What I think they need is a hundred million dollar development company.
- White: That's right, except, as I say, the capital should be in milreis; that makes it possible for the blocked balances to be invested and apportioned, and we supply the rest of the foreign exchange.
- H.M.Jr: And I'll talk a hundred million dollars - in view of their 65 million dollars back balances, I'll talk a hundred million dollars.
- White: Very much of that money should not be used to meet this current thing; there would be nothing left.
- H.M.Jr: No, every dollar of that capital should only be

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invested in a productive enterprise. Every dollar.

White: In an enterprise that will increase Brazil's capacity to export or to pay some time later.

H.M.Jr: Yes.

White: I think that's the only approach. Otherwise it just ....

H.V.Jr: What do you think, Dr. Shaw?

Shaw: Well, I was thinking mainly of the problem from the political point of view. I'm very much against any commitments of that sort now on the part of the United States because I think we're dealing with a social and political volcano down there which might erupt at any moment, and that therefore any big assistance which we lend to Brazil, even in this form, might very definitely swing the trend of Brazilian evolution, which is now definitely wobbling, in the direction which ultimately might be harmful to our interests as well as to the interests of Brazil, or solely to the interests of Brazil, which would react unfavorably on us later on. So that unless that were done with a parallel program of what has become known as "culturteering" in this day ....

H.V.Jr: "Culturteering" - that's a new one.

Shaw: ... - playing the game which our rivals are doing down there, in order to bolster up the old friendship of Brazil for the United States, using these imponderables and moral factors to make this material assistance work, then personally I think we would be extremely unwise in committing ourselves to bolster up this regime or Mr. Aranha or any particular group now in power, unless we do the other in order to safeguard our present and future interests.

H.M.Jr: Well, I'm not sure what you mean by the other ....

Shaw: I beg pardon?



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- H.M.Jr: What's the alternative? I mean what I'm thinking of is this: Supposing we do nothing. What will happen down there?
- Shaw: If we do nothing at all, then we're going to run the risk of losing the friendship of Brazil altogether, and we are closer to that now than I think anybody realizes, Mr. Aranha's interview to the contrary notwithstanding - Mr. Aranha's interview this morning in the paper. I think Brazil has been within an ace of jumping clear away from us within the last two or three years. If we do nothing at all, we actually run that risk. But the danger already exists; we're not going to create it. Now, if we don't lend this money or play the other game, that's the big danger. Now, if we lend this money, that is, set up a hundred million dollars here, we run the risk of losing that; we also, on the other hand, have the opportunity of swinging Brazil in our way. But there are the two elements: one, losing the ....
- H.M.Jr: But I don't - I want to go over it again, because I don't quite understand. This is the way my mind is working, and if I'm wrong I want to know it. Unless we do something like this to help Brazil develop itself, I agree with you that the chances are that Brazil will swing away and seek help other ways. Now, in doing this, we can't help but strengthen the present administration down there; but the other alternative is to do nothing and have this administration be followed by one which is much worse.
- Shaw: Well, that's entirely possible.
- H.M.Jr: Aren't those the two horns?
- Shaw: On the other hand, I think the program of "cult-turteering," as I called it, might safeguard the situation without involving the bigger loss which would come from setting up this hundred million dollars alone. The ideal would be to play the two things.
- H.M.Jr: Oh, the two.

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White: He's stressing - he has with me greatly - that to make any financial assistance while ignoring the development of ideological or cultural relationships would be risking that money because they might swing the other way. He feels very strongly that they ought to spend some effort, some money, along with the financial assistance to combat the enormous effective propaganda which Germany and Italy are letting loose in there so that they won't get the fruits of our financial assistance.

H.M.Jr: Well, Mr. Welles is here. I'm going to talk to him, and we'll continue this afternoon.

RE: BRAZIL

February 11, 1939.  
10:00 A. M.

Present: Mr. Schmidt  
Mr. Glasser  
Mr. White  
Mr. Shaw  
Mrs. Klotz (briefly)

H.M.Jr: I hope I've got what I wanted better than I think I have.

(Dowling comes in. H.M.Jr: Will you empty that?)

What method in this memorandum do they propose to use to handle the foreign exchange situation? Mr. Welles seemed to think that was all right.

White: Their current foreign exchange situation, presumably, is to be cleared up by a loan here. That's what the State Department is thinking of; what's Brazil thinking of, I don't know. But Brazil doesn't have enough foreign exchange, or gold, to clean it up. They may - there was some talk.....

H.M.Jr: Is it in this memorandum here?

White: In their memorandum, yes. That is what the State Department thinks of doing. It is by implication, not directly.

H.M.Jr: Not directly.

White: They did have this scheme they commented on in which they want to suggest that Brazil collect enough money to liquidate those balances over a period of time by having two different rates, a buying rate and a selling rate, at which they would sell at a higher rate than they buy, and make a profit, and they would vary those rates, vary them to spread, for the purpose of discouraging imports, or encouraging exports, and thereby showing a balance.

H.M.Jr: I'll be back in a minute.

(H.M.Jr. leaves the room.)



H.M.Jr: (Returns) I'm sorry, gentlemen, but I've got a lot of irons in the fire. Is it too cold in here? -

White: I am comfortable. The window is open.

H.M.Jr: About 72°. I think that is all right.

Now, the thing that I need right now - I am going to ask you the things that I need.

When did the Aranha debt settlement start?

White: In March, 1934.

H.M.Jr: It was completed?

White: That is when the payments began, and the negotiations were completed .....

H.M.Jr: Began?

White: March, 1934.

H.M.Jr: March.

Schmidt: The decree was signed the month before.

H.M.Jr: How long did they live up to it?

White: They were supposed to live up to it to the end of 1937. They actually stopped one month short. The last payment was November, 1937.

H.M.Jr: Last payment, when?

White: November, 1937.

Schmidt: I think there should be some explanation there. It was to expire officially in March, 1938. They suspended it November, 1937, but after suspending it and announcing they'd pay no more, the Federal Government, nevertheless, paid what it owed on its own debt in accordance to the Aranha plan - to March. They didn't pay the state and municipalities.

H.M.Jr: The agreement?

White: Supposed to have run four years.

H.M.Jr: It ran to when?

Schmidt: March, 1938.

H.M.Jr: March, '38. On the Federal debt, they lived up to it.

Schmidt: They paid that.

H.M.Jr: Now, when that lapse from March, '38 to now, they paid nothing on the Public?

White: No sir.

H.M.Jr: What was it?

White: Total payments during that period were about a hundred sixty-five million dollars. They were scaled - they began with thirty-five and I think the last was forty-five million a year.

H.M.Jr: Yeah.

White: That was a little less than half of what the payments should have been, if they didn't scale them down. About a hundred million dollars a year is what they should have paid, which would have included approximately thirty million amortization.

H.M.Jr: What I want from you is, if they distinguish between Mr. Welles said - I talked to him about writing down the principal, and he said they have already done that once.

White: I don't know.

H.M.Jr: That is the impression he is in.

White: I don't know.

H.M.Jr: He said, "Already, once they have wrote down that debt - the principal."

White: That is not my understanding, but we did find, in response to your question - we have here eight cases at least, in which the principal of debts

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of various countries have been written down. Three of them were in Feis' own book, incidentally.

H.M.Jr: Well, the point I am getting at is that that thing - Mr. Welles is under the impression - so I think we ought to go back and check with the State Department and see where he gets his information from.

Now, the thing I'd like is just in simple form, unless you've got it, is to start our description of what the debt settlement was in '34.

White: We have a brief description of it, and we also have a long description, but the brief description is here.

H.M.Jr: Well, let me have it.

White: On page two of the debt situation.

H.M.Jr: (Reads memo.) (Over telephone:) When Mrs. Klotz comes, let me know.

Well, this is - I'll have to take this and study this thing.

Now, let me just tell you, with Mr. Welles what happened. He was simply delighted with this suggestion of mine, of a Brazilian-United States Development Corporation. The best suggestion, he said, had been made; the result of which he couldn't get Aranha over here quick enough. And what he is proposing, I talked to him this morning - I mean, he just couldn't get him over here quick enough. He wants me to talk to him about four things:

1. Loan of gold and silver as backing to their currency.

White: We can give you that information about that.

H.M.Jr: 2. Assist in organizing a Central Bank.

White: Yes, we have.



H.M.Jr: I'm just giving you these.

3. A hundred million Brazilian-United States Development, particularly the idea of using blocked currency, American currency, to subscribe to this thing.

You are working on that?

White: We have a couple outlines here.

H.M.Jr: I won't need it.

And then he wanted me to mention the debt settlement.

Now, what you've got may be - I am just going to take - he wanted me to bring it up, and I am going to do it.

White: The debt settlement.

H.M.Jr: The debt settlement. I think I'll just take a minute and read this. That's what I'm going to talk to him about.

White: I've got a brief of the debt settlement here.

H.M.Jr: That's all right; let me just read this a minute.  
(Reads memo.)

White: We have a very detailed account of that, when you are ready.

H.M.Jr: Yeah. I just want to get this thing - I am getting what I want. It says here, "... but the Aranha plan cut the payments less than half."

White: A hundred million a year, and they made it a hundred sixty-five million for four years, but those payments, with the interest payments, and the amortization payments - and so they didn't pay at all, either interest or amortization.

Schmidt: They divided all the bonds into eight classes and treated them all differently.

H.M.Jr: But get this thing for Mr. Welles.

White: Yes sir.

H.M.Jr: Well, I think I've got enough without - I think a little knowledge is dangerous. (Laughs)

White: Just the high-lights.

H.M.Jr: And I think that after all, with this, what we've got is a program, and evidently Mr. Welles likes it better than anything that's been suggested. Those four points, you see.....

White: I would suggest possibly you might just read this one memo. That is just for the current situation, and how they might pay it.

H.M.Jr: (Reads memo.) Mr. Welles said something to me, which is very true, that if we could get Brazilians to have more confidence in their own currency it would be very helpful. You remember that short period after we bought the thirty odd million of silver from the Mexicans, and for the short period there, I mean, their currency snapped right back and, again, for a few days currency flowed back and flight of capital ceased and they slapped on that stuff; it looked as though they had turned the corner, and I suppose the same thing is true in Brazil, that if the world was convinced that they were going to handle their finances in a satisfactory way you might have a return of capital, or, certainly, it would be satisfied to stay there anyway, which is important.

White: There is a flight of capital now, but it would help.

You asked if they intended to do anything. They've got a tax now which they hope will yield about thirteen million dollars during the coming year; a tax on exports which will help liquidate the current balances.

H.M.Jr: (Mrs. Klotz comes in.) Mrs. Klotz, I think you know everybody but Dr. Shaw.

Klotz: How do you do, Dr. Shaw.

H.M.Jr: A tax on exports?

- 7 -

- White: Exchange purchases, really; anybody wants to buy exchange has to pay a tax. If he wants to buy it to pay for goods, it is a little less if he wants to make a remittance.
- H.M.Jr: You will have to be thinking what kind of legislation will be needed if we were going to make a gold and silver loan to back up their currency. I don't want that to go through the Export-Import Bank; that would be a direct Treasury loan - Treasury to Treasury; I don't want it to clear through Export-Import.
- White: We have the power to make it, but I think it is desirable to get special legislation.
- H.M.Jr: I want special legislation - Treasury to Treasury - not through Export-Import. I think I've got enough. Don't you think so?
- White: I think so, definitely.
- You asked something about Argentine. I can give it to you briefly if you like.
- H.M.Jr: Yes, do that.
- White: (Hands H.M.Jr. a memo) That's it. And here is the table of their outstanding debt.
- H.M.Jr: (Reads) All right. Well, would - Harry, could these gentlemen - I might want to work tomorrow between - the time would be between, say around eleven and twelve. I might want to see you for an hour, see? And so if they could, that will be the time.
- White: Surely.
- (All nod "Yes.")
- H.M.Jr: And if you, Harry, particularly, would stay around until Aranha leaves; and so, after he leaves, I'll have the stenographer come in and dictate what happens, and you will come in and listen. All right.
- I can't over-emphasize how much Mr. Welles was pleased with this approach.
- White: Well, the rest of these things ....
- H.M.Jr: We'll keep them all together.



February 11, 1939.

This was my program which I wrote out before Aranha came in to see me this morning at 11 o'clock.

Sat 11.7.41.

1. Exchange for normal  
commerce -  
not for profit

---

\$20 dollar to Bk of Brazil (1)  
to free normal exchange

10% of whole exchange can  
be used to pay off debt.

---

Export credit of 50 million (2)  
3 yrs has to be used  
need \$20 for ~~the~~ steel factory  
30 for R.R. road machinery

1. Loan of gold & silver  
as backing to their  
currency.
2. Assist in Org  
Central Bank
3. \$100 million Brazil - U.S. Loan  
of settlement

unlike last settlement  
began March 1934  
last payment Nov 1937  
agreement ran to March  
1938 -  
On Federal debt they lived  
up to. -



RE: BRAZIL

February 11, 1939.  
12:30 P. M.

Present: Mr. Lochhead  
Mr. White  
Mrs. Klotz  
Mr. Foley

H.M.Jr: Dr. Aranha and Mr. Welles visited me at eleven o'clock. I got Dr. Aranha to state what he wanted. He said, first, they wanted to arrange to reestablish normal foreign exchange for the normal commercial business, but he did not have in mind the freeing, at this time, of foreign exchange to people who wished to take out their profits, et cetera.

He next said that he would like to get a twenty million dollar loan to the Bank of Brazil with which to free the normal exchange, ah, this twenty million dollars to be a revolving fund. They proposed to direct the Bank of Brazil to set aside ten per cent of all of their foreign exchange transaction, which, he said, will amount the ten per cent would amount to about thirty billion dollars to pay off this twenty million dollar loan.

Next, he said he wanted established in this country, export credit of fifty million dollars to be used in the next three years. He said they needed twenty million dollars to establish new steel factories, glass furnaces, et cetera, and thirty million dollars for railroad equipment and road machinery. He said their normal, annual replacements for their railroads called for two hundred locomotives and four hundred passenger and freight cars.

Next, he said he wanted to continue the discussions on the Central Bank, where they were left off by Souza Costa when he was last here. He said that those discussions, he felt, had been satisfactory and that a practical agreement had been reached.

- 2 -

I then told him that I thought all of his suggestions were most sensible and was quite sure that they could be put through. I said that I'd -- and during this conversation just in an off-hand way, spoke about their debts.

I then offered him as an alternative suggestion, the possibility of forming a hundred million dollar Brazilian-United States Developing Corporation, the majority of the stock to be controlled by the Brazilians, the capital to be subscribed to principally by American money now in Brazil, and blocked there. I said it amounted to some sixty-five million dollars. He subsequently questioned this very much.

White: The amount?

H.M.Jr: Yes. And said he doubted if it were fifteen million dollars.

White: Sixty-five was the total of all balances.

H.M.Jr: He said the sixty-five must include their debt payment interest - interest on the debts. I said I'd get him a memorandum on it. I said, also, the Export-Import Bank would subscribe to stock in this company and possibly Brazilians might want to take some. He didn't like the idea at all. He said, "Supposing we form a company like this, and people who want to operate it for profit, and if they can buy railroad cars in Germany cheaper, what is going to keep them from doing it?" And so I said, "Well, supposing we could furnish fifty million dollars - whatever is necessary - of new money, wouldn't that overcome your objections?" But he didn't like the suggestion at all. Welles spoke up and said he liked it very much, for many reasons. I then asked him what order he wanted to take these things up in and he said the thing which was most pressing was the twenty million dollar credit for foreign exchange to the Bank of Brazil. He has a memorandum on this, on the method along the lines of the way he'd like to proceed; he's going to have it translated and sent to my house today. I'll give you (Mr. White) a copy of it, too.



He then talked about this Swiss credit; that the Swiss are ready to offer them fifty million pounds, sterling, and mentioned this French Senator, who is the Chairman of the Ministry of Public Works in the Senate. We had previously received this story and he is going to give me all the facts about it. He's going to give us a list of prices that the Germans quote him on specific articles and the terms of the credits.

He talked - the English have just established a new method of doing business, whereby, if I understood him correctly, that if England sold Brazil a million dollars worth of merchandise they would expect Brazil to, in turn, buy seven hundred and fifty thousand, leaving twenty-five - no, they only would expect them to buy a quarter of a million dollars, leaving the other three quarters free. He said this is so much better than what the Germans are doing, because the Germans expect a hundred per cent or better.

White: More than that; they demand some fruit.

H.M.Jr: And he constantly referred to what the Germans were willing to do, and even the Belgians are pressing.

And then he said that things - relations between the two countries were getting steadily worse; that it is very difficult for Brazil to buy from America. And then he told me what I think was just a straight fairy tale. He said, "You know, some four or five months ago we shipped up some gold to the United States, and because it arrived on day before a holiday the Federal Reserve insisted that it be sold, and we couldn't keep it." So I - and he made a great story about this. I said, "Well, I must have been misinformed, Mr. Minister, because I understood it differently, and I'll inquire from George Harrison."

Lochhead: Well, ....

H.M.Jr: Just let me tell this a moment. My recollection was that they sent this million dollars worth of gold up here and they needed the cash so badly they couldn't even hardly wait until it got here. Get me up on that point. It is just - I want the facts because he will keep referring to this. It was a fairy tale, isn't it?



Lochhead: There is a rumor on both sides. They sent the gold up, but the State Department - Feis - got word of it and never let us know about it.

H.M.Jr: Now, he said Monday morning he was going over to the State Department to talk about foreign exchange matters. Now I don't know what he means.

White: Probably their debt.

H.M.Jr: Ah - but after lunch, on Monday, he is coming over here to talk about this credit to the Bank of Brazil.

White: Are you sure he said ten per cent, because they could pay that up in a month.

H.M.Jr: He said they would earmark ten per cent of all their foreign exchange.

White: And they'd pay it up in one month.

H.M.Jr: Well, he is giving - he's got the whole thing written out and I think I understood him to say he'd like this thing straightened out so he could cable down to the President of Brazil and get a law passed making this thing legal. Now, if they could do this, say within a week, it would be something, and it would help a lot, wouldn't it?

Lochhead: Have you any ideas what - if we decided to do that - what funds we'd use for making the advance?

H.M.Jr: Now that's why I asked Foley to sit in; it's a question of what we can do under the law. I would much rather not do this under the Import-Export Bank, you see, and I don't want to even - I don't want the kind of thing where you say, "Well, I think it's all right." I mean, I'd much rather draw it up, and send it up to Congress and get them to confirm the thing. See? But on this thing, if I get this tonight, the translation, don't you want somebody studying this?

Foley: Yes. Yeah.

H.M.Jr: Here is my trouble: At ten o'clock I start with the Uphill and Downhill Committee. So the only time I've got free, if we get this thing, would

be between eleven and one tomorrow.

Foley: That's all right.

H.M.Jr: But I hate to .....

Foley: That's all right.

H.M.Jr: This is pretty important.

Foley: Sure it's important.

H.M.Jr: And it's interesting; doesn't it intrigue you?

Foley: (Nods "Yes.") Yes, it does.

H.M.Jr: And the thing I'd like you to do is follow it, the way I am following it, and let some technician in your staff take it, but I'd like you personally to be "au courant". See? And let's leave it. I mean, all of this stuff seems to me - (to Mrs. Klotz): I'm going to give this to you. This is the memo I wrote out for myself - my program for when he came in this morning. I don't think there is anything there now.

White: It is a very modest request on their part.

H.M.Jr: Very modest, and very direct, and very much to the point. "Oh," he said, "Mr. Morgenthau, those cables you sent me down there, what you propose," he said, "was a very polite way, but meaningless. I wanted also to be polite." I said, "Well, what do you think I could do under the circumstances?" But he was very friendly and very anxious to do something. And I think all .....

White: The outstanding debt wasn't mentioned at all?

H.M.Jr: No.

White: Not in any serious way.

H.M.Jr: No, and that I am not going..... (talking very low)

White: That is what makes it more important that you get Congressional action.

- H.M.Jr: This thing can perfectly - well, there is no reason why - the way I look at it, if he wants fifty million dollars credit ....
- White: To be spent.
- H.M.Jr: .... all here, over three years, plus twenty million dollars to go down there - can be drawn up in one bill and sent up on the Hill.
- White: I am very much in favor of it.
- Lochhead: Yes, because the reason I brought it up, of course, under your exchange loan, legally you can do it under the Stabilization. You can loan the money, but I doubt very much whether you'd want to touch it.
- White: I think now, particularly, it is very essential you get legislation on it.
- H.M.Jr: Well, you fellows have got it -- and oh yes, in the length of time, he said, "Well, we'd want three, five, to ten years." He didn't go beyond that. Now there is no reason in the world why we shouldn't take fifty million dollars.
- White: The only thought is .....
- H.M.Jr: And all the money spent here, makes ten years another thing. He said, "You sent this fellow Warren Pierson down there and," he says, "what does he do? He puts through a loan to a public utility company in California to come down there and do business in my State, and," he said, "we feel just about public utilities down there, the way you do, and that is the only loan that you've made." He said, "And in my State." Which is his state? Bahia? No; whichever one it is. I mean - I mean I - ....
- Lochhead: Of course, you must remember California is also Warren Pierson's state.
- H.M.Jr: But the interesting thing is, you see, the political the one and only loan we make is a public utility loan, which is politically, bad medicine.



White: Did he say the conditions between Brazil and the United States are getting worse, or Germany?

H.M.Jr: He said, "Steadily getting worse." - United States.

White: I am a little skeptical about his accuracy.

H.M.Jr: (Speaks low with Mrs. Klotz.)

O. K. I'll call you through the switchboard.

White: We'll get a copy of that (the record)?

H.M.Jr: No, the translation.

Meeting at Secretary's home at 11:00 o'clock, February 12, 1939.  
Present: Mr. Lochhead, Mr. Foley, Mr. White.

The Secretary stated that at a lunch held on the previous day attended by Secretary Hull and Dr. Aranha (possibly among others), Dr. Aranha had stated to the Secretary that after thinking over the Secretary's proposal with respect to the possibility of creating a corporation to facilitate industrial development of Brazil in which Americans and Brazilians would participate, he had come to the conclusion that it was a splendid idea. He added that he didn't understand why he had been rather opposed to the idea when first learning of it from the Secretary. He said that the more he thought about it the more enthusiastic he was about its potentialities. He said he thought it was a marvelous idea. The Secretary said that Dr. Aranha reiterated his enthusiasm for the idea after lunch.

The Secretary then turned to a discussion of the proposal for a \$20 million loan described in a brief memorandum which had been submitted by Dr. Aranha the day before. The Secretary stated that he wished to move rapidly because it was desirable to do something tangible for Brazil so Dr. Aranha could show the folks back home that his mission was meeting with considerable success. If the first stage of financial assistance could successfully be made expeditiously the discussions with respect to the longer term loans, which could be expected to be more complicated and occupy much longer time, could proceed smoothly without undue haste. The Secretary suggested that we all study the memorandum in detail and think over the proposal and return that same evening to further discuss the merits of the proposed \$20 million loan.

That afternoon Mr. Foley, Mr. White and some members of their staffs prepared drafts of a joint resolution and concurrent resolution in accordance with the view unanimously held that no action should be taken by the Treasury with respect to arrangements with Brazil for purchase of milreis in the particular manner proposed unless Congressional approval in some form or another were obtained.

A list of questions raised by the memorandum which had been submitted by Dr. Aranha with reference to the \$20 million loan was also prepared for the conference the next day.

That evening at 8:45 o'clock Mr. Foley, Mr. Lochhead and Mr. White met the Secretary at his home and drafts were submitted. The matter was further discussed and it was tentatively concluded that before any action would be taken so far as Congress was concerned, and should the President approve, that the views of the leading members of Congress would be obtained on the proposal before it be formally presented to any Congressional committee.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE 2-13-39

TO Secretary Morgenthau

FROM Mr. Foley

You have requested to be advised concerning the appropriateness of a concurrent resolution of the two Houses of Congress which would be in the nature of a vote of confidence on the propriety of the use of the Stabilization Fund to purchase Brazilian milreis so that Brazil may have dollar credits with which to finance purchases in this country. It is understood that no question is raised as to the legality of the use of the Stabilization Fund but that merely the policy question of the propriety of such use is involved.

A hasty examination of the precedents within the time available convinces me that such a concurrent resolution, while somewhat of a deviation from the typical concurrent resolution ordinarily adopted by the two Houses, would not be either inappropriate or unprecedented. The House Manual states (section 396) that: "In the modern practice concurrent resolutions have been developed as a means of expressing facts, principles, opinions, and purposes of the two Houses".

A similar statement is made by Representative Cannon in his very recent (1939) work, Cannon's Procedure in the House of Representatives, see page 224.

An examination of concurrent resolutions adopted by recent Congresses indicates that in modern usage this form of resolution is used principally for technical and formal purposes. The vast majority of concurrent resolutions provide for corrections in the enrollment of bills, for return for correction of bills that have been presented to the President, for printing of additional copies of documents, for establishment of joint committees, and for meetings, recesses, and adjournments of Congress. The concurrent resolution form, however, has not infrequently been used in the past as a vehicle for expressing congressional opinion on matters of great public importance.

Hinds in his Precedents of the House of Representatives (Vol. II, sec. 1562) states: "The House, either alone or in concurrence with the Senate, has by resolution expressed opinions or determinations on important public questions". In support of this statement Hinds cites a number of instances in which simple resolutions of one House or concurrent resolutions of both of this character have been adopted.



- 2 -

Thus on March 3, 1863, the House and Senate adopted a series of concurrent resolutions setting forth the attitude of Congress on the subject of intervention in the then existing war by foreign nations. On January 28, 1878, the House passed a concurrent resolution from the Senate declaring the coin bonds of the United States payable in silver dollars of 412 1/2 grains.

Hinds also states (Vol. II, sec. 1573) that: "The House has at times adopted resolutions requesting or advising the Executive as to matters within the sphere of his duties". Examples, none of them particularly apposite except in principle to the present situation, are cited both in the form of House and concurrent resolutions. It is, of course, clear that a concurrent resolution is without force and effect beyond the confines of the Capitol. See Cannon's Precedents of the House of Representatives, Vol. VII, sec. 1037. Moreover, the Attorney General held in an early opinion ((1854), 6 ops. atty. gen. 680) that neither House may by resolution give a construction to an existing law which would be of binding effect on an executive officer. In this opinion the Attorney General criticized the view expressed by an earlier attorney general that a proper deference to the legislative branches of the Government demanded that an executive department should heed a resolution wherein the Congress had given a construction of the existing law. The same reasoning in this respect would apply to a concurrent resolution as to a simple resolution. That situation, however, is not involved here, since the proposed concurrent resolution would be in accord with the Department's views of the law. The best precedent which our hasty search has revealed appears to be Senate Con. Res. No. 15 of October 31, 1919 (41 Stat., part 2, page 1634), which provides that: "we hereby give the national administration and all others in authority the assurance of our constant, continuous, and unqualified support in the use of such constitutional and lawful means as may be necessary to meet the present industrial emergency, and in vindicating the majesty and power of the Government in enforcing obedience to and respect for the Constitution and the laws, and in fully protecting every citizen in the maintenance and exercise of his lawful rights and the observance of his lawful obligations."

I attach copies of all the concurrent resolutions on matters of public importance which were introduced in the last session of Congress. None of them were adopted.

75TH CONGRESS  
3D SESSION

## S. CON. RES. 40

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IN THE SENATE OF THE UNITED STATES

JUNE 7 (calendar day, JUNE 10), 1938

Mr. SHEPPARD submitted the following concurrent resolution; which was referred to the Committee on Foreign Relations

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### CONCURRENT RESOLUTION

Whereas recent expressions from the administration here in Washington and by constituted authorities of certain other nations make it appropriate at this time to bend every effort to avoid another general war during the present generation because such a conflict would be so deadly and such a burden for all nations that eminent authorities agree modern civilization in its present form could not survive such a catastrophe for even a few years; and

Whereas the United States of America has long pursued the policy of contributing to the furtherance of peaceful relations between various nations through its activities in the establishment of The Hague Tribunal, the furthering of the success of the Washington Conference called in this city in 1921, in its participation in the London Conference in 1930, and in addition to other attempts, its action in the First General Conference for the Limitation of Armaments held in Geneva in 1932; and

Whereas the Secretary of State should be commended for his efforts through Geneva recently in advocating a reduction of armaments on the part of the great powers as a part of the program for peace advocated by the present administration, which said reduction in armaments will not only promote the mutual safety of all nations, but also will avoid further vast expenditures of tax money for armaments by the governments of peoples already poverty-stricken and tax-ridden; and

Whereas the experience of the World War as expressed at Versailles soon thereafter demonstrates that peace is also endangered most seriously by the inadequate restriction and control of the manufacture and sale of munitions of war, which matter was properly investigated by the Special Committee on Investigation of the Munitions Industry, authorized by the Senate; and

Whereas it is to the interest of the safety of society and the avoidance of another world war in the near future that the program of the Administration for peace mentioned above should include the problem of restriction of the manufacture and sale of munitions of war; Now, therefore, be it

- 1     *Resolved by the Senate (the House of Representatives*
- 2     *concurring)*, That the Secretary of State be, and hereby is,
- 3     respectfully urged to include in his commendable program
- 4     for peace the matter of a mutual restriction and control of the
- 5     manufacture and sale of munitions of war; and be it further
- 6     *Resolved*, That the Secretary of State be, and hereby is,
- 7     further respectfully requested to secure treaties with all the
- 8     great powers under which there will be effected among other



1 needed provisions a reduction in all phases of armaments  
2 and all types of armed forces and a concerted restriction on  
3 the manufacture and sale of munitions of war so that this  
4 industry will be strictly regulated in the interest of preserv-  
5 ing peace.

# CONCURRENT RESOLUTION

Relative to controlling the manufacture and sale of war munitions and reducing armaments.

By Mr. SHEPPARD

June 7 (calendar day, June 10), 1938

Referred to the Committee on Foreign Relations

75TH CONGRESS  
3D SESSION

## S. CON. RES. 24

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### IN THE SENATE OF THE UNITED STATES

JANUARY 5 (calendar day, MARCH 1), 1938

Mr. MURRAY submitted the following concurrent resolution; which was referred to the Committee on Finance

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## CONCURRENT RESOLUTION

Whereas the President of the United States in his message to Congress on the 2d day of March 1934, recommending the legislation under which reciprocal trade agreements are made, said:

"You and I know, too, that it is important that the country possess within its borders a necessary diversity and balance to maintain a rounded national life, that it must sustain activities vital to national defense, and that such interests cannot be sacrificed for passing advantage";  
and

Whereas manganese is an essential in the production of steel, both in the uses of peace and war, and is a vital element in maintaining national life in peace or war, and an assured supply is indispensable to national defense; and

Whereas there are adequate deposits of undeveloped manganese ore within the borders of the United States which would be developed if afforded the full protection of the tariff duties set forth in the Tariff Act of 1930: Therefore be it



1     *Resolved by the Senate (the House of Representatives*  
2     *concurring)*, That it is the sense of the Congress of the  
3     United States in the interest of national defense that the  
4     Department of State should refrain from negotiating trade  
5     agreements with any nation further reducing the tariffs on  
6     manganese ores, manganese concentrates, or manganese  
7     alloys; that these items should not be included in proposed  
8     trade agreements with the United Kingdom, Canada, or any  
9     other country; and, further, that the full duties on manganese  
10    ores, manganese concentrates, and manganese alloys as pro-  
11    vided in the Tariff Act of 1930 should be restored by proper  
12    notice from the Department of State to the Governments of  
13    Brazil and Canada, with whom present agreements have  
14    reduced those duties, and to all nations receiving most-  
15    favored-nation treatment pursuant to those agreements.



## CONCURRENT RESOLUTION

Opposing foreign trade agreements reducing the tariff on manganese, and favoring the restoration of the duties provided in the Tariff Act of 1930.

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By Mr. MURRAY

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JANUARY 5 (calendar day, MARCH 1), 1968  
Referred to the Committee on Finance



75TH CONGRESS  
3D SESSION

## H. CON. RES. 33

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IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 15, 1938

Mr. FISH submitted the following concurrent resolution; which was referred to the Committee on Foreign Affairs and ordered to be printed

---

### CONCURRENT RESOLUTION

Whereas there have been numerous reports in the press concerning the use of barbaric methods of warfare in current conflicts raging abroad, as a result of which many noncombatant men, women, and children have been killed or seriously injured; and

Whereas it has been stated that communities in which there have been no military forces and which have no apparent strategic value for military purposes have been bombed or bombarded; and

Whereas the wanton destruction of lives and property as a result of such bombings and other action taken by the military and naval forces of the countries and factions involved in such conflicts is entirely incompatible with the fair rules of warfare; and

Whereas such destruction and the use of inhuman methods of warfare have shocked the people of the United States and other nations: Therefore be it

1     *Resolved, by the House of Representatives (the Senate*  
 2     *concurring), That it is the sense of the Congress of the*  
 3     United States that the use of barbaric and inhuman methods  
 4     of warfare should be condemned and that all nations should  
 5     join in such condemnation to the end that the horrors of  
 6     war may be minimized.

7000 CONCURRENT RESOLUTIONS, H. CON. RES. 33

# CONCURRENT RESOLUTION

Condemning the use of barbaric and inhuman  
 methods of warfare.

By Mr. Fish

FEBRUARY 15, 1898

Referred to the Committee on Foreign Affairs and  
 ordered to be printed

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IN THE HOUSE OF REPRESENTATIVES

MARCH 14, 1938

Mr. O'TOOLE submitted the following concurrent resolution; which was referred to the Committee on Foreign Affairs and ordered to be printed

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**CONCURRENT RESOLUTION**

1      *Resolved by the House of Representatives (the Senate*  
2      *concurring)*, That it is the sense of the Senate and the House  
3      of Representatives of the United States that the diplomatic  
4      recognition by the Government of the United States of  
5      America of the German Reich should be withdrawn until  
6      such time as the said German Reich relinquishes its coercive  
7      and forced control of Austria and further abates the persecu-  
8      tion of minorities because of race or creed within the confines  
9      of the German Reich as it was constituted just prior to its  
10     forced invasion of Austria and observes the guaranties which  
11     were accorded minorities by virtue of the Versailles Treaty.



76TH CONGRESS } H. CON. RES. 40  
2D SESSION

## CONCURRENT RESOLUTION

To withdraw recognition of the German Reich.

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By Mr. O'Toole

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MARCH 14, 1938

Referred to the Committee on Foreign Affairs and  
ordered to be printed

75TH CONGRESS  
3D SESSION

## H. CON. RES. 50

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### IN THE HOUSE OF REPRESENTATIVES

MAY 12, 1938

Mr. FISH submitted the following concurrent resolution; which was referred to the Committee on Foreign Affairs and ordered to be printed

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## CONCURRENT RESOLUTION

Whereas a resolution was passed by the Congress in 1922 favoring the establishment of a homeland for the Jewish people in Palestine; and

Whereas the United States is a signatory to the Palestine Mandate Convention between this country and Great Britain; and

Whereas the Jews of central Europe are being relentlessly persecuted because of racial and religious prejudices and bigotry; and

Whereas the grievances adverted to are so enormous as to impart to them an international character in redress of which all countries, governments, and creeds are alike interested: Therefore be it

- 1     *Resolved by the House of Representatives (the Senate con-*
- 2     *curring), That the Congress of the United States requests the*
- 3     Secretary of State, in behalf of the liberty-loving American

1 people, to urge the British Government and the International  
 2 Refugee Conference substantially to increase the number of  
 3 Jewish immigrants who may enter Palestine in order to  
 4 provide a refuge in that historic homeland of their forefathers  
 5 for the persecuted and destitute Jews of central Europe.

70TH CONGRESS ) H. CON. RES. 50  
 2d Session

# CONCURRENT RESOLUTION

Requesting that the Secretary of State urge the  
 British Government to increase Jewish im-  
 migration to Palestine.

By Mr. Egan

May 12, 1938

Referred to the Committee on Foreign Affairs and  
 ordered to be printed



75TH CONGRESS  
3d Session

## H. CON. RES. 46

IN THE HOUSE OF REPRESENTATIVES

MARCH 30, 1938

Mr. LEBLOW introduced the following concurrent resolution; which was referred to the Committee on Foreign Affairs and ordered to be printed

### CONCURRENT RESOLUTION

Whereas a competitive race of armaments is sapping the financial strength of nations, breeding international distrust and suspicion, and endangering the peace of the world; and

Whereas there are unmistakable indications that the world is weary of war and strife and the colossal burden of armaments and would welcome a sincere movement in the interest of peace; therefore be it

- 1     *Resolved by the House of Representatives (the Senate*
- 2     *concurring),* That it is the sense of the Congress of the
- 3     United States of America that a proposal to suspend by
- 4     joint action all naval construction until January 1, 1940,
- 5     should be submitted by the United States to all of the leading
- 6     powers.

1 It is also the sense of the Congress of the United States  
2 of America that a peace conference should be held in the  
3 city of Washington on or about October 1, 1938, to which  
4 all of the leading powers should be invited to send delegates  
5 to discuss limitations of armaments and other questions asso-  
6 ciated with and promotive of international concord.

7 This resolution may be cited as the "Peace by Con-  
8 ference" resolution.





## CONCURRENT RESOLUTION

Declaring it to be the sense of Congress that the United States of America should take the lead in a suspension of naval construction by the leading powers and should call a conference on limitation of armaments.

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By Mr. LODGE

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MARCH 30, 1908

Referred to the Committee on Foreign Affairs and  
ordered to be printed

75TH CONGRESS  
3D SESSION

## H. CON. RES. 39

IN THE HOUSE OF REPRESENTATIVES

MARCH 11, 1938

Mr. LUDLOW submitted the following concurrent resolution; which was referred to the Committee on Foreign Affairs and ordered to be printed

### CONCURRENT RESOLUTION

Whereas a competitive race of armaments is sapping the financial strength of nations, breeding international distrust and suspicion, and endangering the peace of the world: Therefore be it

1      *Resolved by the House of Representatives (the Senate*  
2      *concurring)*, That it is the sense of the Congress of the  
3      United States that the President of the United States should  
4      submit to all of the leading powers a proposal to suspend  
5      by joint action naval construction until January 1, 1940.

6      It is also the sense of the Congress of the United States  
7      that the President of the United States should call a peace  
8      conference to be held in the city of Washington on or about  
9      October 1, 1938, and invite all of the leading powers to

- 1 send delegates to said conference to discuss limitations
- 2 of armaments and other questions associated with and promo-
- 3 tive of international concord.
- 4 This resolution may be cited as the "Peace by Con-
- 5 ference" resolution.

**CONCURRENT RESOLUTION**

Declaring it to be the sense of Congress that the President should take the lead in a suspension of naval construction by the leading powers and should call a conference on limitation of armaments.

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By Mr. LUDLOW

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MARCH 11, 1938

Referred to the Committee on Foreign Affairs and ordered to be printed



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IN THE HOUSE OF REPRESENTATIVES

MARCH 8, 1938

Mr. LUDLOW submitted the following concurrent resolution; which was referred to the Committee on Foreign Affairs and ordered to be printed.

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**CONCURRENT RESOLUTION**

Whereas a competitive race of armaments is sapping the financial strength of nations, breeding international distrust and suspicion, and endangering the peace of the world: Therefore be it

1     *Resolved by the House of Representatives (the Senate*  
2     *concurring)*, That it is the sense of the Congress of the  
3     United States that the President of the United States should  
4     submit to all of the leading powers a proposal to suspend  
5     by joint action naval construction until January 1, 1940.

6     It is also the sense of the Congress of the United States  
7     that the President of the United States should call a peace  
8     conference to be held in the city of Washington on or about  
9     October 1, 1938, and to invite all of the leading powers  
10    to send delegates to said conference to discuss limitations  
11    of armaments and other questions associated with and promo-  
12    tive of international concord.

## CONCURRENT RESOLUTION

Declaring it to be the sense of Congress that the President should take the lead in a suspension of naval construction by the leading powers and should call a conference on limitation of armaments.

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By Mr. LUDLOW

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MARCH 8, 1938

Referred to the Committee on Foreign Affairs and  
ordered to be printed

75TH CONGRESS  
3D SESSION

## H. CON. RES. 34

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IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 15, 1938

Mr. CASE of South Dakota submitted the following concurrent resolution; which was referred to the Committee on Ways and Means and ordered to be printed

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### CONCURRENT RESOLUTION

Whereas the President of the United States in his message to Congress on the 2d day of March 1934, recommending the legislation under which reciprocal trade agreements are made, said:

"You and I know, too, that it is important that the country possess within its borders a necessary diversity and balance to maintain a rounded national life, that it must sustain activities vital to national defense and that such interests cannot be sacrificed for passing advantage";  
and

Whereas manganese is an essential in the production of steel, both in the uses of peace and war, and is a vital element in maintaining national life in peace or war; and an assured supply is indispensable to national defense; and



Whereas there are adequate deposits of undeveloped manganese ore within the borders of the United States which would be developed if afforded the full protection of the tariff duties set forth in the Tariff Act of 1930: Therefore be it

1       *Resolved by the House of Representatives (the Senate*  
2 *concurring)*, That it is the sense of the Congress of the  
3 United States in the interest of national defense that the  
4 Department of State should refrain from negotiating trade  
5 agreements with any nation further reducing the tariffs on  
6 manganese ores, manganese concentrates, or manganese  
7 alloys; that these items should not be included in proposed  
8 trade agreements with the United Kingdom, Canada, or any  
9 other country; and, further, that the full duties on manga-  
10 nese ores, manganese concentrates, and manganese alloys as  
11 provided in the Tariff Act of 1930 should be restored by  
12 proper notice from the Department of State to the Govern-  
13 ments of Brazil and Canada, with whom present agreements  
14 have reduced those duties, and to all nations receiving  
15 most-favored-nation treatment pursuant to those agreements.

Approved for the Commission on the Status of Women  
and the Commission on the Status of Children  
and the Commission on the Status of the Elderly

Office of the Secretary of State

Department of State

Washington, D.C. 20520

FOR THE SECRETARY OF STATE

7074 CONCURRENCE  
H. CON. RES. 34

## CONCURRENT RESOLUTION

To encourage the development of domestic manganese in the interest of national welfare and national defense.

By Mr. Case of South Dakota

FEBRUARY 15, 1938

Referred to the Committee on Ways and Means and ordered to be printed



Note:

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● Lochhead dictated this to McHugh  
this morning. I asked him if he had  
extra photostats and he said "Yes",  
He furnished the photostats.

McH

Feb.13/39

February 13, 1939.

My dear Mr. Secretary:

In the course of the meeting held between Dr. Aranha and Under Secretary Hanes yesterday, Dr. Aranha furnished a memorandum giving an outline of a Brazilian-American organization for the mobilization of the national resources of Brazil.

There are enclosed for your information three photostatic copies of this memorandum.

Sincerely,

✓  
(Signed) H. Morgenthau, Jr.

Honorable Cordell Hull,  
Secretary of State,  
Washington, D. C.

3/7  
12

OR A K E D A

I am giving herewith an outline of a Brazilian-American oil corporation, hereinafter referred to as the Corporation, for its scope the mobilization of the national resources of Brazil.

1 - The Brazilian Government will promote the incorporation of a Company, with a capital of Rs. 100,000:000\$000 (one hundred thousand contos). The Brazilian Treasury will subscribe for 50% of the bonds (shares), the remainder being offered for sale to Brazilian and American subscribers.

The seat of the Company will be in Rio de Janeiro, Brazil, and the term of its operation 50 years. The Company will act under the Statutes which will be drafted by mutual accord, and it shall be subject to Brazilian laws.

2 - The Brazilian Government will guarantee 4% annual interest to subscribers.

3 - The dividends of the Company shall not be larger than 5% per annum.

4 - All profits in excess of the 5% limit shall be used yearly:

- a) 20% in the creation of a Reserve Fund;
- b) 80% in the payment of the loan contracted by the Company.

5 - The Company will contract for a loan of \$100,000,000.00 (one hundred million dollars), of which 50 million shall be supplied through the American Government and 50 million by banks or other American private sources. 50% of the latter quota, i.e., the equivalent of 25 million dollars, may be subscribed by American concerns or citizens possessing accumulated funds in Brazil.

This loan shall be guaranteed under formal responsibility of the Brazilian Treasury, and will perceive 4% annual interest.

6 - The American Government will arrange, in the most practicable manner, to facilitate loans at the same interest rate of 4% per annum, guaranteed by shares subscribed in milreis as



vided for in the foregoing paragraph.

The Company shall apply its capital and the proceeds of the loan exclusively for the following purposes:

- a) rescission of the contract of the Itabira Iron Ore Company;
- b) construction of the Rio Doce Valley railway;
- c) disappropriation of deposits of manganese and iron ore;
- d) installation of smelters for the iron, steel and allied industries;
- e) equipment and renewal of Brazilian railways;
- f) industrialization and export of rubber;
- g) industrialization and export of vegetable oils;
- h) research and exploitation of oil fields.

8 - With the resources furnished by the American Treasury or other agencies, the Company shall buy in the United States, in the manner found to be most practicable, the materials necessary for the execution of the program of economic development.

9 - The Company may engage in the United States the services of technicians needed for the study and application of the measures herein provided for.

10 - The Company will enter into arrangements with American industrial concerns for the purchase by the latter in Brazil, *through the Company,* of raw materials which are imported into the United States, and the production of which in Brazil it is intended to increase *and* systematize through the measures herein set forth.

11 - The Company will give preference to those American firms which, in exchange for orders received, will undertake to acquire, through the Company, and in the largest possible quantity, the raw materials mentioned in the foregoing paragraph, or which will cooperate towards the marketing of the same in the United States of America.

12 - Interest on the loan shall be paid at the end of each semester as from the date of its realization, and the loan shall be redeemed after the fifth year.

a) from the profits of the Company, as provided for in paragraph 4;

b) by an annual payment of four million dollars, until fully redeemed, should the aforementioned profits be inferior to that sum.

10 - The Brazilian Government shall buy from the Company, as soon as production of the industries created by the Company shall begin, all materials which the Government may need for various public services - railroads and highways, steamship lines, military supplies, etc.

11 - The Company may only expend on its administrative and clerical payrolls a maximum of 1% per annum of the resources represented by its capital and the proceeds of the loan. A minimum of 70% of such resources shall be invested in materials and in the indemnifications and disappropriations herein provided for.

12 - The Company may promote the incorporation of other Companies for the purposes set forth in No.7, provided control of same by the Company be assured.

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268

Note:

Dictated by Lochhead this morning to  
McHugh. Lochhead furnished the photostats  
in question. I asked him if he had an  
extra set and he said "Yes".

McH

Feb. 13/39

4 1/2 Lochhead (McH)  
6 5 3 1/2 Lochhead



February 13, 1939.

My dear Mr. Secretary:

On Saturday evening, Dr. Aranha handed me three memoranda covering subjects for discussion with the Treasury Department.

As I feel that these memoranda will be of interest to you, I have had them photostated and enclose three copies of each.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Cordell Hull,  
Secretary of State,  
Washington, D. C.

1/5

I - The suspension of payments of the external debt of Brazil - Federal and State as well as municipal - is no longer a subject of debate, since the absolute impossibility of transferring the funds necessary for such payments, which the Brazilian Government faced on November 10, 1937, has become evident from the following trade figures.

| <u>Year</u> | <u>Exports</u>       | <u>Imports</u> | <u>Balance</u> |
|-------------|----------------------|----------------|----------------|
|             | (in pounds sterling) |                |                |
| 1928        | 97.426.000           | 90.668.000     | 6.757.000      |
| 1929        | 94.831.000           | 86.653.000     | 8.177.000      |
| 1930        | 65.745.000           | 53.618.000     | 12.127.000     |
| 1931        | 49.543.000           | 28.755.000     | 20.788.000     |
| 1932        | 36.629.000           | 21.744.000     | 14.885.000     |
| 1933        | 35.790.000           | 28.131.000     | 7.658.000      |
| 1934        | 35.239.000           | 25.467.000     | 9.772.000      |
| 1935        | 33.011.000           | 27.431.000     | 5.580.000      |
| 1936        | 39.069.000           | 30.065.000     | 9.003.000      |
| 1937        | 42.529.000           | 40.607.000     | 1.922.000      |
| 1938        | 36.537.000           | 35.834.000     | 523.000        |

The suspension was not, therefore, a mere official act, nor was it in any way a result of a political transformation or of an alteration of the traditional policy of Brazil, but indeed an unavoidable and imperative imposition of facts, proved by actual figures.

II - Other factors, equally independent from the will of the Brazilian Government and from the labour of the Brazilian people, were added, some of which derived from the decrease in value of our foreign trade, and others from universal phenomena, which were likewise beyond all control; such factors also having contributed, not only to create the impossibility of our

COPLA

...pursuing the project... but also the...  
...ning, even now, the... 1934.

| <u>Year</u> | <u>Exports</u><br>(in pounds sterling) | <u>Minus difference as compared</u><br><u>with figures for the year 1928</u> |
|-------------|--|--|
| 1928        | 38,800.000                             | ----   |
| 1929        | 38,200.000                             | ----   |
| 1930        | 65,700.000                             | 29.100.000   |
| 1931        | 49,500.000                             | 45.300.000   |
| 1932        | 36,600.000                             | 58.200.000   |
| 1933        | 36,800.000                             | 58.000.000   |
| 1934        | 35,200.000                             | 59.600.000   |
| 1935        | 33,000.000                             | 61.800.000   |
| 1936        | 39,000.000                             | 55.800.000   |
| 1937        | 42,500.000                             | 52.300.000   |
| 1938        | 36,537.000                             | 58.443.000   |
|             | <hr/> 566.857.000                      | <hr/> 478.543.000  |

III - At the beginning of the world depression, Brazil possessed in its Treasury upwards of thirty million pound sterling, in addition to large commercial credits abroad, which tended to keep up the volume and value of foreign trade. The depression, however, entailing, as it did, the sudden closing of bank accounts, especially in the United States, forced the Brazilian Government to use its gold reserves for the hasty liquidations imposed on the economy of the country. Brazil set, in that circumstance, a standard of effort and sacrifice which has been surpassed by none, in the hope of retaining its credit and deserving the cooperation of its creditors.

IV - The result of such efforts was unfortunately negative, not only because foreign credits were not maintained - which would have been indispensable in order that the volume and



... of foreign trade should not fall off - but also because  
banking credits were reduced to insignificant amounts in  
countries, and entirely suppressed in the United States,  
which quarter we could least expect such a line of action,  
... the punctuality with which our obligations in that  
... had been met, even at the low of the depression. Such a  
... brought about, as a matter of course, the devaluation of  
... currency, as follows: -

Percentages of depreciation of the milreis

|  | Free quotations | Official quotations |
|--|-----------------|---------------------|
|  | 0,0%            | -                   |
|  | 1,3%            | -                   |
|  | 9,1%            | -                   |
|  | 37,8%           | 47,8%               |
|  | -               | 40,5%               |
|  | -               | 47,1%               |
|  | 66,5%           | 57,8%               |
|  | 71,2%           | 57,9%               |
|  | 71,3%           | 57,3%               |
|  | 70,0%           | 57,3%               |
|  | -               | 71,3%               |

The price of imports has doubled, and the price of  
exports decreased, both in terms of pounds and of milreis, so  
that we have been compelled to more than double the volume of our  
exports, in order to attenuate the decrease in the total value of  
transactions. The lack of funds available abroad was naturally  
followed by the scarcity of means at home, thus aggravating the  
depression in the general economy of the country.

V - Brazil faced that emergency in a spirit of ab-  
solute self-sacrifice, trusting that her conduct would tend to re-  
establish the situation of good-will and cooperation between coun-

countries, while

available to the pro- ... .. and over the an.

| <u>Year</u> | <u>Favorable balance of<br/>foreign trade</u><br>(in pounds sterling) | <u>Remittances for the<br/>service of the ex-<br/>ternal debt</u> |
|-------------|---|---|
| 1928        | 11,757,000  | 10,155,000  |
| 1929        | 11,177,000  | 17,540,000  |
| 1930        | 12,127,000  | 19,867,000  |
| 1931        | 20,786,000  | 17,680,000  |
| 1932        | 14,683,000  | 6,652,000   |
| 1933        | 11,296,000  | 6,440,000   |
| 1934        | 16,033,000  | 7,108,000   |
| 1935        | 9,049,000   | 7,494,000   |
| 1936        | 14,811,000  | 8,012,000   |
| 1937        | 3,329,000   | 9,900,000   |
|             | <u>117,252,000</u>  | <u>116,742,000</u>  |

VI - The above figures suffice to demonstrate:

- a) that Brazil, in the most difficult periods, paid its debts, even when it involved the sacrifice of gold reserves and the assessment of heavy internal contributions for that purpose;
- b) that Brazil has reached the extreme limit of self-sacrifice, making remittance of the whole of its favorable trade balance in order to fulfill its obligations, under the so-called "Oswaldo Aranha scheme";
- c) that payments were suspended only on November 10, 1937, after all possible resources had been exhausted, and owing to the absolute material impossibility continuing the payments.

VII - Balance of Payments - Gold and Foreign Exchange

Gold payments in 1938 were 200,000,000 milreis for the better part of the year; the contrary, during that year there was every indication of increasing difficulties. Foreign trade figures for the year 1938 show a still decreasing value of exports in terms of gold and an increasing value of imports in terms of milreis: the purchasing and paying capacity of Brazil is steadily decreasing, in free currencies, because the value of Brazilian exports to countries trading in free currencies is decreasing, notwithstanding the increase in quantity of such exports.

Such countries (United States, Great Britain, France and Argentina) purchased from Brazil in the five years extending from 1928 to 1932, merchandise worth \$225,157,000, gold currency, against only \$115,347,000 in the five years following (1933-1937). The annual average during the former period was \$45,033,000, against \$23,069,000 for the latter, and only \$19,105,000 for the year 1938.

Foreign Trade Balances

| Year | U.S.A.       | Great Britain | France      | Argentina  |
|------|--------------|---------------|-------------|------------|
| 1928 | + 20,189,000 | -16,164,000   | + 3,176,000 | -4,678,000 |
| 1929 | + 13,921,000 | -10,468,000   | + 5,948,000 | -3,451,000 |
| 1930 | + 13,567,000 | - 4,948,000   | + 3,356,000 | -2,690,000 |
| 1931 | +14,424,000  | - 1,458,000   | + 3,244,000 | -1,264,000 |
| 1932 | +10,222,000  | - 1,604,000   | + 2,165,000 | + 590,000  |
| 1933 | +10,759,000  | - 2,792,000   | + 1,630,000 | -1,713,000 |
| 1934 | + 7,773,000  | - 162,000     | + 1,561,000 | -1,487,000 |
| 1935 | + 6,612,000  | - 354,000     | +1,737,000  | -1,916,000 |
| 1936 | + 6,526,000  | + 1,277,000   | +1,997,000  | -3,355,000 |
| 1937 | + 6,056,000  | - 1,052,000   | + 1,743,000 | -3,678,000 |
| 1938 | + 3,373,000  | - 267,000     | +1,268,000  | -3,180,000 |



Summary

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|              |             |             |             |          |
|--------------|-------------|-------------|-------------|----------|
| 1932         | +72.323.000 | -34.642.000 | +17.899.000 | -11.493. |
| 1933 to 1937 | +39.728.000 | - 3.023.000 | + 2.868.000 | -12.149. |

BRAZILIAN EXPORTS  
(in £1,000 sterling)

|                  | Yearly average<br>1st. 5-year period | D° 2nd period<br>(1933-1937) | Estimate for<br>1938 |
|------------------|--------------------------------------|------------------------------|----------------------|
| United States... | 29.247                               | 14.821                       | 11.912               |
| Great Britain... | 4.223                                | 3.702                        | 3.314                |
| France.....      | 6.676                                | 2.800                        | 2.341                |
| Argentina.....   | 4.266                                | 1.745                        | 1.530                |

Percentual alterations

|                  | In the 2nd. 5-year<br>period as compared<br>with the 1st. | In the year 1938<br>as compared with<br>1st. period | the 2nd d° |
|------------------|---|---|------------|
| United States... | -50%  | -80%  | -19%       |
| Great Britain... | -12%  | -21%  | -10%       |
| France.....      | -58%  | -64%  | -18%       |
| Argentina.....   | -59%  | -58%  | -12%       |

Brazilian Imports

|                  |        |       |       |
|------------------|--------|-------|-------|
| United States... | 15.382 | 6.073 | 6.545 |
| Great Britain... | 11.152 | 4.307 | 3.581 |
| France.....      | 3.098  | 1.027 | 1.073 |
| Argentina.....   | 6.584  | 4.174 | 4.719 |

Percentual alterations

|                  |      |      |      |
|------------------|------|------|------|
| United States... | -53% | -44% | -24% |
| Great Britain... | -61% | -61% | -16% |
| France.....      | -66% | -67% | -14% |
| Argentina.....   | -36% | -36% | -12% |

VIII - The suggestions received from British, French, or Swiss sources, for the relief of this situation, may

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may be summarized as follows:

a) Consolidation of the Federal, State and municipal debts, in a new issue, with a reduction both of the principal and the interest, and an extension of term;

b) financial and economic cooperation of creditors for the drafting and execution of a plan, similar to that adopted by Chile;

c) gradual nationalization of the debt;

d) purchase of bonds in foreign markets, with the available funds, until the favorable trade balances be sufficient to permit resumption of interest.

IX - Nothing concerns more the Government and the people of Brazil, than the absolute impossibility in which the country has found itself, through no fault of its own, of resuming the payment of its external debt; wherefore we are both willing and anxious to consider any suggestion tending to remove such an impossibility, at the earliest possible time, and under the most favorable conditions for our creditors.

A credit of 20 million dollars to the Carteira Cambial of the Bank of Brazil (Exchange Department of the Bank of Brazil) in order to release the exchange for the current trade, is suggested in the following terms:

#### DECREE

Art. 1 - Liberty for exchange operations in connection with normal trade shall be reestablished in the terms of this Decree and to take effect on the date of its publication.

Art. 2 - Export drafts shall be sold in the open market and shall be applied exclusively to payments of imports.

Paragraph - The Exchange Control Department will supply export permits only upon presentation of proof by the exporter to show that the exchange has been sold in accordance with the terms of this Decree.

Art. 3 - The Banks purchasing export drafts will be obligated to sell to the Bank of Brazil on a sight draft on London or New York in accordance with the rate established daily by the Bank of Brazil, 10% of the amount of each bill of exchange purchased.

Should the exchange draft be issued in other currency the conversion to pounds sterling or dollars shall be made on a basis of its parity in London or New York on the day of purchase.

Art. 4 - The purchase of exchange for the payment of importations shall be made in the same manner as that of sales for exportation in the open market and with the previous authorization of the Exchange Control Department.

Art. 5 - The exchange for the payments of collections overdue up to the date of this Decree, the equivalent of which in Brazilian currency has been deposited in the form of in-



instructions in effect cannot be purchased in the open market. The Banco do Brasil will furnish the necessary coverages for this purpose through the official exchange rate in effect on the date of the publication of this Decree or that of the open market as may be found more convenient for the purchaser.

Art. 6 - Transfers other than those issuing from current export and import trade may be made only through the Banco do Brasil.

Art. 7 - Foreign tourists shall sell openly to the Banks, Exchange Houses or Banking Firms the amounts of their letters of credit, travellers' checks or foreign exchange and may re-exchange the national currency should they so desire. The funds made available in this manner to the Banks, Exchange Houses or Banking Firms must be applied by them exclusively in the sale of drafts, letters of credit, payment orders or foreign currency, to persons duly authorized to purchase same through the Bank Control for purposes of travel or living expenses abroad.

Paragraph - Such operations must be entered separately and reported daily to the Bank Control (Fiscalização Bancária).

Art. 8 - Exchange operations in compensated currencies shall be handled exclusively by the Banco do Brasil which shall alter its quotation in accordance with the fluctuations of currencies having free course in the international open market.

Art. 9 - The Bank of Brazil may not maintain a "bought" exchange position on compensated currencies and may purchase them only for coverage of sales made previously or at the same time.

Art. 10.- With the exception of the Banco do Brasil, Banks shall not maintain a "bought" position above 5000 pounds ster-

COPIA.

- 3 -

sterling or its equivalent in other currencies.

Art. 11 - The Banco do Brasil will perform all exchange operations pertaining to private capital, swaps, reports and others, at the rates prevailing in the open market. The Bank shall take care of the service of private capital within the limits of its available funds as practicable.

Art. 12 - All governmental departments and public services, federal, state or municipal, must handle all their operations and transactions through the Banco do Brasil.

Art. 13 - The Banks, Exchange Houses or Banking Firms which violate the provisions of this Decree, applying for purposes other than those herein prescribed the funds available, shall have their banking licenses cancelled and may no longer operate on exchange transactions.

Art. 14 - All provisions to the contrary are hereby revoked

## THE ECONOMIC EQUIPMENT OF BRAZIL

I - Brazil is a new country in the economic sense of the word, and it is therefore a debtor country. Its exports consist chiefly of raw materials and foodstuffs, and this fact compels it to compete in world markets with the produce of colonial regions.

II - The economic development of Brazil had been proceeding up to the time of the crisis of 1929, in the same manner as that of all new countries, namely, through the cooperation of foreign capital secured by loans, both public and private. In accordance with the logic of the system, funds obtained in this manner should contribute toward the expansion of the economic equipment of such countries, resulting in a gradual increment in their exportable production, until a situation were reached in which the increasing balances should permit them to take care of the annual service of their respective foreign debts.

Brazil had not yet attained this stage when the system under which its economic evolution was being processed was abruptly interrupted by the cessation of international loans. The prices of raw materials, by reason of the crisis, underwent a deep depreciation, and the economic equipment of the country became greatly diminished, with a constant corresponding reduction in its trade balances. The present situation constitutes a vicious circle: the heavy reduction in the gold value of exports does not permit purchase abroad of materials necessary for renewal and expansion of the economic equipment, while, on the other hand, the inadequacy of the present economic equipment prevents the increase of the exportable production through industrialization of certain products in respect to which Brazil



Brazil offers immense potentialities.

III - The following items will convey an idea of the deficiencies in the present economic equipment of Brazil:

- a) The railways in operation at present in the country, - about 33,000 kilometers (20,600 miles) - require yearly for track maintenance from 150 to 220 thousand tons of rails, but these necessary renewals have not been made in recent years, to the enormous detriment of the transportation industry.
- b) Rolling stock, comprising at present 5,000 locomotives and 70,000 passenger and freight cars, must be renewed at the yearly rate of 180 locomotives and 3,500 cars, which is impossible under present circumstances.
- c) Briefly, it would not be an exaggeration to estimate requirements for yearly renewals at 200,000 tons of rails, 200 locomotives and 4,000 cars. In order to carry out its railway program, the Brazilian government would have to build an average of 10,000 kilometers yearly, and for such new construction it would need one million tons of rails, bridge materials, etc., besides 50 locomotives and 1,000 cars to serve these extensions. This in respect to railways alone, without consideration of the necessities of national defense as well as requirements in other departments, such as civil aeronautics, ports and shipping, drought prevention, radio and telegraphic communications, etc.

IV - It is urgent therefore that Brazil attack the overshadowing problem of providing the country with an economic equipment equal to the requirements of production and consumption of a population of 45 million. Brazil is today in an economic situation comparable to that of Russia at the end of

of the World War: an economy based on production and export of raw materials and foodstuffs, compelled through loan obligations to pay abroad yearly sums fixed on a gold standard, and yet unable to do so owing to insufficient trade balances. The Russian government understood at once the necessity of equipping the country economically. Approaching Germany at Rapallo in 1922, Russia initiated, through the Piatakoff agreements, a policy of intense cooperation with the former, by means of which it was made possible to acquire in exchange for raw materials the products indispensable to the execution of the Russian plans for economic restoration. In the same manner, without the cooperation of a highly industrialized country possessing advanced technological qualifications, Brazil will be unable to carry out with the necessary speed its economic reconstruction, an essential condition for the elevation of the social level of its people. Such cooperation, which would consist of facilities for procurement of the necessary economic equipment in return for raw materials, - the only form of payment within its power, - has been offered to Brazil on sundry occasions by the totalitarian countries, Germany, Italy and Japan, which are under pressing need for these materials. Motives of a political nature, and fear of the influence which those countries might exercise over the economy of Brazil, led the government to decline these offers.

V - Will the United States be disposed to extend its cooperation in order to enable Brazil to overcome the deficiencies in its equipment?

The complementary position which characterizes the economy of the two countries lends to such a cooperation a multiplicity of aspects and presents enormous latent possibilities. Not only could the industries of America procure in Brazil many raw



raw materials which they need, and which are not produced or do not exist in sufficient quantities in the United States, - rubber, iron, manganese and other ores, vegetable oils, fibers, etc., - but the economic progress which Brazil would reap from this cooperation would result in the broadening of the Brazilian market for American manufactures, thus creating a close economic interdependence, the immense political scope of which cannot be gainsaid, between the two countries having the largest population on the Continent.

VI - The cooperation in question could consist of the granting of long term credits intended partly for the immediate purchase in the American market of transportation materials and partly for the installation of an iron and steel industry on a large scale, for which conditions are favorable in Brazil and without which the country cannot accelerate the rhythm of its economic progress.

VII - In accordance with studies which have been made, the installation of iron and steel mills in Brazil must be conjugated with the export of a certain quantity of iron ore, with the purpose not only of ensuring a supply of coal at low prices, but also to finance the installation of smelters and the creation of an ore transportation system. With regard to transportation, two equally possible solutions are presented, namely, either through the Rio Doce Valley to the port of Santa Cruz, which would require the construction of a railway, or else through the Central do Brazil Railway, involving the adaptation of this line to the economical transportation of ore. The payment of the credits in question could be guaranteed by the income from the transportation of ore, with the cooperation of American metallurgical centers, which could only profit through the importation of high grade Brazilian ore.



are.

VIII - If Brazil finds it cannot count upon the cooperation of the United States for the realization of this enterprise, so vital to its development, it will be compelled to accept association with another industrial country. The expansion of our trade with Germany during recent years reveals the necessity in which Brazil is placed of having to equip itself economically and to pay for its equipment with the only coin it possesses - raw materials.

IX - In addition to this association in a plan for the large scale development of the economic equipment of Brazil through the creation of basic industries, a more direct participation by American capital and technicians in the work of mobilization of Brazilian riches imposes itself.

Vast possibilities are open in this direction. The reason for the decline in the trade between the two countries must be sought for also in the scant participation by these elements in the internal development of Brazil, in accordance with the maxim, "Trade follows investment". While the Germans, Italians and Japanese partake with growing activity in the organization of Brazilian production, both agricultural and industrial, and in financing exportation, employing many technical men and maintaining commercial banks, in addition to hundreds of thousands of their nationals and descendants of same who are permanently established in Brazil, the United States have invested little in productive activities there; American technicians are few, and there is no commercial bank, for the only American banking establishment in Brazil limits its operations to deposits and exchange. Such indifference and apathy on the part of American interests in Brazil is in ever-growing contrast with the dynamic creative attitude of the nationals of the aforementioned coun-

countries.

As examples of forms of possible participation in the internal development of Brazil the following may be mentioned:

- 1) Investment in the production and export of articles needed by the American market: - rubber, vegetable oils, fibers, iron, manganese, nickel and other ores;
- 2) Establishment of commercial banks for the financing of production.
- 3) Participation by a group of American banks, under the direction of the Federal Reserve Bank, in the financing of trade with Brazil, through the concession of credits.
- 4) Colonization of certain regions in São Paulo and Rio Grande do Sul by American citizens who may wish to purchase and cultivate lands in these regions.

February 13, 1939

2:30 p. m.

Present:

Mr. Welles ) Arrived ahead of Minister Aranha  
Ambassador Caffery ) and Mr. Dantas

Minister Aranha  
Mr. Dantas  
Mr. Lochhead  
Dr. White  
Mr. Foley  
Mr. Knoke  
Dr. Feis (for brief period towards end of meeting)

HM, Jr: (To Mr. Welles) This is something that we can make a demonstration with and if you want some trading you can do it on the development company.

(At this point, Minister Aranha and Mr. Dantas came in.)

HM, Jr: We have gotten to the point where I needed technical assistance and I have asked Mr. Knoke, who is Vice President of the Federal Reserve Bank of New York, who are our fiscal agents, to come down. With the help of the memorandum which you gave us, we made considerable progress. (Memorandum is attached hereto.)

There are certain things which I imagine will help us and I made a list of a few questions which you may want to interest yourself in or you may want Mr. Dantas to stay behind and go over it with our people.

(Question No. 1. What is the total of exchange arrears due to American exporters (a) on exports from the United States? (b) On exports from third countries?

Mr. Dantas: There is \$9,000,000 for which contracts have already been granted and \$3,000,000 for which milreis have not been deposited.

HM, Jr: Is that all due to American exporters?



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Mr. Aranha: Yes.

(Question No. 2. Could we be supplied with a list of the American concerns for whom exchange has been requested and to whom contracts have not been issued?)

Mr. Aranha: This is just a matter of every day. They are changing every day.

Mr. Lochhead: Have you a breakdown of the \$9,000,000?

Mr. Aranha: What I am telling you is that we have two kinds of exchange positions: (1) when we give a draft the matter is ended. These people make deposit of milreis and receive a contract to have exchange given to them in some time -- 90, 30 or 20 days. We have more or less \$9,000,000 of these and the other \$3,000,000 who did not deposit.

Mr. Lochhead: What American concerns is this \$12,000,000 owed to?

Mr. Aranha: That changes every day.

Mr. Lochhead: Possibly you could give us some of the most important people even if they change every day.

Mr. Aranha: Oh, I think they are the biggest companies you have, the oil companies, Singer Machine, General Motors, Ford. We do not call these arrears until the drafts are more than 30 days overdue. We give the contract of 30, 60 or 90 days according to our law. We are paying all contracts we made. We are paying regularly.

HM, Jr: There are some companies who sort of stay on the outside hoping to take special advantage.

Mr. Aranha: Always we went through the books of the oil companies and we could see that they compelled us to pay first. We are more than \$7,000,000 or \$8,000,000 overpaid. We did that very long time. They go under American name, but really they are sending their money to Venezuela, Mexico, Curacao; also they are forcing us to pay for the stocks. If really we could compel these people to give us exchange we gave them in advance, we would not be here asking for credit.

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HM, Jr: I will give you the benefit of anything I have. The reason that we are asking these questions is that we want to understand it and, for instance, we did not know how old some of these credits are.

(Question No. 3. What is the total of arrears to all other exporters by countries -- both in free currencies and compensation currencies?)

Mr. Aranha: We have arrears with England.

HM, Jr: That is up to them.

We are working to make available \$20,000,000 for your exchange. We have our Congress and our friendly and unfriendly Senators and Congressmen who will say, "Mr. Morgenthau, you made available \$20,000,000 to the Brazilian Government and the Banco de Brazil. Is that \$20,000,000 to be used to pay up arrears of United States merchants?"

Mr. Aranha: Yes. Only the United States. We do not think we will need \$20,000,000. We just want a fund to have a margin. Before we could do that. We had with the Guaranty Trust a line of \$20,000,000 before the crisis and now we are compelled to make our commerce with the United States only when we have a cash balance because you sell in cash. The only place we do not have any credit lines is in the United States. We do have in England. These margins are a very important thing to improve our commerce.

(Question No. 4. Whom do you propose to supply with foreign exchange out of the \$20,000,000?)

Mr. Aranha: I have just replied.

(Question No. 5. Do you think that Brazil will have adequate exchange out of the \$20,000,000?)

Mr. Aranha: Yes. We have no exchange positions sold. We are just even.

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(Question No. 6. Did any of the present exchange arrears arise from imports received before January 1, 1938?)

(Note) When HM, Jr read Question No. 6 he asked why the date had been changed from September, 1937.

Dr. White: I have just inserted the new date.

Mr. Aranha: That is no.

(Question No. 7. How much free exchange has been granted for imports from Germany during 1938?)

Mr. Aranha: Nothing. Germans sell aski marks and in selling these marks we pay in Brazilian money. With this Brazilian money they go to market and buy all they need and bring this merchandise to Germany and with the marks we bought we have to go to Germany and buy German products. Really, we open a credit with Germany which is paid when the merchandise enters Brazil. They buy some cotton in free market and coffee just to justify because always we have complaints against their selling our products to other countries.

HM, Jr: In Brazil they buy that?

Mr. Aranha: Yes.

HM, Jr: I guess it is just to keep your position uncomfortable.

(Question No. 8. Does the Bank intend to employ changes in the market rate for purposes of encouraging or discouraging imports or exports?)

Mr. Aranha: I think the free market will encourage everything in Brazil. We had the best experience. When the Secretary of the Treasury of Brazil came here the first time, we met a situation more or less like when the Banco de Brazil had 35% of the exchange and we freed only 65% and with this 65% everything improved, and when he came back the second time we had 20,000,000 pounds, but during the time we came here and went to Europe and returned to Brazil the man who was running the Treasury had an idea of raising the milreis. Naturally that built up the milreis, but we lost all our



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foreign exchange. Also, if you pass through our situation you will see that the German commerce will be changed. They sell their money and we give them milreis. They buy our merchandise and we bring their merchandise to Brazil. Now it will be changed. It is our own experience. In this matter the Banco de Brazil will have the monopoly because the German banks are acting in Brazil like a pump and trying to sell and buy and increase their business. After a long experience and also against German Government, we think we have to reduce the freedom of these banks. When I arrived in Rio I realized that the Americans who wanted dollars were buying dollars in German banks. During the time the man was trying to build up the milreis, German banks were taking advantage of it. I was against it. But if we didn't have the biggest value of the mark and not an oscillating one that will give them trouble.

Mr. Caffery: We must know at what point that is fixed; as a starting point, at what rate you fix the mark. We must know that.

Mr. Aranha: We have studied all sides to discover how they operate. We have a basic interest to discover this. Perhaps all the technical men can get together.

Mr. Caffery: If your mark is undervalued to start with, where are we? It will only fluctuate in relation to the original starting point.

Mr. Welles: I understood that you asked Feis to make a suggestion.

HM, Jr: This is the first time I have heard it. I agree with the Minister that this is something for the technicians to work on. Is it agreeable to you, Mr. Welles, that Dantas and my people plus Mr. Feis should discuss this point? We went all through that when we organized the Tripartite Agreement with England -- at what point would we start the Pound and what margin. It is a very difficult thing. I would like to ask -- your proposal is that 10% of the amount of each bill of exchange purchased will be set aside and deposited with the Banco de Brazil?

Mr. Aranha: No. The Banco de Brazil will buy

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10% from the commercial banks who will buy the exchange in the market.

HM, Jr: That leads me to the next question. You set aside this 10%. Let's say that we are successful in arranging the \$20,000,000 foreign exchange. We will buy \$20,000,000 worth of milreis. Having done that, how long a term will you want and how rapidly would you pay that off?

Mr. Aranha: We can pay in 6 months to a year. What we want really is just to know that this margin is possible, when it can operate and work, and under what conditions. Without these possibilities which we have in other countries it is impossible to keep our commerce with the United States going and coming.

HM, Jr: But this is a little different. It is an exchange operation and not a credit operation.

Mr. Caffery: What he is really asking is an overdraft facility.

Mr. Lochhead: We make an arrangement under which we would buy milreis and give you dollars. The Stabilization Fund is not in a legal position to make loans. We can buy foreign exchange, which is like loaning money to you.

HM, Jr: If I understand it, we buy from the Bank of Brazil \$20,000,000 worth of milreis and deposit dollars with the Bank of Brazil.

Mr. Lochhead: We can only deal in foreign exchange.

Mr. Aranha: That is satisfactory.

HM, Jr: That gives you what you want?

Mr. Lochhead: \$12,000,000.

Mr. Aranha: Not immediately. There are months in which we sell more and months in which we sell less and that is the problem to keep an equalization fund for commerce like you have for exchange. When we have drop in coffee we could not pay anybody.

Mr. Welles: Contingent commitment on the part of equalization fund.

Mr. Lochhead: It is not using \$20,000,000 right away, but it is interesting to know that you can move up to a certain extent for certain shortages.



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Mr. Aranha: I think the best thing for us to do is to agree not about a certain amount, but the amount necessary to pay the arrears. The proportion that we pay arrears you will buy milreis, but that will in any case not go over \$20,000,000.

HM, Jr: The way I understand it, under the stabilization fund we have certain transaction that we can or cannot do. We have not unlimited facilities. The actual mechanics would be that we would send \$20,000,000 down to Knoke, who is our agent in New York, and Knoke would buy from the Bank of Brazil \$20,000,000 worth of milreis. The milreis purchased would be left in Brazil as collateral. This would be at your disposal to use to pay American merchants for regular commerce.

Mr. Lochhead: It would not of necessity be available at once.

Mr. Aranha: You will buy in proportions that we will need until the limit of \$20,000,000.

HM, Jr: The reason I am asking so many questions is that I have to explain it to our Congress. The thing which is not quite clear to me is that you will use -- we will put at your disposal up to \$20,000,000 for you to use as you need. I want to explain that the Bank of Brazil is going to withhold 10% of all foreign exchange -- what is it in your mind? From 6 to 12 months? -- because we have to have a limit. I would like to say to Congress -- I had a year in mind.

Mr. Aranha: Eighteen months -- will be \$1,000,000 a month -- 1 year and six months.

HM, Jr: Twelve months would not be enough?

Mr. Aranha: We have all blockades to pay.

HM, Jr: You say eighteen months. Out of that 10% you would pay us back so much a month so that at the end of eighteen months it will all be paid.



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Mr. Aranha: Yes. That can be before. I am calculating \$1,000,000 a month.

HM, Jr.: At the end of eighteen months you will have bought back dollars and we will release milreis. Over a period of eighteen months you will pay back \$1,000,000 a month.

Mr. Aranha: Ten percent of our total exchange will be \$30,000,000.

Dr. White: How much do you owe the Export-Import Bank from the other operations?

Mr. Dantas: \$20,000,000 to \$22,000,000.

Mr. Welles: Just here?

Mr. Aranha: No. Altogether it is \$22,000,000. I would say about half of that here.

HM, Jr.: If we were able to do this and this \$20,000,000 would be made available at once and over a period of 18 months you would repay at the rate of \$1,000,000 a month -- is that what you have in mind?

Mr. Aranha: Not exactly. Certain months we could pay more.

HM, Jr.: As rapidly as convenient.

Mr. Lochhead: Ten percent of the total exchange obtained would be available for the repayment of the loan of \$20,000,000 and for other purposes.

(Dr. Feis had arrived at the meeting a few minutes before and at this point made the following remark.)

Dr. Feis: Perhaps I can explain it. Brazil has two other notes. The first series, 60 months; the second series, about the same number of months but since 1934; the other, since 1937. They have paid off all of the first series except a half dozen and they have paid off a considerable number of the second. Those are maturing monthly. Ten percent would give them funds to pay off a series of notes and make payments of new arrangements.

Dr. White: You speak of this as a revolving credit. Would the idea be that this should be totally extinguished

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at a given date or would it remain in existence for use of Brazilian authorities to take care of other situations as they may arise in the future?

Mr. Aranha: No. If the exchange will be free we will not need that.

Dr. White: Does that mean that 17 months from now you might owe \$17,000,000?

Mr. Aranha: Yes. That is possible.

(At this point, Mr. Aranha became very, very angry and in answering White he said, "I cannot, I cannot think of the word to answer you. Perhaps it is best that I do not know. HM, Jr, in order to break the tension, began to laugh and Aranha laughed with him, though he appeared to be quite upset.)

HM, Jr: How will that work from the standpoint of the Guaranty Trust?

Mr. Knoke: At all times they can give all facilities of credit that they want to.

HM, Jr: Will the New York banks do business through you or directly?

Mr. Knoke: They will do it as they have done heretofore.

HM, Jr: This will encourage them to loosen up.

Mr. Knoke: As my personal opinion, yes.

Dr. Feis: For the present we should hope that it will not.

1. What is the total of exchange arrears due to American exporters (a) on exports from the United States? (b) On exports from third countries?
2. Could we be supplied with a list of the American concerns for whom exchange has been requested and to whom contracts have not been issued?
3. What is the total of arrears to all other exporters by countries -- both in free currencies and compensation currencies?
4. Whom do you propose to supply with foreign exchange out of the \$20 million?
5. Do you think that Brazil will have adequate exchange to meet outstanding contracts as they mature?
6. Did any of the present exchange arrears arise from imports received before January 1, 1938?
7. How much free exchange has been granted for imports from Germany during 1938?
8. Does the Bank intend to employ changes in the market rate for purposes of encouraging or discouraging imports or exports?
9. Is it the intention of the Brazilian Government to employ any of the \$20 million to provide exchange for remittances of profits or dividends?



DINNER TO BE GIVEN BY THE SECRETARY OF TREASURY IN HONOR OF HIS  
EXCELLENCY OSWALDO ARANHA, MINISTER OF FOREIGN RELATIONS OF  
BRAZIL, ON MONDAY, FEBRUARY 13, 1939, AT 8:00 P.M., AT 2311  
THIRTIETH STREET.

His Excellency  
Oswaldo Aranha,  
Minister of Foreign Relations  
of Brazil.

Mr. Luis Simoes Lopes

Mr. Joao Carlos Muniz

Mr. Marcos de Sousa Dantas

Mr. Sergio de Lima e Silva

Mr. Mario da Costa Guimaraes,  
Charge d'Affaires ad interim of Brazil

The Honorable  
Harry A. Hopkins,  
The Secretary of Commerce.

The Honorable  
Key Pittman,  
United States Senate.

The Honorable  
Sol Bloom,  
House of Representatives.

The Honorable  
Jefferson Caffery,  
The American Ambassador to Brazil.

The Honorable  
Sumner Welles,  
The Under Secretary of State.

Dr. Herbert Feis,  
Adviser on International Economic Affairs,  
Department of State.

Mr. Ellis O. Briggs,  
Acting Chief, Division of the American Republics,  
Department of State.

The Honorable  
Marriner S. Eccles,  
Chairman, Board of Governors, Federal Reserve  
System.

The Honorable  
Jesse H. Jones,  
Chairman, Reconstruction Finance Corporation.

The Honorable  
O. Max Gardner  
Former Governor of North Carolina.

The Honorable  
Warren Lee Pierson,  
President, Export-Import Bank.

The Honorable  
John W. Hanes,  
The Under Secretary of the Treasury.

The Honorable  
Wayne C. Taylor,  
Assistant Secretary of the Treasury.

Mr. Archie Lochhead,  
Technical Assistant to Secretary of Treasury.

Mr. Harry D. White,  
Director, Monetary Research,  
Treasury Department.

Mr. Morgenthau

Mr. Luis Simoes Lopes

Combination Head of Budget and Civil Service, charge of appointments, promotions, etc. Next to Cabinet members - works with each of them.

Mr. Joao Carlos Muniz

Brasilian Foreign Office. Principal aide to Mr. Aranha.

Mr. Marcos de Sousa Dantas

Civilian Representative, Bank of Brasil.

Mr. Sergio de Lima e Silva

Friend of Mr. Aranha. Assists him. Second Secretary, Brazilian Diplomatic Service.



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# TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE 2-11-29

TO Secretary Morgenthau  
FROM Mr. Foley, Acting General Counsel

Re: Authority to use the stabilization  
fund to purchase Brazilian milreis.

It is contemplated that the Secretary of the Treasury, with the approval of the President, will purchase Brazilian milreis with dollars, employing the stabilization fund, Brazil agreeing to repurchase such milreis at the same rate of exchange at which the milreis were purchased on behalf of the United States, and Brazil also agreeing to use the dollar credits for the purpose of discharging obligations recently incurred by Brazil and persons residing in Brazil in purchasing commodities and importing them into Brazil, with priority being given with respect to commodities imported from the United States. Since the primary purpose of the transaction is to relieve the pressure on the Brazilian milreis resulting from accruing unpaid obligations and blocked balances, the effect of the transaction is to facilitate stabilizing the rate of exchange between the dollar and the milreis, and it is therefore a transaction which may lawfully be carried out by the stabilization fund, the purpose of which is to stabilize the exchange value of the dollar. The legality of the use of the stabilization fund is not affected by the fact that such transactions may also have the effect of facilitating trade between Brazil and other countries, including the United States.

Agreements have been entered into in the past for the purchase with the stabilization fund of Brazilian milreis, Mexican pesos and Chinese yuan, Brazil, Mexico and China, respectively, agreeing to repurchase the respective currencies. The fact that in each of these cases the United States was secured 100% by gold or silver affects merely the expediency of entering into the arrangements but does not affect the lawfulness of the use of the stabilization fund for such purposes. It should also be noted that in these cases no restriction was placed on the use by the foreign country of the dollar credits made available, whereas in the present case the purpose for which the dollar credits may be used is limited in such a way as to greatly facilitate the maintenance of a stable dollar-milreis rate.

The indicated purchase of milreis would not appear to be prohibited by the Johnson Act, 48 Stat. 574 (U.S.C. title 31, sec. 804(a)), which prohibits certain financial transactions with foreign governments in default on their obligations to the United States, since (1) the Johnson Act apparently does not apply to the United States Government, it not being named therein; and (2) the Government of Brazil is not in default on any of its obligations to the Government of the United States.

There does not appear to be any legal objection to the dollar credits available to Brazil under such arrangement being used by it to discharge obligations incurred by it in purchasing munitions.

## RE BRAZILIAN NEGOTIATIONS

February 14, 1939.  
10:00 a.m.

Present: Mr. Foley  
Mr. Lochhead  
Mrs Klotz  
Mr. Knoke  
Mr. White

(Discussion had already begun when reporter began recording)

H.M.Jr: Let me take the other side. Supposing there is some fellow that might have five thousand, ten thousand dollars in arrears, and he thinks we know that he has that. And that one fellow then goes to his Congressman, and then this Senator - ... "This thing was written just to leave me out." The suggestion that I'm making is that they should use this to pay up their arrears. That's the thought. Now, why date it at all, unless they ask for it? I mean unless they say, "We want a date," why not make it all-inclusive?

White: They have some promises to pay - contracts; they have these so-called congeladas - which means freezing - which come due periodically: 12 million this year, 2 million the next year, which is not included in the sums which they expect to clear up at once, because they feel they have cleared that up by giving their promises to pay; and they have been meeting them. They may prefer to have it the way you suggest, which might make it possible for them to clear up some of those. They didn't say so, though.

H.M.Jr: May I offer this as a suggestion, unless you people disagree. Why not let the thing read "arrears" and don't date it, and then if they insist on a date let them argue for it.

What do you think, Knoke?

Knoke: Well, yes, only I want to say this: that I feel as Mr. White does, or my understanding was that January 1, 1938, included everything, because everything prior to that, in my opinion, was taken care of by

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these congeladas. But I think it is very much worth while clearing that up.

H.M.Jr: You mean to approach it with their - not with any date.

Foley: January 1, '38, you mean.

Knoke: It seems to me a date is preferable, because it seems a more concise form; but you want to be sure that this date does cover everything.

H.M.Jr: I'm thinking of some fellow that might have just a small amount and he's left out.

Lochhead: I'm afraid some fellow is going to say he exported five thousand dollars worth of commodities back in 1925, and he goes to the Brazilians - "Say, this credit was set up to bail me out. I want to be bailed out."

Foley: Cause a lot of dead claims.

White: I like Mr. Knoke's suggestion of pushing this date back to January 1, 1938, or January 1, 1937, something like that.

Lochhead: Have to keep it within some reasonable period.

Foley: January 1, 1938.

H.M.Jr: Well, the way I would do this, I'd say - I'd leave it - have they said September 1?

White: No, they merely said they've got no arrears before that time.

H.M.Jr: Well then, I'll take January 1, ...

White: ... '38.

Lochhead: I think that would be all right, unless - originally we were talking about January 1, 1937.

H.M.Jr: It was mentioned yesterday. That's why I was surprised ....



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Foley: It was '37 yesterday.

Lochhead: It was '37 in the first, then it was changed to '38.

Foley: Yes.

H.M.Jr: Yes.

Foley: We'll have to rewrite that, and also the one to the President too, Mr. Secretary.

Lochhead: In number two you're skipping out this thing about American products.

White: They skipped it very definitely. They didn't want it included; very specific on that point, both Dr. Aranha and the assistants.

H.M.Jr: "Acquiring American commodities and importing them." Well, what's the point you're making, Archie?

Lochhead: Do they do it purposely because they don't want to pay for this oil? I'm just saying, one of the biggest ones down there is your American oil companies. You're just squeezing it out of them.

White: He did not make that clear.

Lochhead: That deprives those companies - American companies from being paid for the goods they brought in.

H.M.Jr: Well, you say "acquiring American commodities and importing them from this country into Brazil."

Foley: He says suppose they were imported from Venezuela, even though they were commodities owned by an American company.

White: And Aranha said they were using the funds in Peru, Colombia, Venezuela, and so forth, and he seemed to feel they were abusing some privilege they had. But he did not make it clear. But they specifically wanted to exclude that from the payment.

H.M.Jr: Well, isn't Dantas coming down?

White: Whole group is coming down - Dantas in it.

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H.M.Jr: Is he bringing his daughter?

Foley: Oh, that fellow they brought down from the Embassy yesterday.

H.M.Jr: I thought I just was teasing; I wondered.

Lochhead: Very pretty girl.

H.M.Jr: Say, listen, you tell Chen that from now on I think that there should be a hostess in the Chinese Embassy, and with Madame Wellington Koo in this country that she would grace the Embassy very well. Did you see her picture in the New York Times, the Magazine Section?

Lochhead: No, but I know a couple of people who think she's a rather interesting person. But I don't know if it would help out Mr. Chen to have her in the Embassy.

H.M.Jr: Well ....

Lochhead: She has quite a few ideas of her own, what she wants and so forth.

H.M.Jr: Well, I think we ought to.

Knoke: May I just ask one question. What is your intention as regards this question here? Should oil shipments to Brazil be included irrespective of the origin of the oil?

H.M.Jr: I don't know, Mr. Knoke. I don't know. I mean - well, let's just take a hypothetical case, for instance, see, which may not be so hypothetical. Supposing some oil comes down to Brazil from Mexico and it comes out of American-owned wells, owned by the Standard Oil Company of New Jersey but shipped by the Mexican Government, and then the Standard Oil Company comes in and says, "That's our oil and under this arrangement we should be paid."

Or I'll make it easier. Let's say it's a Standard Oil Company in Venezuela and they own it and there's no question about it. I'd like to get it - I just don't know.

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Foley: Well, I feel, Mr. Secretary, ....

H.M.Jr: I don't know.

Foley: ... if you get away from the United States you get into difficult questions of interpretation and you get into controversial matters that you don't have to take on if you cut it off and say the stuff has to come out of the United States.

H.M.Jr: When you get into the third country.

Foley: Yes.

H.M.Jr: Let's say that Mr. Ford will ship tractors from Ireland, which is where he has a factory. He's getting out a new tractor; he has a plant in Ireland. He ships tractors from Ireland to Brazil. Now, there's a good case - not oil, but tractors from his plant. Or General Motors will ship automobiles from their German - what's the plant they own in Germany?

Lochhead: Opel.

H.M.Jr: The Opel plant. Now, should General Motors come under this for Opel cars made in Germany and shipped to Brazil?

Knoke: Why, surely. But I would say, suppose the Austin people have a plant in the States and ship their Austin cars to Mexico.

H.M.Jr: To Mexico?

Knoke: To Brazil.

Foley: That's the product of American labor, that's O.K.; that's helping home industry.

H.M.Jr: That would be all right.

Foley: But this other question, Mr. Secretary, raises ....

H.M.Jr: Or take, for instance, Lux Soap, which I think is owned - controlled in London, manufactured in Cincinnati. They ship down there; they'd be all right.



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White: There's another possible objection. The only companies involved in this third country business are two big oil companies, and the fact that American funds are being loaned to liquidate exports from a third country owned by a big oil company might raise difficulties. I wonder if that hadn't better be postponed until we find out what was in their mind, because they seemed to strenuously object to it.

H.M.Jr: I think so. I think there is something that Ambassador Caffrey could throw a little light on. I mean I think definitely that he ought to throw a little light on that.

Now, shall we go ahead?

"3. To require all exports of commodities from Brazil to sell to it ten percent of the foreign exchange obtained in connection with such exports."

Now, is that all exporters of commodities from Brazil? I see - just of commodities. You don't know how much that would amount to?

White: They estimate about 300 million dollars, which is probably a little bit optimistic, because they have to deduct their German trade, from which they don't get foreign exchange.

H.M.Jr: "4. Apply one million dollars of foreign exchange monthly to liquidate certain milreis balances....." Now, is that the same 12 million dollars mentioned above?

White: They both happen to be 12 million dollars.

Lochhead: I think that 12 million dollars down below - that was 2; 12 million the first year.

White: 2 million the second.

Lochhead: So that figure should be increased to 14 or 15 million.

White: For the 18-month period.

H.M.Jr: "The balances of foreign exchange thus made available will be used periodically to repurchase the milreis

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held for our account." That's all right.

Knoke: May I interrupt for a moment?

H.M.Jr: Please.

Knoke: Number three is technically not quite correct. It's not the exporter who is required to sell the exchange, but it's the bank that buys the exporter's bill ....

H.M.Jr: Well ....

Knoke: ... which is required to sell the exchange. I don't know the particular ....

H.M.Jr: I'd put that in, because the more you do the easier it is for me to explain when I go on the Hill.

"Since the primary purpose of the transaction would be to relieve the pressure on the Brazilian milreis resulting from current arrears, the effect of the transaction is to facilitate and stabilize the rate of exchange between the dollar and the milreis; it is therefore a transaction which may be lawfully carried out by the stabilization fund, the purpose of which is to stabilize the exchange value of the dollar."

I think that that ought to be explained.

"Since the primary purpose of the transaction would be to relieve the pressure on the Brazilian milreis..." I'd put it the other way around; I'd talk about the milreis-dollar relationship.

Lochhead: You talk as little as possible about it. I still feel that if you're going to take ten percent of the exchange out and let the milreis fall to correct the balances, you're not going to do much balancing for a while.

H.M.Jr: How many milreis to the dollar?

Lochhead: Be about 17 to 20. My point is they're going to control - if there are too many exports, they're going to control it by letting the rate drop. No doubt about it. Can you go to Congress and say that this, in effect, is going to stabilize the rate?

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White: The answer probably is, if you don't do this, it might fluctuate more, so that you can say you're helping to stabilize it; not stabilizing it, but just contributing to it.

Lockhead: If you want to do something about helping the relation, sure; but to say you're stabilizing it ...

Foley: You've got to tie it in; that's the only lawful purpose for which the fund may be manipulated.

H.M.Jr: You're right.

Foley: I'm trying to find a legal basis for this.

H.M.Jr: You're right. I think this ought to be developed more; we ought to talk about the dollar-milreis rate and not about the fact we're trying to relieve the pressure on the Brazilian milreis. What we're trying to do is keep the rate between the dollar and milreis at an advantageous basis to the American exporter. We want to keep that on a basis so in the world competition the American exporter will have a dollar-milreis rate - that when he meets competition from other countries in Brazil he'll be at an advantageous basis; and that's why we're doing it. If that isn't the reason, I want to know.

White: well, it's just going to contribute a little toward that. It's going to contribute some. But it will be just a contribution.

H.M.Jr: That's the way to word it.

Foley: If we can substantiate that, we're all right.

H.M.Jr: Ought to put in - talk about the dollar-milreis rate.

"In view of the current speculations as to the uses to which the stabilization fund may be put, it seems to me to be expedient to discuss the proposal with Congressional leaders."

No, I would say that quite differently. I would say: "In view of the fact that this would be the first time that we make an unsecured ..." - I don't want to use the word "loan."



White: "Investment."

H.M.Jr: "Transaction."

White: "In view of the fact that this transaction departs..." -  
I'd say "In view of the fact that the nature of this  
transaction departs from the customary ....."

H.M.Jr: Something like that.

Lochhead: More general.

H.M.Jr: I don't want to put "In view of the current specula-  
tions as to the uses..." I want to leave that sen-  
tence out entirely. But I'd say, "In view of the  
fact that this transaction is different...."

Lochhead: Yes.

H.M.Jr: That if we went through with it, this would be the  
first time. wouldn't it? Something like that.

Foley: We can rewrite that.

H.M.Jr: I don't want to say - even have it in writing about  
the current speculation. It's perfectly true, if  
it hadn't arisen I wouldn't be asking for this. But  
I don't think the President would want me to say it.  
And I'm glad you left out the room for approval by  
the President.

I'd like to have that before I go up.

Lochhead: Do you think you could in some way show somewhere  
that you're getting interest on your funds that are  
put out?

H.M.Jr: Yes, that's a good point

Lochhead: See, milreis plus interest.

Knoke: You're not discussing the question of the rate at  
all.

Lochhead: We don't have to put the rate; but we know there will  
be interest.

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H.M.Jr: Last night I had a chance to say a few words to Key Pittman, and I said, while I was a little previous, I'd most likely come up to the Hill to discuss this matter with him.

He said, "What are you proposing to do?"

I said, "What we're proposing to do is to unfreeze their foreign exchange and make it possible for them to go ahead and do business with us."

He said to me, "Well, that's wonderful. Do you mean to say that Cordell Hull is going to let you do this?"

I said, "Yes, he is."

"Well," he said, "that's the best suggestion I ever heard." He said, "I'm for it. Come on up and I'll help you." And then he said this. He said, "Well, which Committee will it go to?"

I said, "Does it have to go to a Committee?"

He said, "Yes, better have your discussion in the Committee, not on the floor of the Senate. I would think it better go to Finance rather than Banking and Currency."

But he said, "This is fine, this is just the kind of thing - this is what we should use our money for," and he said, "This is fine." He said, "I never thought you could put it over." He said, "This is the most sensible suggestion I've heard yet."

Foley: That's awfully good support.

Knoke: Who's the Finance Committee?

H.M.Jr: Pat Harrison, while he's South and cotton, he is friendly to the Treasury - very friendly.

But I can't - I don't know how the President is going to react to this thing - I mean the concurrent resolution; but I won't go one step with this unless I get it, and Sumner Welles is backing me a hundred percent; he said I shouldn't go one step without an approval of the Senate and House, and I won't do it.

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White: Well, I think, then, the thing to do is to make clear in the memo to the President the difference between this and the customary operation, which would be justification for that.

H.M.Jr: That's all right.

Now, Mr. Knoke, what I want to ask you is this. I thought the State Department handled one part yesterday very badly; that is, Herbert Feis came in late and all of a sudden he talks about the milreis market. I don't know how you feel, but my own feeling is that we better not try to tell the Brazilian Government how to run their currency in relation to currencies other than the dollar-milreis. I mean I think when we begin to tell them how to handle the milreis-mark or the milreis-pound or the milreis-something else, we're treading on pretty dangerous ground.

Knoke: You ask how I feel. I said to Dr. Feis yesterday that I didn't think it had any place in our agreement, but he didn't agree a bit with me.

H.M.Jr: Well, I think it was most unfortunate he wasn't here. Now, I don't think Feis really quite understands it. I don't think Ambassador Caffrey quite understands it.

Incidentally, I do want that thing in writing about that gold. Let me just call up Sumner Welles.

(On phone) Sumner Welles.

Knoke: It's probably in the mail now.

H.M.Jr: I think there is this justification for your position. They are competent to decide what is in their best interest in that respect. If you ask them to do something other than what they decide, it is because you are putting screws on as a quid pro quo for this; and that seems hardly the thing to do, because you're asking them to set their rate of exchange with a third country, in which there are usually matters of definite sovereignty. Raises a lot of problems: we haven't got a tripartite agreement, and the rest of it.



H.M.Jr: I'll make another forecast. If we do it, the details will be out. "The United States Government Bribes Brazil.." - this will be the German - "...With Twenty Million Dollars in Order to Hurt Germany."

White: And there are a half dozen different ways of getting around it, even if they don't fix the rate.

Knoke: Doesn't make a bit of difference in the long run. Any government that is determined, as Hitler says, to export or die, will ....

H.M.Jr: Will export.

Knoke: ... will export, and subsidize exports to the point that it can export. Now, the rate won't, in my opinion, make a bit of difference.

White: It will make some difference.

Knoke: Well, all right.

White: I think Aranha was right.

Lochhead: For us to try to determine the rate - I mean you've had all this thing with your dumping; can't even determine a rate for our own thing.

White: What it becomes is a bargaining proposition.

H.M.Jr: (On phone) Hello. (Conversation with Sumner Welles follows:)

February 14, 1939.  
10:23 a.m.

HWJr: Hello.

Operator: Mr. Welles.

HWJr: Hello.

Sumner

Welles: Hello, Henry. Good morning.

HWJr: How are you?

W: We had a very nice evening at your house.

HWJr: Thank you, I enjoyed having everybody. Sumner, I've been talking with my people about the meeting they're going to have at eleven o'clock with the Brazilian experts--

W: Yes?

HWJr: And we're -- as far as ourselves are concerned, I think we're in accord. They've drawn up a new memorandum. I don't know whether anybody is coming over from the State Department, but I wish there would be somebody.

W: I think Feis ought to go over. I'll get in touch with him. At eleven o'clock you say?

HWJr: Yes.

W: Yes.

HWJr: Here's the point -- if you send Feis, I wish that you'd give him instructions in regard to the particular thing about this question of the new relationship with

W: That's what I have in mind.

HWJr: And whether you'd like us to handle it -- let our Foreign Exchange people handle it as a part of this twenty million dollars -- or whether you want to handle it separately.

W: I think it ought to be handled as a part of it, and I'll tell him so.

HWJr: And if you don't mind, I think on that particular phase you've had quite a lot of experience which is useful.

W: Oh, I think it's infinitely better -- for your people to handle it.

WJr: After all they're in it, and they're technicians in that particular field.

W: I quite agree.

WJr: And if you'll let us handle it, we'll do it as best we can.

W: I think it ought to be done just that way and I'll tell him so.

WJr: Thank you.

W: May I ask you a question?

WJr: Please.

W: Don't you think it would be well, since the time is going, if you could have a meeting with Aranka -- possibly one or two of his people this afternoon in order to talk over more specifically and more detailed version of the idea of the corporation?

WJr: All right, and if I do I'll have Jesse Jones here.

W: I think that would be a very good idea.

WJr: Well, let me just look at my calendar.

W: Yeah.

WJr: We can start in here at -- would two-thirty crowd him a little bit?

W: I don't think so.

WJr: What?

W: I don't think so. I think that would be all right.

WJr: Well, I will -- I'm available at two-thirty.

W: All right. I'm expecting him now.

WJr: And--

W: And I'll tell him that you'll expect him at two-thirty.

WJr: And I'll ask Jesse to be here.

W: All right. Now, I'll have Caffrey go over with him, because I won't be able to get away from the office.



HMJr: At two-thirty?

W: At two-thirty.

HMJr: Right, and -- and you will talk to Feis?

W: I'll talk immediately.

HMJr: Thank you.

W: All right, Henry. Thanks.

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White: I thought ....

H.M.Jr: (On phone) Mr. Jesse Jones.

White: I thought yesterday you said you didn't want us to go into that matter with them, to let them do whatever they see fit.

H.M.Jr: We'll go into it and let them do whatever they see fit.

White: I see.

H.M.Jr: Isn't that what you understand?

Lochhead: I was a little bit confused when you called Welles - gave him the idea we were going to settle the question.

H.M.Jr: We're going to settle it in the sense ....

White: We'll discuss it academically.

H.M.Jr: I mean you take it up - I want you to approach it and talk to them about it, and then after you've talked it over, if you can do something, all right, and if you can't - but I mean, in other words, the responsibility is with you gentlemen. I mean what I said to Welles - I want the responsibility. Didn't I make it clear?

Foley: Yes, you did; very clear.

H.M.Jr: I mean I wasn't trying to prejudge the thing.

White: You made it clear to him, but now it's clear to us.

H.M.Jr: (On phone) Hello. - Tell him it's important, I'd like to talk to him. - Please.

The point that I got over - don't know whether you got it - that the Treasury will take on that part of the negotiation - I mean the foreign exchange of Brazil not only in relation with Germany but in relation with anybody. Now, in discussing it, can we go beyond talking to them about the dollar-milreis? Can we talk about the Jap yen-milreis? If not, that's

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for you - but the understanding is that we're going to carry it and not do what they did yesterday morning; they had a big discussion over in the State Department about it yesterday.

Is there any doubt in your (Klotz) mind? Didn't I make it perfectly clear?

Klotz: I thought so.

White: You made it clear to him, but we were under the impression that you felt we oughtn't to get into that ....

Foley: ... because of what you said earlier.

H.M.Jr: No, what I'm saying is - what I want to say to Feis is that when he comes over the Treasury will carry that, the technicians here will carry that. You may find when you get into discussion that maybe you can get something, that they'll say they'll vary it 20 percent up or down from a mean base. I don't know, there may be possibilities; I'd go into it.

White: The instruction is clear now.

H.M.Jr: I'd go into it, I'd raise the point. I'd raise the point about milreis-sterling.

White: There's one point about the loan...

H.M.Jr: No?

Lochhead: I think as long as we're - that'll come in there automatically.

H.M.Jr: Well, anyway, ....

Lochhead: That'll be automatic.

Knoke: That'll take you too far.

H.M.Jr: What I said yesterday to Mr. Welles - I said, "Sumner, do you want us to rush this thing through and get this thing through without any strings, and do you want to leave the other, the corporation idea and the rest of that, for use for trading purposes, or what do you want?"



He said, "Yes, rush this thing through, get it through, and there will be no strings on it; we'll use other things subsequently."

White: You don't feel that you've given Welles the impression now that since we have the responsibility and then later if we decide not to accomplish anything he'll say, "Well, that's why we didn't get anything. We let them handle it; the result is we got nothing out of it."

H.M.Jr: No, Welles is so delighted with what I'm doing, he tells everybody.

(On phone) Hello. (Conversation with Jesse Jones follows:)

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White: There is just one aspect of this loan that I don't think was clear before that becomes clear now: that they never will borrow more than 12 million dollars; pay it off at once, won't increase it, and decrease it; starts practically at 12 and goes steadily down. They said they don't need more than 12 - may need 13 or 14.

H.M.Jr: Why do they take 20?

Knoke: The answer is they can't determine at this moment the total of arrears.

February 14, 1939.  
10:32 a.m.

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HMJr: Jesse--

Jesse

Jones:

Yeah.

HMJr:

The reason I'm bothering you is that the State Department has asked me to start at two thirty this afternoon with Brazil on the question of credits -- commercial credits. Hello?

J:

Yeah.

HMJr:

I'd like very much if you could sit in with me and help me.

J:

Where?

HMJr:

At my office.

J:

Two thirty?

HMJr:

Yeah.

J:

I'd be glad to.

HMJr:

Thank you. Now, I will send you over to your office a memorandum which they have given us on that and if you could read that before you come you'll get the idea.

J:

All right, fine.

HMJr:

Two thirty.

J:

Fine.

HMJr:

Thank you, Jesse.



FEB 14 1939

My dear Mr. Welles:

I am enclosing a draft of a proposed Concurrent Resolution with respect to the purchase of Brazilian milreis which has been revised in the light of our conference of yesterday with Dr. Aranha. I shall appreciate your telephoning me any suggestions or criticisms you may have in respect of it.

As soon as I have been able to arrange a time for us to discuss this matter with the President, I shall let you know.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary

Hon. Sumner Welles,

Under Secretary of State.

Enclosure

Sent by hand to the Under Secretary at 10:40 A.M. (2/14/39)

cc: *Amelin*

cc: *for Heller*

cc: *not J. H. Morgan*

*E. J. H.*  
H. J. H. / J. H. H. / J. H. H. 2-15-39

## A CONCURRENT RESOLUTION

With respect to the purchase of Brazilian milreis

WHEREAS, in negotiations between duly authorized representatives of this Government and the Government of Brasil consideration has been given to the purchase of Brazilian milreis with dollars in an amount not exceeding \$20,000,000, employing for such purpose the Stabilization Fund established pursuant to Section 10 of the Gold Reserve Act of 1934, as amended, on condition that the Government of Brasil agrees, among other things, (i) to repurchase such milreis within eighteen months from the date of such agreement at the same rate or rates of exchange at which the milreis were purchased on behalf of this Government; (ii) to pay interest in dollars on the milreis balance at the rate of not less than three per cent per annum; (iii) to employ the dollar exchange so obtained exclusively for the purpose of paying or discharging obligations incurred on or after January September 1, 1938 by the Government of Brasil or any agency thereof or any person residing in Brasil in purchasing or acquiring any articles the growth, produce or manufacture of the United States and importing the same into Brasil from this country: Therefore be it

Resolved by the Senate (the House of Representatives concurring) that it is the sense of the Congress that it is desirable and in the public interest for the Secretary of the Treasury, acting with the approval of the President, to enter into an agreement with the Government of Brasil of the character described in the preamble of this resolution.

September" was changed to "January"  
by the Secretary at 9:30 meeting 2/14/39

FEB 14 1939

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(Signed) H. Morgenthau, Jr.

Secretary

Hon. Sumner Welles,

Under Secretary of State.

Enclosure

Sent by Hand to the Under Secretary at 10:40

cc: *Bernstein*

*J. W. Allen*

*not Chauncy*

*Initialed by SB - E & J Jr.*

*HMF, Jr. / JMS/aka 2-15-39*



## A CONCURRENT RESOLUTION

With respect to the purchase of Brazilian milreis

WHEREAS, in negotiations between duly authorized representatives of this Government and the Government of Brazil consideration has been given to the purchase of Brazilian milreis with dollars in an amount not exceeding \$50,000,000, employing for such purpose the Stabilization Fund established pursuant to Section 10 of the Gold Reserve Act of 1934, as amended, on condition that the Government of Brazil agree, among other things, (1) to repurchase such milreis within eighteen months from the date of such agreement at the same rate or rates of exchange at which the milreis were purchased on behalf of this Government; (11) to pay interest in dollars on the milreis balance at the rate of not less than three per cent per annum; (111) to employ the dollar exchange so obtained exclusively for the purpose of paying or discharging obligations incurred on or after January -September 1, 1938 by the Government of Brazil or any agency thereof or any person residing in Brazil in purchasing or acquiring any articles the growth, produce or manufacture of the United States and importing the same into Brazil from this country: Therefore be it

Resolved by the Senate (the House of Representatives concurring) that it is the sense of the Congress that it is desirable and in the public interest for the Secretary of the Treasury, acting with the approval of the President, to enter into an agreement with the Government of Brazil of the character described in the preamble of this resolution.

"September" changed to "January"  
by the Secretary at 9:30 meeting 2/14/39

February 14, 1939.

Dear Mr. Jones:

The Secretary of the Treasury has requested me to forward you the enclosed memorandum on the proposed Brazilian-American organization.

This will form the subject of discussion at the meeting with Dr. Aranha at 2:30 this afternoon.

Sincerely,

Private Secretary.

Honorable Jesse H. Jones,  
Chairman of the Board,  
Reconstruction Finance Corp.,  
Washington, D. C.

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Honorable Jesse H. Jones,  
Chairman of the Board,  
Reconstruction Finance Corp.,  
Washington, D. C.



February 14, 1939.  
2:15 p.m.

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HMJr: Hello.

Operator: Mr. Welles.

HMJr: Hello.

O: Go ahead.

Sumner  
Welles: Hello.

HMJr: Sumner--

W: Yes, Henry?

HMJr: Now, I've had no luck with the President. I see he's cancelled all of his appointments. Now, I wanted to ask your advice about our going up on the Hill to speak to the leaders about this loan.

W: Well, I don't think that you had in mind to do that without talking to him, have you?

HMJr: Well, only what you said that -- he told us that whatever you and I agreed on we could go ahead. That's what I'm -- I wondered whether we better wait. I can wait if you think --

W: Well, I think it would be a happier situation if we could talk about it with him first. I -- I haven't called him up today. Have you spoken with him?

HMJr: No, no, I didn't want to. No, I just spoke to McIntyre.

W: I see.

HMJr: Kennee, or -- I don't know who it was -- somebody.

W: Yeah.

HMJr: And then I saw the ticker that -- no, I didn't want to bother him personally on the phone.

W: Well--

HMJr: You think it would be--

W: I think if we could drop in there sometime tomorrow perhaps it would be better.

HMJr: That's what I -- I again asked for an appointment for tomorrow.

W: Yeah.

HMJr: Your inclination would be to wait.

W: Until tomorrow, yes.

HMJr: That's all right with me.

W: Now, I received this morning that revised draft which you sent me.

HMJr: Yes.

W: I think it's entirely satisfactory but I wanted to lay these two thoughts before you. -- First of all, in the event that -- for some reason or other that we don't anticipate -- the Congress refuses to pass this Concurrent Resolution --

HMJr: Yes.

W: I want to have the very definite assurance that the Export-Import Bank could then undertake this transaction.

HMJr: You want the assurance from whom?

W: You.

HMJr: Me?

W: Yeah.

HMJr: Why not?

W: I don't see any reason why it shouldn't be done that way, do you?

HMJr: No, I mean, I don't have to give you any assurance.

W: No, I mean, I just want to be sure that you have no objection.

HMJr: Oh, I have no objection.

W: Because my feeling is that if the Congress objects, it would not be on the ground that they objected to the policy involved, but simply to the utilization of the Stabilization Fund for this purpose.

HMJr: No, or I'd go a step further if you'd rather do it through the Export-Import Bank in the first place, that's all right.

- 3 -

W: That's entirely a question for you to decide.

HJR: Well I think it's proper that it should go through the Stabilization Fund.

W: Well, that's the reason -- that's the reason that I took it for granted that you preferred it that way. The other thought I wanted to lay before you was, that if you asked the sanction of your utilizing the Stabilization Fund in this way, it might be -- it would seem to me, that some of those gentlemen who want to create as much trouble as they can -- might say that this is an indication that the Stabilization Fund has been used for similar purposes in the past, and they'd want -- would want to know all about it, and might create a difficulty that way.

HJR: Well, my method of approach was, I was going to talk to the Democratic leaders in both the Senate and the House, with whom I'm on perfectly friendly terms--

W: Yeah.

HJR: In an informal manner--

W: Yes.

HJR: Asking their advice.

W: I see.

HJR: And saying that before the Resolution would come up I'd want a guarantee from them that it's going to pass.

W: Oh, yes.

HJR: But if I couldn't get a guarantee, I wouldn't want it introduced.

W: Yeah.

HJR: I'm not going to take any chances.

W: Um-hm.

HJR: On getting turned down, formally.

W: Yes, because if anything of that kind did happen, as you know, it would completely ruin this whole visit.

HJR: Oh, quite. No -- and also when I go up on the Hill I'm going to ask you to go with me.



W: Oh, I'll be happy to do that.

HMJr: No, I agree with you. And -- in fact, I told that to Aranha.

W: Um-hm.

HMJr: I told him I was going up on the Hill, but I would not let it go to a vote unless I was ninety percent sure it would pass.

W: Yeah.

HMJr: So he knows that.

W: And in the event they tell you they can't give you the guarantee, and you decide not to go ahead with it, we'll have plenty to utilize the Export-Import Bank.

HMJr: That's right.

W: All right, Henry, thanks so much. I think in the present form it's fine.

HMJr: All right.

W: And I'll try and do what I can to be sure that we do get in tomorrow to see the President.

HMJr: Yes.

W: Thanks. Good bye.

HMJr: Good bye.

February 14, 1939

2:30 p. m.

Present:

Minister Aranha  
Mr. Dantas  
Mr. Jesse Jones  
Mr. Caffery  
Mr. Foley  
Mrs. Klotz

HM, Jr: Are you still having a good time?

Mr. Aranha: Very good!

HM, Jr: No ill effects from last night's dinner?

Mr. Aranha: It was a marvelous dinner and we were with good people.

HM, Jr: (To Mr. Dantas) I understand that you get along very well.

Mr. Dantas: I think it is all clear.

Mr. Foley: There are a few more details, but I think we made progress this morning.

HM, Jr: The State Department suggested that we might begin to talk with you about this development corporation if that is agreeable to you and I have asked Mr. Jones to come in because the Export-Import Bank and the R. F. C. are his children. All we do is just sign the checks and he does all the work.

Mr. Aranha: He did in the past when we had a blockade.

HM, Jr: This afternoon I will sit on the sideline and have you talk to Mr. Jones. I have not had any time to have a rehearsal with him and we will all talk it over together. As I said, Mr. Jones and I have had no time to rehearse, so we will do it before you.

Mr. Aranha: When I came here I suggested that we could have an insurance from your Government that if we would buy more or less \$50,000,000 in American merchandise we could do that in three years to equip our country and pay in ten years. That means that if we will need locomotives or railroads or any kind of equipment and we will come here and buy, and you will take care of your people here and they can sell to us more or less in the same conditions that the other competitive countries are trying to do for Brazil. The Secretary of the Treasury and Mr. Welles had in mind an organization, American and Brazilian, to develop all this equipment and do this through this form.

At the beginning I was a little skeptical about it and after I tried to talk to my people and hear from them and they explained to me that that would be a good device for this work and I met in one night with my associated. We made a suggestion. What occurred to us we put in a paper, without diplomatic arrangement, just what we feel. We are just now in this position.

HM, Jr: You stated it very well.

Mr. Jones: You mean just informally.

Mr. Aranha: We are now in this position to start the consideration of this idea.

Mr. Jones: You think you can use \$50,000,000 over a period of three years?

Mr. Aranha: That was my first suggestion. I came here and I told your Government we had to equip economically Brazil. We have to buy many things to start our steel factories, to build some roads, to equip our old roads. We need more or less 200 locomotives and 4,000 cars and we need rails. If you will tell us that we can buy in the United States up to this amount of \$50,000,000, we can do that in three years, but we cannot pay until ten years.

Mr. Jones: You will want an installment plan of ten years.



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Mr. Aranha: That is just generally the idea. We can arrive at five years. My idea was first to create here a market in this. We could buy these things and prefer to buy here than in Belgium, England and Germany -- countries which are offering us through barter to sell the same products.

Mr. Jones: Building roads. Did you mean highways or railroads?

Mr. Aranha: Railroads. We are building railroads, but we have to build more. We have to build 10,000 kilometers a year. That is the plan of the Government. 6,000 miles railroad a year. 200 locomotives and 4,000 cars.

Mr. Jones: How many miles of roads have you now?

Mr. Aranha: 26,000 miles.

Mr. Jones: I gather it was the idea to set up credit?

Mr. Aranha: We think we can do it in three years.

Mr. Jones: What about materials to come from your country to this? Will they pay in payment of this material?

Mr. Aranha: No. It was our idea to pay \$50,000,000. We could make an annual payment, like we did in the blockade. You remember you authorized that? Do a thing like that and the average will be that we will have \$50,000,000 now, but we will pay year by year -- \$5,000,000 a year. That will help tremendously our program.

The second idea is what the Secretary made and we studied it and we just gave our opinion of this organization.

Mr. Jones: Shall we consider the credits for this equipment on the basis stated without regard to bilateral trade?

HM, Jr: What they needed was about \$20,000,000 to clear up their back foreign exchange which presently exists. What we are discussing now is the proposal that through the Stabilization Fund we will buy from the Bank of Brazil \$20,000,000 worth of milreis and that we will

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give them a credit of \$20,000,000 through the Federal Reserve in New York. What we are doing is arranging so that they have \$20,000,000 of foreign exchange to pay debts owed to American merchants.

Mr. Aranha: We want to free exchange in Brazil. That is the object.

HM, Jr: As I explained to the Minister, if we did this and did it in this method, legally I have the right to do it under the Stabilization Fund, but it is a little bit different than anything we have done and, therefore, I want to consult Congress. But, as I explained to the Minister, if there was any doubt on the part of Congress and it was something that they did not want to do, then I would not push it. We might want to fall back on the Export-Import Bank. I have talked to Key Pittman about it and he was very enthusiastic. From our standpoint, the part we are handling here with the Minister is the credit to them of \$20,000,000 through the Federal Reserve.

Mr. Jones: That is not part of the \$50,000,000?

HM, Jr: Then comes the \$50,000,000, which can be liquidated but they will want from 5 to 10 years.

The third thing we will take up with them, whenever they are ready, is the question of discussing with them whatever assistance we might give in organizing their Central Bank.

Mr. Aranha: About the second point, this \$50,000,000, we want to be sure we can buy here in 3 years. About this you suggested this organization.

HM, Jr: Should I explain that? We have a lot of companies down there who have money invested, wholly American owned, and the thought I had was, after all, there is nobody who should be as much interested, for example, as a company like Swift & Company, etc. We should give them an opportunity to participate in this movement of a development corporation to help Brazil become more productive and if she does she can pay her debts easily and can buy more merchandise from us and we can sell more to them. Also, an opportunity will be given to Brazilians to subscribe to this. Then it is a question of our subscribing

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enough capital to make available further money which they can use solely for purchases here. The Minister said he would show us what other countries are offering. It is my thought. You may or may not like it. Rather than make this an exclusive United States operation, we tie in with these other people and knowing how you (Jones) have always operated, I thought it might appeal to you.

Mr. Jones: Would the \$50,000,000 credit be a part of that operation?

HM, Jr: Yes.

Mr. Jones: Then the loan by the Export-Import would be to that corporation?

HM, Jr: Yes.

Mr. Jones: The American-Brazilian corporation owned by American business in Brazil and in this country, and by the Brazilian Government.

Mr. Aranha: By the Government and also private.

HM, Jr: The control would be with the Brazilian Government.

Mr. Jones: The loans of the Export-Import Bank would be to that Corporation. That corporation would lend to your railroads.

Mr. Aranha: Yes.

(At this point Mr. Jones questioned No. 7 of Mr. Aranha's memorandum and Mr. Aranha gave a full explanation about the Itabira Iron Ore Company.)

Mr. Aranha: Brazil has more than one-third of the iron of the world. If we sell iron we can take coal back.

HM, Jr: They will have to buy a lot of coal because their coal is poor. We have a chance of selling them a



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great deal of coal.

Mr. Aranha: The Germans are big owners of manganese mines in Brazil. Our rubber comes from Amazona and the best rubber comes from that part of the world. The British asked us to give them plants for their botanical gardens. We did that and ten years after we gave it to them we just died because they planted everywhere and grow their own rubber.

Mr. Jones: In the case of the oil fields, in what way would you want to use your funds for that?

Mr. Aranha: We discussed oil in Brazil. Just now this company would work everything. We would use your money to develop that.

HM, Jr.: As I understand it, by subscribing Brazilian capital to this corporation, that that money will be used to develop local enterprises and the United States capital subscription would be used to buy the necessary machinery in the United States. Supposing we were able to arrange this \$50,000,000 credit. That would go for machinery here, but there would be no money to pay for labor in Brazil to bring up to the productive point. Therefore, taking part of the whole corporation we spread our risk and share in the whole picture.

Mr. Jones: We may be able to make some sort of an arrangement. I want time to think this over, but we may be able to work something out. The question of terms would depend upon the character of the material purchased and its probable life. If it were railroad equipment, would we have a lien on the equipment?

Mr. Aranha: Yes. That is in our suggestion.

HM, Jr.: Our first discussion was on Saturday. We talked about it on Sunday night. Then the Minister sent us a rough draft and today we have really begun to talk about it.

Mr. Jones: I think I have a pretty fair understanding of it and I would be glad to discuss it with you and others interested whenever it is proper that we should do so.

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Mr. Aranha: I am entirely at your disposal. In the beginning my preference was \$50,000,000 margin for our buyers here, but I think that can operate entirely separate because you have to allow your people to have some facilities here to sell and thus we can keep through the normal commerce, going and coming. We can do that in the normal way. Mr. Pierson went to Brazil and I believe he realizes that we have to help commerce to sell, like England is doing now and France is doing. I am not speaking of Germany and Italy. After I have studied this idea that the Secretary had in mind, I think it would work politically in a good way -- this development corporation.

HM, Jr.: (to Mr. Jones) I imagine that you will want to think this over and whenever you are ready you will see us.

I would like to make this suggestion. I think that Professor Williams and Governor Harrison will be here tomorrow and if you want to talk about Central Banks you can do that tomorrow. Have you any plans for tomorrow afternoon?

Mr. Aranha: No. I am at your disposal.

HM, Jr.: Will 2:30 be agreeable?

Mr. Aranha: We will be here.

(All those in the Secretary's office left, with the exception of Mr. Jones.)

HM, Jr.: This thing is so big and I want you to know, in view of what is happening on the Hill, I told Hanes that I will not go through with this thing unless I can get some kind of a resolution from Congress authorizing me to do it through the Stabilization Fund because it is an unsecured loan. There is no question about its legality. Our Ambassador sits here reading a newspaper and Dr. Feis paid no attention whatever as if to say, 'We are not interested in these negotiations.'

Mr. Jones: Do you think they are afraid of it?

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HM,Jr: No. I don't think so. Welles is enthusiastic and this is what he wants. You need time to think this proposition over?

Mr. Jones: I want to take plenty of time. My guess is, as far as the Export-Import Bank is concerned, that we will agree with you on this \$50,000,000 program. We will make available definitely 'X' million dollars and the balance if we can, according to our limitations.

HM,Jr: Aranha said that "we are about in the same position that Russia was in 1922. Russia went to Germany and they gave them machinery and technicians. Germany is willing to do the same thing for us, but we want the United States to do it for us."

NOTE: After Mr. Jones left, HM,Jr told Mrs. Klotz that the Export-Import Bank is limited to \$100,000,000 and if this loan took \$50,000,000 they are coming near their limit, and Jones said he would make a commitment of what the Brazilians needed for one year.



1 - The Brazilian Government will guarantee the formation of a Company, with a capital of R\$. 100,000:000.000 (one hundred thousand, zeros). The Brazilian Treasury will subscribe for 50% of the shares (50,000,000), the balance being offered for sale to Brazilian and American subscribers.

The seat of the Company will be in Rio de Janeiro, Brazil, and the term of its operation 50 years. The Company will act under the Statutes which will be drafted by mutual accord, and it shall be subject to Brazilian laws.

2 - The Brazilian Government will guarantee 4% annual interest to subscribers.

3 - The dividends of the Company shall not be larger than 8% per annum.

4 - All profits in excess of the 8% limit shall be used yearly:

- a) 20% in the creation of a Reserve Fund;
- b) 80% in the payment of the loan contracted by the Company.

5 - The Company will contract for a loan of \$100,000,000.00 (one hundred million dollars), of which 50 million shall be supplied through the American Government and 50 million by Banks or other American private sources. 50% of the latter quota, i.e., the equivalent of 25 million dollars, may be subscribed by American concerns or citizens possessing accumulated funds in Brazil.

This loan shall be guaranteed under formal responsibility of the Brazilian Treasury, and will perceive 4% annual interest.

6 - The American Government will arrange, in the most practicable manner, to facilitate loans at the same interest rate of 4% per annum, guaranteed by shares subscribed in milreis as

provided for in the

7 - The Company shall

invest exclusively

a) in the

1962

b) in the

c) in the

d) in the

e) in the

f) in the

g) in the

h) in the

i) in the

j) in the

8 - With the resources furnished by the American Treasury or other agencies, the Company shall buy in the United States, in the manner found to be most practicable, the materials necessary for the execution of the program of economic development.

9 - The Company may engage in the United States the services of technicians needed for the study and application of the measures herein provided for.

10 - The Company will enter into arrangements with American industrial concerns for the purchase by the latter in Brazil, *through the Company,* of raw materials which are imported into the United States, and the production of which in Brazil it is intended to increase *and* systematize through the measures herein set forth.

11 - The Company will give preference to those American firms which, in exchange for orders received, will undertake to acquire, through the Company, and in the largest possible quantity, the raw materials mentioned in the foregoing paragraph, or which will cooperate towards the marketing of the same in the United States of America.

12 - Interest on the loan shall be paid at the end of each semester as from the date of its realization, and the loan shall be redeemed after the fifth year.

- a) from the profits of the Company, as provided for in paragraph 4;
- b) by an annual payment of four million dollars, until fully redeemed, should the aforementioned profits be inferior to that sum.

13 - The Brazilian Government shall buy from the Company, as soon as production of the industries created by the Company shall begin, all materials which the Government may need for the various public services - railroads and highways, steamship lines, military supplies, etc.

14 - The Company may only expend on its administrative and clerical payrolls a maximum of 1% per annum of the resources represented by its capital and the proceeds of the loan. A minimum of 70% of such resources shall be invested in materials and in the indemnifications and disappropriations herein provided for.

15 - The Company may promote the incorporation of other Companies for the purposes set forth in No. 7, provided control of same by the Company be assured.

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February 15, 1939

My dear Sumner:

I am sending you herewith, by special messenger, a revised copy of our memorandum for the President pertaining to the proposed Stabilization Fund operation in connection with Brazil.

Sincerely yours,

Hon. Sumner Welles,

Under-Secretary of State.

*note: copy of the  
proposed concurrent  
resolution was not  
sent to Welles.*

February 15, 1939

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MEMORANDUM FOR THE PRESIDENT

Representatives of the State Department and the Treasury have been discussing with Dr. Aranha and his associates, as a part of the general program for closer cooperation between Brazil and the United States, an agreement for the purchase of milreis with dollars. Briefly the plan is as follows:

Upon request from Brazil, we will purchase Brazilian milreis up to \$20,000,000, employing the Stabilisation Fund for that purpose. Brazil will agree

- (1) to use the dollar credits thus obtained exclusively for the purpose of discharging obligations incurred on or after January 1, 1938 and prior to the date of the agreement, by the Government of Brazil, or its residents, in acquiring American commodities and importing them from this country into Brazil; (These current arrears, it is thought, amount to approximately \$12,000,000, but may be more) and
- (2) to repurchase such milreis from time to time within 18 months from the date of the agreement at the price paid by us for the milreis, together with interest at three per cent.

We have been informed by Brazil that they intend to adopt a program to enable them to repurchase the milreis within the 18 months' period substantially as follows:

Brazil will require the sale to the Bank of Brazil, in connection with all exports of commodities from Brazil, of ten per cent of the foreign exchange obtained in connection with such exports. It is estimated that the amount of foreign exchange thus obtained will average between \$20,000,000 and \$30,000,000 a year. Brazil estimates that the foreign exchange thus made available will be sufficient

to enable it to repurchase within the 18 months' period the milreis held for our account and also to liquidate \$19,000,000 worth of certain other foreign exchange obligations arising in connection with certain trade transactions consummated before the date of such agreement.

Since the primary purpose of the transaction is to contribute to a more stable relationship between the dollar and the Brazilian milreis in order to facilitate trade between the two countries, it is a transaction which may lawfully be carried out by the Stabilization Fund, the purpose of which is to stabilize the exchange value of the dollar.

In view of the fact that the proposed transaction differs from the arrangements which have previously been made with China and Mexico in that in the latter transactions our purchases of the currencies of such countries were secured one hundred per cent either by gold or silver, and in view of the fact that Brazil will be using the dollar credits to discharge current arrears arising out of imports from the United States, it seems to me it would be expedient to discuss the Brazilian transaction with the congressional leaders. Accordingly, Under Secretary of States Welles and I propose, if it meets with your approval, to seek the advice of the congressional leaders as to the desirability of securing from the Congress a Concurrent Resolution substantially in the form attached. Such a resolution, of course, does not require executive approval, and does not have the force and effect of law. However, this method has been employed as a means of expressing congressional opinion on matters of public importance.

If you approve, Mr. Wallace and I shall continue along these lines.

Approved:

February , 1939.

Attachment

JBF/JWP/BB/KHFJ:9 Polyped 2/14/39

814.71



A CONCURRENT RESOLUTION

347

With respect to the purchase of Brazilian milreis

WHEREAS, in negotiations between duly authorized representatives of this Government and the Government of Brasil consideration has been given to the purchase of Brazilian milreis with dollars in an amount not exceeding \$20,000,000, employing for such purpose the Stabilization Fund established pursuant to Section 10 of the Gold Reserve Act of 1934, as amended, on condition that the Government of Brasil agrees, among other things, (i) to repurchase such milreis within eighteen months from the date of such agreement at the same rate or rates of exchange at which the milreis were purchased on behalf of this Government; (ii) to pay interest in dollars on the milreis balance at the rate of not less than three per cent per annum; (iii) to employ the dollar exchange so obtained exclusively for the purpose of paying or discharging obligations incurred on or after January 1, 1938 by the Government of Brasil or any agency thereof or any person residing in Brasil in purchasing or acquiring any articles the growth, produce or manufacture of the United States and importing the same into Brasil from this country: Therefore be it

Resolved by the Senate (the House of Representatives concurring) that it is the sense of the Congress that it is desirable and in the public interest for the Secretary of the Treasury, acting with the approval of the President, to enter into an agreement with the Government of Brasil of the character described in the preamble of this resolution.

Copies : 2/14/39

( Draft  
not used )

A CONCURRENT RESOLUTION

With respect to the purchase of Brazilian milreis

348

WHEREAS, in negotiations between duly authorized representatives of this Government and the Government of Brazil consideration has been given to the purchase of Brazilian milreis with dollars in an amount not exceeding \$20,000,000, employing for such purpose the Stabilization Fund established pursuant to Section 10 of the Gold Reserve Act of 1934, as amended, on condition that the Government of Brazil agree, among other things, (i) to repurchase such milreis within one year from the date of such agreement at the same rate or rates of exchange at which the milreis were purchased on behalf of the United States; (ii) to pay interest in dollars on the milreis balance at the rate of not less than three per cent per annum; and (iii) to employ the dollar exchange so obtained exclusively for the purpose of paying or discharging obligations incurred on or after January 1, 1937 by the Government of Brazil or any agency thereof, or any person residing in Brazil in purchasing or acquiring any commodities and importing them into Brazil, with priority in paying or discharging such obligations to be given with respect to commodities imported from the United States.

NOW, THEREFORE, be it resolved by the Senate (the House of Representatives concurring) that it is the sense of the Congress that it is desirable and in the public interest that the Secretary of the Treasury, acting with the approval of the President, enter into an agreement of the character above described with the Government of Brazil.

A CONCURRENT RESOLUTION

349

With respect to the purchase of Brazilian milreis

WHEREAS, in negotiations between duly authorized representatives of this Government and the Government of Brazil consideration has been given to the purchase of Brazilian milreis with dollars in an amount not exceeding \$20,000,000, employing for such purpose the Stabilization Fund established pursuant to Section 10 of the Gold Reserve Act of 1934, as amended, on condition that the Government of Brazil agree, among other things, (i) to repurchase such milreis within one year from the date of such agreement at the same rate or rates of exchange at which the milreis were purchased on behalf of the United States; (ii) to pay interest in dollars on the milreis balance at the rate of not less than three per cent per annum; and (iii) to employ the dollar exchange so obtained exclusively for the purpose of paying or discharging obligations incurred on or after January 1, 1937 by the Government of Brazil or any agency thereof, or any person residing in Brazil in purchasing or acquiring any commodities and importing them into Brazil, with priority in paying or discharging such obligations to be given with respect to commodities imported from the United States.

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A CONCERNING REBUTATION

250

With respect to the purchase of Brazilian milreis

WHEREAS, in negotiations between duly authorized representatives of this Government and the Government of Brazil consideration has been given to the purchase of Brazilian milreis with dollars in an amount not exceeding \$20,000,000, employing for such purpose the Stabilization Fund established pursuant to Section 10 of the Gold Reserve Act of 1934, as amended, on condition that the Government of Brazil agree, among other things, (1) to repurchase such milreis within one year from the date of such agreement at the same rate or rates of exchange at which the milreis were purchased on behalf of the United States; (2) to pay interest in dollars on the milreis balance at the rate of not less than three per cent per annum; and (3) to employ the dollar exchange so obtained exclusively for the purpose of paying or discharging obligations incurred on or after January 1, 1937 by the Government of Brazil or any agency thereof, or any person residing in Brazil in purchasing or acquiring any commodities and importing them into Brazil, with priority in paying or discharging such obligations to be given with respect to commodities imported from the United States.

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## A CONCURRENT RESOLUTION

With respect to the purchase of Brazilian milreis

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February 15, 1939

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H. M. Jr. called the President at 11:40.

H.M.Jr: Hello Mr. President.

President: Hello Hen. How is everything?

H.M.Jr: Everything is fine. I talked to the Eleanors and they are fine. How are things with you, which is more important.

President: I am feeling much better.

H.M.Jr: You have had a bad time of it.

President: How are you getting along with Welles?

H.M.Jr: Fine, and I understand you are seeing Aranha at 5 o'clock. Could you squeeze Welles and me in for five minutes before? We have arrived at a point where we need your approval.

President: Come in at 4:30.

H.M.Jr: I am very much obliged.



Meeting February 15, 1939, Secretary's Office, at 2:30 o'clock.  
 Present: Secretary, Mrs. Klotz, Dr. Aranha, Mr. Dantas and  
 Mr. Penteado, Ambassador Caffrey, Mr. Harrison, Mr. Williams,  
 Mr. Knoke of the Federal Reserve Bank of New York, Mr. Fels of  
 the State Department, Messrs. Foley, Lochhead and White.

The discussion opened with a statement by Dr. Aranha explaining Brazil's need for a central bank. He read from the brief memorandum he had presented to the Treasury containing points to be discussed relating to the proposed Central Bank. He said that the status of the details of the proposed law was much the same as had been left after the discussions held here in 1937 with Souza Costa. Dr. Aranha stated that upon Souza Costa's return to Brazil in 1937 the political and economic situation was such that the Central Bank could not be then put into operation, but that the time was now opportune for the creation of such a bank. He stated that he thought the discussion might well proceed on the basic points raised in his brief memorandum.

Professor Williams stated he had not gone into the situation since 1937 and asked some questions with respect to the powers to issue currency now prevalent in Brazil, etc. Dr. Aranha explained the reasons why he felt that the present Bank of Brazil did not function as well as would be the case were it able to confine its operations to commercial banking, leaving central bank operations to a central bank.

Professor Williams said it appeared to him that the Bank of Brazil was now performing most of the functions of a central bank already and that the problem was one merely of transferring those functions to a newly created organization. Dr. Aranha agreed and remarked that the Bank of Brazil had so many varied functions to perform now that efficient execution of its responsibilities as a commercial bank and as a central bank was impossible.

Mr. Harrison raised some further questions with respect to the technical aspects of the plan and both Mr. Williams and Mr. Harrison stated they would like to see a draft of the law. Dr. Aranha stated that he did not have a draft with him although he thought possibly he might have one at the Embassy. But he went on to say that he didn't feel it important to discuss the details at this time but rather to take up the questions as to organization, functions and powers of the bank. He thought that discussion on these matters could go forward without the detailed draft and that subsequently technical men could go to Brazil if necessary and study the matter in great detail.

The Secretary suggested that the technical men continue discussion of the points raised by Dr. Aranha on the following morning. Dr. Aranha said he was not certain that he could attend but that in any case Mr. Dantas and Mr. Penteado would be there. He added, partly

facetiously, but partly seriously, that Mr. Dantas was apt to be biased inasmuch as he was an official in the Bank of Brazil and therefore possibly not as sympathetic with the creation of a central bank as might otherwise be the case.

The meeting closed with the understanding that the technicians were to meet the next morning at the Treasury to discuss matters raised by Dr. Aranha's memorandum relating to the creation of a central bank.

February 15, 1939

3:45 p. m.

Dr. Feis stayed behind after Mr. Aranha and the group left the Secretary's office to tell the Secretary that he objected to the use of the Stabilization Fund for the purpose of purchasing milreis with dollars up to \$20,000,000.

Dr. Feis: It is a loan transaction, not connected with those problems of monetary policy that the Stabilization Fund is engaged in. The proceeds would go to a small number of corporations.

HM, Jr: Let me ask you, Herbert. Are you being perfectly honest with me? Are you worried that because the 50 or 60 business houses will be helped that the bondholders will feel that they are not treated fairly?

Dr. Feis: That will be one of the sources of criticism.

HM, Jr: Will not the criticism be the same if the Export-Import Bank does it?

Dr. Feis: That is not as important as if the Stabilization Fund got the criticism.

HM, Jr: Is not this an exclusively foreign exchange operation?

Dr. Feis: But the purpose of it is to make a loan. You are providing funds to enable the Brazilian Government immediately to pay off certain American houses. The funds are used up immediately. This is a loan transaction to enable the Brazilian Government to pay off now. The question will be 'Why is the Stabilization Fund doing that now?' If I were an exporting house with frozen assets in Germany or Italy, I would say 'Would the Stabilization Fund do that for me?' I am really being moved by a sense that you may impair the future function of the Stabilization Fund. If you had no other way of doing it then I would say try to do it through the Stabilization



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Fund. I would suggest that you go ahead with your negotiations. Then call in Jesse Jones and Pierson and I am sure that you can do it through the Export-Import Bank.

February 15, 1939

5:20 p.m.

Present:

Mr. Hanes  
Mr. Foley  
Mr. Lochhead  
Dr. White  
Mrs. Klotz

HM, Jr.: In confidence, I think you would like to know that while I was waiting to see the President I had a chance to talk with Mr. Welles and he told me that this morning Mr. Feis came in to see him and asked to be relieved of attending conferences at the Treasury because he was in complete disagreement about our making this credit arrangement through the Stabilization Fund and Mr. Welles replied that if this was what the President and I wanted that Mr. Feis should go along.

I said in view of Mr. Feis' emotional display here saying this was the wrong thing to do, just before I went to see the President, plus my letter from Arthur Vandenberg, that I was going to present it to the President as a possibility and not as a recommendation.

So when I went in I said to the President -- oh! he said, "You only got a couple of minutes." He said, "Hurry up! Hurry up!" I said, "Wait a minute, Mr. President. The last time Mr. Welles and I saw you, you said the same thing and you took time to read the stuff on the refugee matter and you were pretty happy on that and you had better give us time on this." He said, "That's right! That's the last time I saw you two together."

I said, "We are proposing to make an advance of \$20,000,000 through the Stabilization Fund, but there are two alternatives. You can do it that way or through the Export-Import Bank," and without any hesitation whatsoever he said, "Do it through the Export-Import Bank."

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And, strictly in the family, I think he was telephoned to before and was prepared, because he could not have given it to me just like that (snapping fingers). Which is all right.

He said, "How can it be done?" I said, "It can be done through the Export-Import." He said, "Tell Jesse that I would like him to do it." I said, "Jesse won't take up the loan question until after he gets approval of his Bill," and the President said, "No, I want it all finished by the time I come back." So I said I would call up Jesse. I thought while you gentlemen were here I would call him up.

So when I went out Welles said, "You are going to speak to Jones and tell him about this?" and I said "Yes, I am going to turn it all over to him. Jones like to handle this alone." So he said, "You are going to stay in on this, because you are most helpful." I said, "Only if Jones wants me to. Jones might want to handle it alone." Welles said, "You had better stay in on it." I said, "We will see."

For the record, I think I have been saved another heartache because to go up on the Hill with certainly a very vocal part of the State Department thinking this was impolitic, even illegal was the word Welles used -- he said illegal and impolitic outside to me -- but, "This is what the President and Morgenthau want but it is illegal and impolitic" -- I think we have been saved something very good.

Mr. Hanes: This is not Welles?

HM, Jr: I don't know. I can't play this game. I don't know how. I can't tell a fellow one minute one thing and then say, 'Of course, if this is what the President and Treasury wants, we will go along.' I don't know how to play it.

This is why I felt the President was prepared. He said, "If the Stabilization Fund would make a gold loan in connection with the Central Bank, I think that would be fine." The President could not just imagine



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these things. He could not pick it out of the thin air.

Mr. Foley: I think the tip-off on the whole thing is the conduct of the fellows from the State Department.

Mr. Lochhead: We are officially released from fixing the price of the mark. We will let the Export-Import Bank ....

HM, Jr: We are just bingo! Finished! Mr. Aranha meets over in Mr. Jones' office. We are just out! Let Mr. Wells and Mr. Feis run the show.

(At this point, HM, Jr spoke to Mr. Jones on the telephone and a record of their conversation is attached hereto.)

HM, Jr: I looked Feis right in the eye. I said, "Are you being honest with me? Isn't it a question that these 50 to 60 manufacturers that you are so worried about are going to get their money and that the bondholders are going to kick that they don't get theirs and these 50 to 60 manufacturers are going to get theirs?" He said, "Well, it makes it very embarrassing that the 50 to 60 gets all theirs and the bondholders get nothing."

But I have just been through this thing up on the Hill and I don't have to be hit over the head twice.

Dr. White: This involves no risk or headaches.

HM, Jr: I will be even franker. I had my doubts, but when I have doubts and there is a question of going up on the Hill, I steel myself to go through with this and I was ready to go up and make this fight because I thought it was the only way for us to do it. All right! I don't have to do it and I can still look at myself in the mirror and don't have to drop my eyes. I realized what this battle meant and we will have our own battle on the Stabilization Fund and the right to devalue the dollar. I was not going to flinch. All right! If these fellows want it this way, all right!

(At this point, HM, Jr spoke to Dr. Feis on the telephone and copy of their phone conversation is attached hereto.)

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HM, Jr: Welles said Feis came to him this morning and said, "I don't want to go over there any more. I don't want any part in it." This is very much the same thing as the French business. The Army defending the nation against this fellow Roosevelt -- and Morgenthau. He wanted to sell for good hard cash American planes. "We did our best but the President got Morgenthau and he just forced it down our throat." This is exactly the same thing -- "We didn't want to do it, etc. and so forth." Don't have to tell me twice.

Dr. White: Are we going to pursue questions on the Central Bank?

HM, Jr: Until somebody else does.

Dr. White: I raise that question because if there is a question of a Central Bank I should like to introduce the question of silver.

HM, Jr: Listen! Silver, tin and just a little dash of rubber to make it stick together.

We had better arrange with the State Department as long as it is Cabinet he come in at 4:15 to do Central Bank.

The President felt it was better todo it that way. I am just going to deal straight across. I have now taken a look at my pat home. I had two jokers -- Welles and Feis.

Mr. Loochhead: Broken straight flush.

oOo-oOo

February 15, 1939.  
5:32 p.m.

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HMJr: Hello.

Operator: Mr. Jones.

HMJr: Hello.

Jesse  
Jones: Hello.

HMJr: Jesse?

J: Yeah.

HMJr: I don't know whether Sumner Welles has had time to call you or not.

J: He has not.

HMJr: Well, he and I just saw the President. We put up to him the question of this loan against ~~closing~~ exchange with Brazil--

J: Yeah.

HMJr: And the President seemed to feel very emphatically that it would be better to have it done by the Export-Import Bank.

J: Yeah.

HMJr: And he asked me to call you because he said he had a cold, and he'd like me to take hold of it and, as he put it, have it all signed, sealed and delivered by the time he returns.

J: You mean -- you mean

HMJr: Yes.

J: Let's see.

HMJr: That, and the other -- the big loan too.

J: I see.

HMJr: So Ed and I -- what I will do is, I'll have Foley send you over tonight, so that you get it the first thing in the morning, everything that we've done.

J: All right.



HMJr: And then I will -- you arrange with -- any way that you want to about seeing Aranha about it, will you?

J: Yeah. Seeing who?

HMJr: Aranha.

J: Oh, yes.

HMJr: I mean, from now on it's -- it's your "baby".

J: Oh, you're putting it on my doorstep?

HMJr: Well, the President is.

J: I see. Well, I'll talk with you about it.

HMJr: The President is.

J: All right.

HMJr: And if -- everything we got is at your disposal, but it's your Export-Import Bank and the "baby" is yours.

J: All right.

HMJr: All right, Jesse.

J: All right, thank you.

HMJr: Good bye.

February 15, 1939.  
5:35 p.m.

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HMJr: Hello.

Operator: Dr. Feis.

HMJr: Herbert?

Dr. H.

Feis: Yes, sir.

HMJr: You'll be pleased to know that the President of the United States agrees with you.

F: Well, I -- I am very. May I ask a question?

HMJr: Yes.

F: Did he reach the conclusion by himself, or was he argued into it?

HMJr: No, he reached it by himself.

F: Really?

HMJr: Oh, yes.

F: I'm extremely interested, and I think your life is going to be a little bit freer of worry.

HMJr: Well, I just called up Mr. Jones.

F: Right.

HMJr: And told him that from now on the negotiations are his and it's up to him to see Mr. Aranha about this.

F: I'm sorry to hear that, but I can understand your doing it.

HMJr: And --

F: I wish you'd kept it in your own hands.

HMJr: Well, I can't do both, and I wish that if you felt that these negotiations -- that you didn't want to take part in them, that you had come and told me so yourself.

F: Well, Henry, I didn't want to take part in them -- just on this one -- just on this one thing.

HMJr: Well, I think after six years you might have come in and told me that --

F: Well, I -- there to, we're just misunderstanding with one another, because that was my purpose in my talking to you this afternoon. I -- what I said to Welles was that if it's decided by the President that he wants this thing done through the Stabilization Fund, I think it's such a mistake that I'd rather have no part in it, but in talking with you this afternoon -- when you said that you were prepared to consider, turn the thing over in your mind, then it -- it seemed to be purely silly for me to talk about not taking part in negotiations.

HMJr: Well, anyway --

F: Do I -- Do I become clear?

HMJr: No.

F: Well, look --

HMJr: Sometime -- sometime I'll talk to you when we have plenty of time. I can't do it over the phone.

F: Well, I would have just thought myself needlessly aggressive, and all the rest, when you said -- when you listened to me -- and said, "I'll think it over." That seemed to me to take care of it, at least for the moment.

HMJr: Well, sometime when we both have time, I'll talk to you about it. I'd like to.

F: All right, sir. Meanwhile, Henry, I'm having Livsey work up a memorandum for you on this gold thing to find out just what happened.

HMJr: Oh, yes.

F: As far as we can trace it out over here.

HMJr: The department now -- Jones will -- the President said he wanted to go through with it quickly, this loan and all the rest, so/between the State Department and the R.F.C. now. It's

F: What did Jones say when you said -- when you spoke to him?

HMJr: Well, he said, "All right", but he said he wanted to talk to me about it.

F: Talk to you?



- HMJr: Yes, but he said it -- he said, "You're putting the 'baby' on my doorstep?" And I said, "That's right."
- F: Um-hm. I -- I don't see how you could -- you've got -- some day through that Fund you'll be moving half the earth, and not to -- to have this damn little thing get under your feet, I think we're of great future advantage.
- HMJr: Well, I'm -- I'm delighted that -- the way it's turned, and certainly not to have to go up on the Hill and make an extra fight, why, it's all to the good.
- F: Well that's -- exactly, Henry. Right along I had this feeling that this thing -- and, let -- let Congress be told that the Bank's going to do it.
- HMJr: Yeah, well, that's what's going to happen, and as far as I'm concerned, why it's all to the good.
- F: And as far as my part of the thing, I ask you to believe, the reason I didn't push the conversation that far this afternoon, is the thing was taking care of itself. You said you'd take it under advisement. Well I couldn't ask-reasonably, there's nothing more I can ask of you.
- HMJr: Yeah, but I got the impression from Welles was that you didn't want to come over.
- F: Today?
- HMJr: Yeah.
- F: To talk about the Bank?
- HMJr: Yeah.
- F: Oh, no. No, the only thing about which I had any possible reservation was this one transaction.
- HMJr: I mean about the Stabilization Fund; that's what I mean.
- F: No, I said to Welles, "If it is decided to put it through the Stabilization Fund, I'd like to have no part in it", but when you said you were thinking it over -- that takes care of the situation.
- HMJr: Well, while we're talking -- it's just between the two of us now --
- F: Completely.

HMJr: Please.

F: Right, sir.

HMJr: Because I don't want to start a whole -- I told you this and you told me that stuff, see?

F: All right.

HMJr: So please just -- this is just -- some other time, but -- I -- I definitely want to talk to you.

F: Right, sir.

HMJr: So just let's keep this between the two of us.

F: All right, sir.

HMJr: Thank you .

F: Thank you for calling, Henry.

HMJr: Good bye.

February 15, 1939

Note: The Secretary never got a chance to show the memorandum which we had prepared to make this arrangement through the Stabilization Fund because the President told the Secretary as soon as he came in that he wanted to do it through the Export-Import Bank.





THE SECRETARY OF THE TREASURY  
WASHINGTON

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MEMORANDUM FOR THE PRESIDENT

Representatives of the State Department and the Treasury have been discussing with Dr. Aranha and his associates, as a part of the general program for closer cooperation between Brazil and the United States, an agreement for the purchase of milreis with dollars. Briefly the plan is as follows:

Upon request from Brazil, we will purchase Brazilian milreis up to \$20,000,000, employing the Stabilization Fund for that purpose. Brazil will agree

- (1) to use the dollar credits thus obtained exclusively for the purpose of discharging obligations incurred on or after January 1, 1938 and prior to the date of the agreement, by the Government of Brazil, or its residents, in acquiring American commodities and importing them from this country into Brazil; (These current arrears, it is thought, amount to approximately \$12,000,000, but may be more) and
- (2) to repurchase such milreis from time to time within 18 months from the date of the agreement at the price paid by us for the milreis, together with interest at three per cent.

We have been informed by Brazil that they intend to adopt a program to enable them to repurchase the milreis within the 18 months' period substantially as follows:

Brazil will require the sale to the Bank of Brazil, in connection with all exports of commodities from Brazil, of ten per cent of the foreign exchange obtained in connection with such exports. It is estimated that the amount of foreign exchange thus obtained will average between \$20,000,000 and \$30,000,000 a year. Brazil estimates that the foreign exchange thus made available will be sufficient

to enable it to repurchase within the 18 months' period the milreis held for our account and also to liquidate \$19,000,000 worth of certain other foreign exchange obligations arising in connection with certain trade transactions consummated before the date of such agreement.

Since the primary purpose of the transaction is to contribute to a more stable relationship between the dollar and the Brazilian milreis in order to facilitate trade between the two countries, it is a transaction which may lawfully be carried out by the Stabilization Fund, the purpose of which is to stabilize the exchange value of the dollar.

In view of the fact that the proposed transaction differs from the arrangements which have previously been made with China and Mexico in that in the latter transactions our purchases of the currencies of such countries were secured one hundred per cent either by gold or silver, and in view of the fact that Brazil will be using the dollar credits to discharge current arrears arising out of imports from the United States, it seems to me it would be expedient to discuss the Brazilian transaction with the congressional leaders. Accordingly, Under Secretary of States Welles and I propose, if it meets with your approval, to seek the advice of the congressional leaders as to the desirability of securing from the Congress a Concurrent Resolution substantially in the form attached. Such a resolution, of course, does not require executive approval, and does not have the force and effect of law. However, this method has been employed as a means of expressing congressional opinion on matters of public importance.

If you approve, Mr. Welles and I shall continue along these lines.

Approved:

February , 1939.

Attachment



## A CONCURRENT RESOLUTION

With respect to the purchase of Brazilian milreis

WHEREAS, in negotiations between duly authorized representatives of this Government and the Government of Brazil consideration has been given to the purchase of Brazilian milreis with dollars in an amount not exceeding \$20,000,000, employing for such purpose the Stabilization Fund established pursuant to Section 10 of the Gold Reserve Act of 1934, as amended, on condition that the Government of Brazil agrees, among other things, (i) to repurchase such milreis within eighteen months from the date of such agreement at the same rate or rates of exchange at which the milreis were purchased on behalf of this Government; (ii) to pay interest in dollars on the milreis balance at the rate of not less than three per cent per annum; (iii) to employ the dollar exchange so obtained exclusively for the purpose of paying or discharging obligations incurred on or after January 1, 1938 by the Government of Brazil or any agency thereof or any person residing in Brazil in purchasing or acquiring any articles the growth, produce or manufacture of the United States and importing the same into Brazil from this country: Therefore be it

Resolved by the Senate (the House of Representatives concurring) that it is the sense of the Congress that it is desirable and in the public interest for the Secretary of the Treasury, acting with the approval of the President, to enter into an agreement with the Government of Brazil of the character described in the preamble of this resolution.



THE SECRETARY OF THE TREASURY  
WASHINGTON

Draft # 1  
072

MEMORANDUM FOR THE PRESIDENT

Representatives of the State Department and the Treasury have been discussing with Dr. Aranha and his associates, as a part of the general program for closer cooperation between Brazil and the United States, an agreement for the purchase of milreis with dollars. Briefly the plan is as follows:

Upon request from Brazil, we shall purchase Brazilian milreis up to \$20,000,000, employing the stabilization fund for that purpose. Brazil will agree

- (1) To repurchase such milreis within eighteen months from the date of the agreement at the price paid by us for the milreis;
- (2) To use the dollar <sup>January</sup> credits thus obtained exclusively for the purpose of discharging obligations incurred on or after ~~September~~ 1, 1938, and prior to the date of the agreement, by the Government of Brazil or its residents, in acquiring American commodities and importing them from this country into Brazil; (These current arrears, it is thought, amount to approximately \$12,000,000, but may be more.)
- (3) To require all exporters of commodities from Brazil to sell to it ten per cent of the foreign exchange obtained in connection with such exports; (It is estimated that the amount of foreign exchange thus obtained by Brazil will average between two million and three million dollars a month.)
- (4) To apply about one million dollars of such foreign exchange monthly to liquidate certain frozen milreis balances amounting to approximately \$12,000,000; and

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- (5) To apply the balance of the foreign exchange thus obtained from exporters periodically to the repurchase of the milreis held for our account.

Since the primary purpose of the transaction is to relieve the pressure on the Brazilian milreis resulting from current arrears, the effect of the transaction is to facilitate stabilizing the rate of exchange between the dollar and the milreis, and it is, therefore, a transaction which may lawfully be carried out by the stabilization fund, the purpose of which is to stabilize the exchange value of the dollar. The legality of such use of the stabilization fund is not affected by the fact that the proposed arrangement may also have the effect of improving trade relations between Brazil and the United States.

In view of the current speculation as to the uses to which the stabilization fund may have been put, it seems to me that it would be expedient to discuss the proposed Brazilian transaction with the congressional leaders. Accordingly, Under Secretary of State Welles and I propose, if it meets with your approval, to ask the Congress to pass a Concurrent Resolution substantially in the form attached. Such a resolution, of course, does not require executive approval, and does not have the force and effect of law. However, this method has been employed as a means of expressing congressional opinion on matters of public importance.

If you approve, Mr. Welles and I shall continue along these lines.

Approved:

February , 1939.

Attachment